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TD SYNNEX Corp. (SNX)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Mandeep and I'll be your conference operator today. I would like to welcome everyone to the TD SYNNEX First Quarter Fiscal 2024 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, our CEO; and Marshall Witt, our 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 demand, cash flow, our debt structure and shareholder return, 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 Relations website, ir.tdsynnex.com. This conference call is the property of TD SYNNEX and may not be recorded or rebroadcast without our permission.

I'll 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 thank you for joining us today. We had a strong start to the fiscal year with an improving IT spending environment generating record margins, EPS at the upper end of our expectations, healthy free cash flow, and continued strong capital returns to shareholders. Across the organization, we are poised to capitalize on a stabilizing demand environment for our core business, while continuing to advance our strategy to expand our capabilities in strategic technology areas.

Importantly, we believe that the IT spending environment will continue to improve throughout the year and believe we will return to positive year-over-year gross billings growth next quarter, bolstered in part by the introduction and growth of infrastructure components and services to support escalating AI-enabled workloads and applications. We remain committed to returning excess free cash flow beyond dividends and M&A to shareholders via share repurchases, while also managing our leverage ratio. And today, we announced that our Board of Directors has approved a new additional $2 billion share repurchase authorization.

For our first fiscal quarter, revenue and gross billings were largely in line with our guidance ranges, with the backdrop of a recovering market and continued progress on our strategic portfolio diversification and global line

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card expansion efforts. From a regional perspective, trends in our markets played out as we had expected. In the Americas, we saw improving year-over-year trends in PCs and a record quarter in Latin America. Europe similarly experienced positive momentum in the PC market, but faced challenging year-over-year comparison in Advanced Solutions, given last year's record performance. Asia-Pacific, Japan, continued to experience year-over-year growth in constant currency, fueled by strength in Advanced Solutions across multiple countries, including emerging markets.

Looking at our results by technology, within Endpoint Solutions, as anticipated, we saw slight growth on a year-over-year basis in PCs. We anticipate seeing continued improvement in the PC market as 2024 progresses, aligned with what several OEMs and industry participants have described as a second half weighted spending pattern. We believe this will be driven by several factors, including the new mid-year launches of AI-enabled PCs, more customary refresh cycles associated with aged devices and operating system upgrades. This should also drive increased demand for some of our other PC adjacent categories, like peripherals and endpoint software. Strength in the PC market was offset by softness in demand for mobile devices and some components, which weighted down our results overall in Endpoint Solutions.

Consistent with expectations, Advanced Solutions year-over-year comparisons were challenged, given the elevated demand and backlog drawdown dynamics we saw in the first half of 2023. Regardless, we had a solid quarter in Advanced Solutions. In addition, we see the beginnings of AI offerings emerging in the portfolio. As an example, we had a very successful launch of Microsoft Copilot, where we enabled more than 2,000 partners with our launch campaign.

Overall, we are well positioned to take advantage of the fast-growing AI market. Our strategic vendor partnerships and enablement programs are helping us to create industry-leading aggregated solutions and serve as a destination for AI solutions in the channel. Momentum is clearly evident and building in this area.

Last month, we announced an expanded collaboration with NVIDIA in North America, where we are distributing their full line of products, including GPUs, helping users and partners to access AI-augmented applications, model training and development, professional graphics, engineering and digital twin applications. We were also honored to be recognized last week by the NVIDIA Partner Network as the Distribution Partner of the Year in the Americas and look forward to our continued partnership. Additionally, we showcased our next-generation AI Lifecycle Solutions from Hyve at NVIDIA's GTC AI Conference in San Jose last week. These products are tailored to the demands of AI datacenters, hybrid cloud and edge deployments, and include the design of liquid-cooled servers and racks.

Beyond these accomplishments, we continued to execute on our goals to expand in strategic technology areas and increase the value we bring to our partners. In our strategic technology areas, we experienced solid year-over-year growth in data, AI, IoT, cloud and security. Including Hyve, these technologies represented 23% of our total gross billings in Q1. Underpinning these strong results are a multitude of programs and offerings designed to help our partners. To highlight a couple, first, we launched TD SYNNEX Cloud Labs as a solution aimed at accelerating the go-to-market process for our vendors. This virtualized environment facilitates proof of concept demonstrations that are flexible, scalable and cost efficient. This helps our vendors to bring solutions to market faster and more effectively. Second, we continue to invest in our StreamOne platform, adding several new application programming interfaces or APIs, and launched new Professional Services Automation or PSA connectors, particularly used by managed service providers, and which provide an increased ease and synchronization of products, customers and order changes.

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We believe now, more than ever, that our organization is well-positioned across both our core and strategic technology portfolios. The challenged market environment over the past year has provided us an opportunity to showcase the strength and resilience of our business model, portfolio and capabilities. Despite the headwinds in the market, we've pivoted to areas of growth and improved our business and margin mix towards strategic technologies, and have also generated significant free cash flow, the majority of which we have returned to shareholders. We believe we have emerged even stronger from this period of market volatility and look forward to capitalizing on an improving IT spending environment, which we believe will allow us to deliver revenue growth, increased earnings per share and significant free cash flow generation, driving strong returns for our shareholders.

I will now pass it over to Marshall so that he can provide additional details on our financial performance and outlook. Marshall?

Marshall W. Witt

Chief Financial Officer, TD SYNNEX Corp.

Thanks, Rich, and good morning to everyone on today's call. As Rich mentioned, we were encouraged to see an improving market environment, with revenue and gross billings in line with our guided ranges. Additionally, our broad portfolio and progress on expanding in strategic technologies allowed us to further improve our profitability, with strong margins, healthy free cash flow, EPS growth at the upper end of our expectations, and robust returns to shareholders.

Moving to our fiscal first quarter performance. Fiscal Q1 total gross billings were $19.3 billion, down 5% year-over-year, and in line with our expectations, driven by a 7% decline in Endpoint Solutions and a 3% decline in Advanced Solutions. Net revenue was $14 billion, down 7.6% year-over-year. Gross to net revenue adjustments increased year-over-year due to the ongoing shift in our business mix and migration of a portion of Hyve's business to a consignment model. This negatively impacted our net revenue by 3% on a year-over-year basis, but improved our gross margins by 23 basis points.

As we previously announced, starting this quarter, we are providing some enhanced data disclosures in our investor presentation. First, we are providing gross billings, net revenue, and gross profit for the technology categories of Endpoint Solutions, which includes PCs, mobile devices, printers and peripherals, and Advanced Solutions, which includes cloud, servers, networking, storage, software, and hyperscale infrastructure via our Hyve business. In addition, we are providing gross billings for our strategic technologies, which are cloud, security, data, AI, IoT and hyperscale infrastructure. Strategic technologies are primarily found in Advanced Solutions, but some categories are split into both Endpoint and Advanced Solutions.

For Q1, from a technology perspective, approximately 72% of Q1 gross billings were from hardware, 21% from software, and 7% from services. As Rich mentioned, we were encouraged to see year-over-year growth in PCs as the market continues to stabilize. Non-GAAP gross profit was $1 billion, and non-GAAP gross margin was 7.2%, up 52 basis points year-over-year due to a more profitable product mix and continued expansion in strategic technology areas, which also have higher gross to net adjustments.

Total adjusted SG&A expense was $581 million, up $13 million year-over-year, as we continue to make balanced strategic investments supporting expected growth for the rest of fiscal 2024. SG&A expense was down $11 million quarter-over-quarter. Non-GAAP operating income was $425 million and non-GAAP operating margin was 3.04%, representing a year-over-year improvement of 11 basis points. Interest expense and finance charges were $76 million, $10 million worse than our outlook, due to higher-than-expected borrowings. The non-GAAP effective tax rate was approximately 23% and in line with our forecast. Total non-GAAP net income was $266 million and non-

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GAAP diluted EPS was $2.99, at the upper end of our guidance range, driven primarily by outperformance on margins due to improved mix.

Now turning to the balance sheet, we ended the quarter with cash and cash equivalents of approximately $1 billion and debt of $4 billion. Our gross leverage ratio was 2.3 times and net leverage was 1.7 times, in line with our investment grade credit rating. We are currently assessing our debt structure ahead of our upcoming $700 million senior note maturity in August of this year, and our current intention is to refinance some or all of that debt prior to its maturity. Accounts receivable totaled $8.9 billion, down from $10.3 billion in the prior quarter, and inventories totaled $7.1 billion, down slightly from the prior quarter.

For the first quarter, net working capital was $3.2 billion, down from $3.3 billion in quarter four, and the cash conversion cycle was 21 days, down 2 days from quarter four. Cash from operations in the quarter was $385 million and free cash flow was $344 million. We returned approximately 68% of free cash flow to shareholders in the quarter through $199 million of share repurchases and $36 million in dividend payments. As Rich mentioned, with our newly announced share repurchase authorization of $2 billion, we now have $2.2 billion authorized for further share repurchases. For the current quarter, our Board of Directors has approved a dividend of $0.40 per common share, representing a 14% increase on a year-over-year basis, which will be payable on April 26, 2024 to stockholders of record as of the close of business on April 12, 2024.

Now moving to our outlook for fiscal second quarter. We expect non-GAAP gross billings of $18.4 billion to $19.6 billion, representing a growth of 1.5% on a year-over-year basis at the midpoint. We expect total revenue to be in the range of $13.3 billion to $14.9 billion, flat on a year-over-year basis at the midpoint. Our guidance is based on a euro to dollar exchange rate of 1.09. Non-GAAP net income is expected to be in the range of $219 million to $263 million and non-GAAP diluted EPS is expected to be in the range of $2.50 to $3 per diluted share, based on weighted average shares outstanding of approximately $86.8 million. Our non-GAAP tax rate is expected to be approximately 23%. Interest expense is expected to be approximately $75 million and includes approximately $3 million of one-time interest expense and accelerated deferred cost associated with our anticipated debt refinancing.

Looking forward to the third and fourth quarters of fiscal 2024, we would expect interest expense of $70 million in quarter three and $75 million in quarter four. These estimates include the impact of our anticipated debt refinancing and expected working capital requirements. From a gross billings perspective, we continue to expect mid- to high-single digit growth in the second half of the fiscal year, driven by further improvement in the market environment. We expect to generate approximately $1.2 billion of free cash flow for the fiscal year and remain committed to our medium-term capital allocation target of returning 50% of free cash flow to shareholders via both dividends and share repurchases, while remaining opportunistic on buybacks depending on market conditions.

In closing, our financial profile is strong and our resilient business model has enabled us to weather the volatile market conditions over the past several quarters, while continuing to generate strong free cash flow and robust returns to shareholders. We are working closely with our OEMs and vendors across both traditional and emerging technology growth areas and are seeing the benefits of our efforts to deliver enhanced solutions to our customers, positioning us well to capitalize on improving market demand over the next several quarters. We are now ready to begin the Q&A portion of the call. Operator?

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QUESTION AND ANSWER SECTION

Operator: The floor is now open for your questions. [Operator Instructions] Our first question comes from the line of Adam Tindle with Raymond James. Please go ahead.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks. Good morning. I wanted to start on the comments on PC optimism for the back half of the year, and maybe the question would be how that might manifest itself in results? So I think if I was to look at the past couple of years, the earnings weighting from the first half to the second half tend to be like 48% first half, 52% second half. Wondering if this year might be a little bit north of that 52% in the back half, given that commentary in PCs.

And then secondly, just an update on the cost optimization? I think you had identified $50 million couple of quarters ago. Just update on the timing, what's reflected in results now? Thanks.

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

A

Hey, Adam. It's Marshall. Thank you for the question. In regards to the historical relation of first half, second half in your observation of being 48%, 52%, I think that's still fairly reasonable for this year. It may be a little bit heavier in the second half based on how we're forecasting acceleration and growth related to ES and AS in the second half of the year. On cost optimization, on the $50 million, that did translate and take care of itself through quarter one of 2024. So we were able to capture that $50 million and it's embedded in our run rates going forward.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Got it. Okay. Maybe just a follow up on the share repurchase authorization, you knew I would ask one on that, and congratulations on it. I think that $2 billion, if I went through my notes, is about double the last authorization. So, could you just speak to the discussion on the size of the repurchase and how to think about timing of deployments? Realize it's a long-term framework, but wonder if that allows you to be a little bit more opportunistic. Thanks.

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

A

Yeah. Thinking about our medium-term cash flow objective of reaching $1.2 billion – or $1.5 billion in free cash flow, and then looking at our capital strategy in terms of returns, about 50% of our free cash flow, we anticipate returning back to shareholders in the form of repurchases and dividends. So, Adam, if you think about what that looks like per year, it's around $500 million to $525 million. So thinking about the $2 billion authorization or reauthorization gives us that adequate coverage. For the next two to three years, that does allow us to be opportunistic, and in Rich's prepared remarks, he did mention that in addition to our free cash flow and our M&A and our reinvestment back in the business, our dividends and our mindfulness of the leverage, if we find after that that we have discretionary free cash flow to put back into repurchases, we may choose to do so.

Operator: Our next question comes from the line of George Wang with Barclays. Please go ahead.

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George Wang
Analyst, Barclays Capital, Inc.

Q

Oh, hey, hey. How are you? Thanks for taking my question. I'd be remiss not to ask questions on AI. So two parts, firstly, maybe you can double-click on the kind of AI datacenter related buildouts with the hyperscalers, specifically the Hyve segment? Maybe you can talk a little bit more how that's progressing and what's sort of outlook going forward for the next few quarters on the Hyve segment?

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

A

Sure. This is Rich. Good morning. Thanks for the question. I am going to go a little bit more broadly. So, when we think about AI as an opportunity for our business, we would anticipate that it's going to be a positive in every segment from the AI PC to traditional infrastructure with infused AI capabilities, obviously to the software portfolio, which we're already seeing today with the deployments of Microsoft Copilot as an example, and then certainly within our Hyve organization as well. And as you know, we've had traditional datacenter deployments, but we do see a mighty shift, if you will, towards AI-oriented buildout. So we would anticipate that moving forward, a good part of the mix in Hyve will shift into that AI sort of classification. So we're confident with regards to our organization capabilities and really see it as a great opportunity as we move through the next five-plus years.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay. Great. Just a quick follow-up on the AI PC. You kind of alluded to shipments starting from mid-year. Just maybe you can give a little bit of color just in terms of your expectation for the ASP uplift associated with the AI PC? Also how do you envision kind of the AI PC shipment to grow as a percentage of the total shipments within your portfolio? Maybe you can kind of give some color on those. Thank you.

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

A

Yeah. Sure. So, as we understand, in the marketplace, the PC vendors will be emerging with their AI offerings at the mid of this year into the back half of this year. Certainly we would think that that sort of element alone will be a net up as it relates to the ASPs towards the PC segment. We anticipate AI-enabled offerings to be more expensive from an ASP perspective. And then in the last quarter, I had talked about AI PCs maybe being a single-digit percentage of the market – of the total PC market in the back half of this year versus total PC, but then growing quite mightily as we move through 2025 and 2026.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay. Great. I will go back to the queue.

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

A

Thank you.

Operator: Our next question comes from the line of Joseph Cardoso with JPMorgan. Please go ahead.

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Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hey, gentlemen. Thanks for the question. I guess just first one for me, just another quarter of gross margin expansion, really impressive. I think it's seven now in a row on a sequential basis, and that's despite expectations for mix to be a bit of a headwind. Can you maybe just dig into that a little bit further around the margin outperformance, particularly, like, what was the surprise this quarter? And then, as we look forward, particularly with PCs expected to recover, like, how should we think about the potential pressures there on the margin side for the remainder of the year and like what are the potential offsets that, well, maybe we were not thinking of? And then maybe I'll just throw in a quick follow-up. Can we just get an update around the new large customer in Hyve? I think there was a delay last quarter. Just curious in terms of how that ramp is tracking and how we should think about the ramp and magnitude through the course of fiscal 2024? Thanks for the questions. Bye.

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

A

Joe, good morning. Thank you. Thanks for the question or questions. Let me try and unbundle them one at a time. When we think about our margin profile improving as we sort of have moved through time, I'd like to offer a couple of thoughts. So the first one is, when we think about our management system, we have the sellers across the organization really sort of aligned on delivering profitability. So, the sales incentives that we have in place, the systems that we have in place really afford us the opportunity to make sure that the whole organization is focusing on what's important. The second thought that I would give you, and we've been transparent and we'll continue to be so on this fact, as we move through time there, we're moving more towards products which are netting. So we get a natural uplift in the margin profile. I think Marshall in his prepared remarks said it was worth 23 basis points this past quarter. So, that's something that exists because of the accounting situation. And it's another reason why we want everybody to be focused on gross billings as we move through time, because we would anticipate that that netting is going to continue moving forward. As you know, we've got a big focus on strategic technologies and a good lion's share of that portfolio gets netted.

Then on the customer question that you had overall, or let me back up, I missed one, on what we should anticipate going forward, yeah, we had the benefit of a heavier Advanced Solutions. And you can see in the segmented results that we had – the pro forma results that we had included in the financial information that Advanced Solutions has a more attractive gross profit margin. So we will see a remixing of the portfolio moving through time, and almost by just the math it would say that we'll trade off some margin as we have a heavier weight in the portfolio towards Endpoint Solutions. And obviously, the guides that we provide going forward have an expectation relative to what that mix would be. And then lastly, the new customer in Hyve is up and ramping and things are executing as anticipated.

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

A

And Joe, I'll just add a little bit of color to where we saw some goodness in the quarter, and you'll see this in our press release where we break down the regional results. Europe had quite a bit of strength in their OI margin profile and OI profile on non-GAAP basis. You can see both Americas and Europe on a gross billing perspective were down about 5%, but the margin profile was quite strong. So there were some suppliers and partners that performed or outperformed our expectation and then strategic technologies in general performed well in the quarter.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

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Got it. Thanks, Rich and Marshall. Appreciate you guys tackling all of that.

Operator: Our next question comes from a line of Matt Sheerin with Stifel. Please go ahead.

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

Q

Yes. Thank you and good morning, everyone. Rich, I wanted to just follow up on the PC commentary. I'm hoping that you can, like, help us understand which end markets are you starting to see year-over-year strength and which ones are lagging, for instance, SMB versus public sector versus enterprise, and how you see that playing out? In the second part, on the demand front, on the Advanced Solutions, I know you're up against tough comps, last quarter, this quarter, you had a lot of backlog that you worked down and the concern is that this digestion period and we're going to be in a tougher year-over-year comps for the next couple of quarters or so. So how do you see that playing out as well? Thank you.

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

A

I'm going to go first off. Hi, this is Marshall, Matt. Thanks for the questions. I'll handle the second question about demand and let Rich talk about the PC side of things. But on demand, you're right, we called out that quarter one was going to be a tough year-over-year comparison, specifically in Europe, as there was quite a bit of backlog that did play through. Quarter two, we start to see it lighten up a little bit. I think March might be the last big month, but April and May, I think we're going to see some better compares. So I think that the backlog is at profile, I think it's been there for a few months, maybe even a couple of quarters now. So the digestion is through that. And I would say the growth rates and how they manifest themselves going forward probably in Q2 and beyond will be less impacted by backlog.

With that all said, I think as we start to see growth, I wouldn't be surprised to see some working capital needs as we get in front of some of the buys that we expect that we're going to need to ensure that our vendors and our customers are taken care of in the second half of the year.

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

A

Yeah, Matt, on the PC question, remember, we had a very modest growth in Q1. As we think about quarters two, three and four, we see that growth expanding as we had said in our previous dialogue. And I kind of see it as an all boats rising right now when I think about the different dimensions of commercial, SMB, public sector, retail, there is no one area that is sort of outpacing the other in a significant way, but rather sort of rising tide across the portfolio. Now, obviously, that might change moving forward, but that's kind of what we're seeing right now.

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

Q

Okay. Very helpful. Thank you.

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

A

Thanks, Matt.

Operator: Our next question comes from the line of David Vogt with UBS. Please go ahead.

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David Vogt
Analyst, UBS Securities LLC

Q

Great. Thanks, Rich. Thanks, Marshall, for taking my question. You spent a lot of time on PCs. Maybe can we pivot to sort of the more AI-centric product categories going forward as well as server storage and networking? How are you seeing the demand environment today? Obviously, a lot of companies have posted relatively soft results. And how do we think about that in the context of your second half billings commentary regarding mid-single digits to double-digit growth? And then I just have a follow-up question. On the model, should we expect sort of the same dynamic from a margin spread perspective on these products, if they are AI sort of centric or AI-enabled products versus where we are today from more of a traditional legacy data center footprint perspective? Thanks.

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

A

Yeah. Sure. So, obviously, early days in AI, but maybe I'll double back on some comments on where we see things emerging. So, first of all, on Microsoft Copilot, on our launch week, we had more than 2,000 partners engaged and if I fast forward to current day that has dramatically more than doubled. So, that, I'll call it the software category, is off and running. We've had a great launch. There is a lot of market excitement around AI software and Copilot in particular.

The second, we talked about being sort of a full service distributor for NVIDIA, and we were fortunate to be named their Distribution Partner of the Year in the Americas. So there is a component aspect that is beginning to emerge that is also quite interesting.

Third, from some of the more traditional OEMs that focus within the server category, we see the emergence of some larger deployments, larger than normal, in all of the markets throughout the world. So, this might be an end user customer who has a oversized demand of servers with GPUs in them. So we see that beginning to emerge. And then, of course, as we said earlier, in our Hyve business, which serves the hyperscalers, there's going to be a natural transition in that content, less traditional datacenter, more towards the AI sort of configured systems. So, all of this is sort of building. At the same time, I think that we're going to be very focused on making sure we provide clear definitions for how we think about AI and what counts when we articulate particular sales numbers, et cetera. So that's work to do in the coming quarter or two, which we'll make sure we provide.

Then the last part is more of a general statement in terms of what we've experienced in the past with new technologies. Typically new technologies come into the channel with a higher margin profile than our average. And that's largely because the OEMs or the vendors want to help lead us to what they think is strategically important. So they typically enhance the margin profile. They also recognize that within there, we're going to have to be building skills and capabilities and services which have some incremental cost and expenses associated with them. So, at this point it's early innings on AI. I can only talk about what we've seen in the past with new technologies. And that's kind of the way we think about it.

David Vogt
Analyst, UBS Securities LLC

Q

Great. Thanks. Very helpful.

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

A

Thank you.

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Operator: Our next question comes from the line of Vincent Colicchio with Barrington Research. Please go ahead.

Vincent Alexander Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Yeah. Rich, most of my questions have been answered. I'm curious about your expectation for acquisition, revenue synergies for the year, has there been any change there?

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

A

Yeah. Let me talk about the acquisition, and I'll let Marshall talk about the revenue synergies here in a moment. So, from an acquisition perspective, we continue to work a wide and robust pipeline of areas that we are interested in. Ideally, we look for opportunities that will allow us to enhance or accelerate our strategic focus areas. We've talked in the past about the fact that within Europe and Asia-Pacific, Japan, our market position is a little bit lighter than it is within North America in particular. So, those are attractive areas to us as well. We're patient. We look for the right match, and it could come in the form of what the market sometimes calls tuck-in acquisitions. But, we do see opportunities to improve our portfolio going forward. So, Marshall, over to you.

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

A

On the revenue synergies, Vince, a few things to think about. So certainly cross-selling is underway. As you know, the common platform in North America or in Americas regarding CIS is predominantly completed, so that's very helpful. It's difficult for us to quantify this early in the cycle, but certainly we're seeing TAM associated with the vendors and customers who were complementary to emerge, begin to show benefit and gain traction. So, we're seeing a lot of expansion in these complementary vendors, but it's still somewhat early to isolate and call that out. What we will do is, as we can see that margin – or excuse me, that market expansion [ph] growing (00:38:42) those vendors, we'll speak to it where it's meaningful. I think the other thing to keep in mind too is with our global footprint, we are starting to see our complementary vendors and vendors that were common across both organizations utilize the global footprint to expand beyond what they currently had with the separate entities.

Vincent Alexander Colicchio
Analyst, Barrington Research Associates, Inc.

Q

And then maybe – well, thanks for that, and maybe one more. How rapidly do you expect the expanded relationship with NVIDIA to ramp?

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

A

It's really hard to tell. Obviously, it's an area that is very robust in the market. So we would intend as we always do to get our fair share, if not more. We feel really good about what we have to offer in terms of our capabilities and our specialization within those spaces, and we're optimistic that this is going to be a great market for the foreseeable future.

Vincent Alexander Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Thanks, guys.

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Operator: Our next question comes from a line of Michael Ng with Goldman Sachs. Please go ahead.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good afternoon, Rich and Marshall. Thank for the time. Just two for me. First, thank you for the new disclosures on Endpoint and Advanced. My question one was around the gross margins. Are the 5% and 9% a good way to think about the gross margins for those respective categories? Are there certain things that you would call out that might cause that gross margin to deviate? And do you have any qualitative color on the year-over-year performance on gross profit? And then I have a quick follow-up.

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

A

Hey, Mike. This is Marshall. Yeah, certainly, we're happy to provide these disclosures. Keep in mind that that's on a net basis, so there's quite a bit of netting that happens certainly in the AS portfolio. There's a little bit in the in the ES. When you think about it on a gross basis, it's more around 6% gross margin for AS and 4% – we try to show gross relationships from a billing perspective just because it ignores and removes the netting down. As we think about the portfolio and specifically into quarter one, we were quite surprised about the strength of our margins on a gross billings perspective, and we talked about some of the reasons why that's the case.

As we go forward, and we talked about this in our prepared remarks, as ES continues to show signs of acceleration and expectation that that should continue in Q2 and beyond, that should have some gross margin headwinds or some reductions in the area of, call it, 15 bps, maybe 20 bps, that is gross margin and also on op margin when you compare it to gross billings. So I know we're throwing gross and net around there a lot, but takeaway is that Endpoint Solutions in quarter two, probably has a little bit of a mix shift that should dampen some of our gross margin attributes.

The last thing I'd say about that, Mike, is that, as you know, when we look at our margin profiles, we also look at our return on working capital. And both AS and ES supports the investments we make and the returns are quite healthy. They just had different attributes. If you think about AS, it's a little bit of lighter inventory touch, because a lot of it is dropshipped into the customer side. Endpoint is little bit heavier on the shelf. So we have to make sure that our working capital dynamics are supportive of that. Net-net, both makes sense, but it does play out a little bit to a decline in our margin profile as we head into Q2 and into second half of the year.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you, Marshall. That's very clear. And then as a quick follow-up, I also really appreciate the disclosures around billings by category. Any kind of high-level thoughts around long-term mix or mid-term mix of billings by product category? And just as a point of clarification, does netting kind of solely fit in software and services or does it come through other categories as well? Thank you.

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

A

Yeah. I'll start. So, broadly, stating across the portfolio circle, everything has a little bit of netting. AS of course have more than ES, but even ES has some netting to it. If you think about the categories that we've called out, software continue to show, call it, decent or better than growth attributes. Services certainly is growing year-on-

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year. I'd say the rest of those categories is where we're seeing the decline of – and I call it the supporting of the reduction and the year-on-year decline in revenue growth.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you so much, Marshall.

Operator: Our next question comes from the line of Ruplu Bhattacharya with Bank of America. Please go ahead.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking my questions and thank you for the additional disclosures on billings and margins by product category. My first question is on billings. Looks like for Endpoint Solutions, billings were down 7% year-on-year. Was this as per your expectations? If PCs improved, where other items in this category down meaningfully from a billing standpoint? And, Marshall, I think you had expected first half of 2024 billings to be flat year-on-year. Looks like it's going to be down 1.5% to 2% year-on-year. So, the question is, has anything changed on your expectation for full-year billings? And should we still expect netted down items to impact 25%, 26% for the full year?

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

A

Hi, Ruplu. So I'll address the second question first and then let Rich talk about the billings and the AS features. So you're right, that's pretty close. We were still within our range of outcomes for quarter one, but towards the lower end of that. So with that outcome, if you think about what we guided, we're roughly about 2% below the midpoint of expectations, and playing that through to quarter one, we're about 2% below what we originally thought. So you play that out for the first half, yeah, it's about 1% to 2% overall decline in revenue, but still pretty close to where we had expected. So I wouldn't call it any meaningful shift. Now it's a matter of just how the recovery plays out. Quite possible we could end up catching up to that, but certainly the expectation for the second half growth attributes for ES and AS, we still feel quite confident about.

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

A

So, Ruplu, within the category, the other segments would be mobile components and peripherals, they were down. And I would tell you that relative to our expectation, some of the softness versus the midpoint manifested itself in mobile and components.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that, Rich. You also talked about starting to see AI-related demand. I guess my question to you would be, do you think spending on AI-related items like AI servers could have a cannibalizing impact on some of the non-AI-related products? I mean, what's your thought on that? I mean, do you think that AI is a separate category and separate spend or do you think the overall spend remains the same and one cannibalizes the other? Thank you.

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

A

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So, this is personal opinion, and I need to characterize it as that. AI will not be just the total increment up on the [indiscernible] (00:46:32). I believe that there are trade-offs that are made when new technologies emerge, budgets don't immediately increment to handle this new category. I think that there can be some trade-offs, Ruplu, between AI infrastructure and other components of infrastructure. Cannibalization is a very strong word. So I wouldn't state that, but I'd leave it at logical trade-offs. Everybody needs to run their enterprises and they need to make sure that they have a up-to-date and solid infrastructure to support that business, and then in addition to that, taking a look at new value props associated within their enterprises for AI productivity. And that's the way I would think about it.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for all the details. Appreciate it.

Operator: Our next question comes from the line of Ananda Baruah with Loop Capital. Please go ahead.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey. Yeah. Thanks, guys, for taking the questions. I guess, Rich, what's your view or what do you see is the potential for the AI participation to foundationally impact the company's revenue growth rate in coming years? And can you even get through the part of that context, speak to the potential for ASP mix up from Hyve, since I think in a lot of cases those servers can be meaningfully more expensive than traditional cloud servers? But also, we're hearing your enthusiasm around the NVIDIA relationship. The GPU TAM for NVIDIA is pretty tremendous. Also, I mean, I would have thought maybe the AI-enabled PC ASP uplift could impact you guys. But it sounds like you're working a handful of angles here sort of as well. So just would love your thoughts there. Thanks.

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

A

Yeah. So, again, it's a personal judgment because it is early innings. But I think you're right, Ananda, when we think about this AI category and we start to superimpose it on the traditional segments of IT, I think it's fair to conclude at least at this point that the configurations are going to be richer. By definition, the cost of sum of the GPUs which are in market are fairly material. And so, therefore – and oh, by the way, when we think about a configuration to support an AI server, to use that as an example, it generally is richer in market today. So, yeah, look, I agree with you, I think the AI PC, the infrastructure categories of AI will all provide an increment within the ASP for some period of time.

And the same would be true for software. If you take a look at traditional software that was in market, now the AI-enabled version, the ASP, if we use that word, for software is higher. So, I think that, you know, if that whole AI category provides some growth in market, it is fair to say that relative to the legacy things that they've been characterized where they'll clearly help with the higher level ASPs.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

That's great content. I'll leave it there. Appreciate it. Thank you.

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

A

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Thank you.

Operator: Our next question comes from the line of Keith Housum with Northcoast Research. Please go ahead.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Good morning, guys, and thanks for the opportunity here. And I appreciate the detail as well [ph] of the endpoint devices (00:50:43), Advanced Solutions. As we look at the gross earnings split, roughly 40/60 this quarter. Can you give us a little bit of historical perspective, how does that usually range, I guess, as we kind of think about the business? Historically has it been more of a 50/50 mix or has it been more trending to where we're at now and how could we expect it to, I guess, trend over the next year or two?

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

A

Yeah. I'm going to offer a thought while Marshall in the background is calculating in his mind how to respond to your question. So, if you take a look at our balanced end-to-end portfolio where we show our different segments, when we were on this call about a year ago, we were talking about PCs being low-20%, right, of our portfolio. Now it sits at 16%. So, there'll be some recovery in that particular category for sure as we move through time. And this is why Marshall talks about sort of a bit of a remixing of the margin and the portfolio as we move to the back half of the year. My own personal speculation is that it's not going to sit at 16%, it probably is going to increment based on the recovery within that category. And so therefore, there will be some rebalancing of the Endpoint and Advanced in total. But, Marshall, maybe you can provide a...

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

A

Yeah, Keith, I just want to make sure the question was how does AS and ES mix going forward?

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

A

[ph] Yeah, total. (00:52:19)

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Yeah. Today it's 40/60. Historically has it been 50/50 and can it...

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

A

Yeah.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

...go up [ph] towards that (00:52:24) 70/30 or it usually pretty range-bound?

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

A

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Yeah. So it's definitely region-dependent. If you think about Americas, they tend to be a little bit more heavier-weighted towards AS. Europe, a little bit more weighted towards ES. Again, that's kind of a historical commentary. APJ tends to be kind of down the middle, sometimes be a little bit more heavier-weighted to AS. So it does depend on the regions and it does depend on the trends. But currently the mix is a little bit more in favor of AS today.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

But we shouldn't expect ES to get to like 60% even at the [ph] height of (00:53:01) PCs, right?

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

A

Really hard to tell, Keith. A lot of it is dependent on just acceleration and how we think how the second half will play. Our take is we like both and we know that our vendors and customers need both and we solutions both in many different ways to all our customer base. So kind of it all matters.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Okay. If I could just ask one more follow-up question. And you guys really used the word stable as well as improving when referring to the IT market demand. I don't want to parse words too closely, but it's kind of what we do, right? So, as you kind of look at the rest of the year and you talk about improving demand, I guess, what's some of – I guess, two or three factors that give you confidence that the market really, truly is improving?

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

A

Well, I think first is, if you take a look at our sequential sort of year-on-year declines, they've been narrowing as we've moved through the last couple of quarters. That would be number one. Number two is, obviously, we are going to start to lap on those tough compares where there was a lot of backlog rundown that propped up AS last year and we get the wrap on the PC category. So I would just say this that the cycles sort of provide an opportunity or catch-up. Third would be AI. As we talked earlier, is going to offer new demand in the market that hopefully we'll be able to take advantage of moving forward.

And so, those are some of the thoughts. I would tell you that there still is some volatility relative to our expectations in categories. Obviously, when we take a look at Q1, it was a little bit softer than we thought at the midpoint, and gross billings and revenue came towards the lower end of our expectations. So, I feel comfortable that the market is going to continue to improve moving forward. But I'm sure there'll be some shorts and longs along the way.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Great. Thank you.

Operator: Our final question comes from the line of Ashish Sabadra with RBC Capital Markets. Please go ahead.

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Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. Just to follow up on a few questions that were asked before around the demand. I was thinking about more from a spending environment, like, how much of the mid- to high-single digit gross billing growth in the back half of the year is contingent upon the IT spending increasing versus some of the company-specific dynamics, some of those which you laid out earlier in response to earlier questions, but also the headwind from the consignment model coming off possibly by third quarter of this year. So how much of it is potentially you winning a greater wallet share of the IT spend versus the IT spend actually improving as we get through the year? Thanks.

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

A

Yeah. So, first up, again, I am going to repeat a comment that I had stated earlier, as we think about our future and having a potentially a larger percentage of our portfolio of things which are netted, gross billings are what we track and think about when we think about our productivity, et cetera. So, that's an important feature. Second is our stated strategy has always been to grow little bit greater than the market. So, we would anticipate that as we move forward that, we can maintain that sort of objective and hopefully be successful executing against it. So, the net of the question is we hope to outgrow the market to some degree in the back half of the year.

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

A

And I would just add to that, Ashish, to Rich's comment about gross billings being a really important data point for us, and your comment about consignment, we expect that gross versus net, which is highly correlated to our Advanced Solutions and strategic portfolio, will probably continue. And so with that, it's very difficult to gauge accurately where net revenue may play out. We certainly report to it. So it's a meaningful GAAP number, but the gross billings is why we continue to make that a focus point for us in terms of its growth rate and its relationship to SG&A and op income, et cetera.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's very helpful color. Thank you.

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

A

Thank you.

Operator: I would now like to turn the call over to management for closing remarks.

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

Yeah. First, thanks for everyone joining today. We really appreciate your interest in TD SYNNEX. We're proud of the quarter that we had just delivered and I want to say thank you to our coworkers across the world who really made it a reality. They are on the ground every day executing and are focused on making sure that they provide the best service to our primary stakeholders of customers and vendors. So, thanks to all of our coworkers and I wish you all a great day. Thank you.

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Operator: That concludes today's conference call. You may now disconnect. Have a nice day.

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