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TD SYNNEX Corp. (SNX)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Audrey and I will be your conference operator today. I would like to welcome everyone to the TD SYNNEX Third 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 David Jordan, CFO of the Americas and Head of Investor Relations at TD SYNNEX. David, you may begin.

David Jordan

Chief Financial Officer-Americas, TD SYNNEX Corp.

Thank you. Good morning, everyone, and thank you for joining us for today's call. With me today is Patrick Zammit, 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 our strategy, demand, plans and positioning, growth, cash flow, capital allocation, and stockholder 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 the Risk Factors section of our Form 10-K and other reports and filings with the SEC. We do not intend to update any forward-looking statements.

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Also, during this call, we will reference certain non-GAAP financial information, including gross billings. 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 will now turn the call over to Patrick. Patrick?

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNNEX Corp.

Thank you, David. Good morning, everyone, and thank you for joining us today to discuss our third quarter operating results. I'm honored and very excited to address you today for the first time as the CEO of TD SYNNEX. Before I begin, I would like to thank our TD SYNNEX coworkers for their dedication and passion for our business, our partners and vendors for their trust and confidence in us, and for the collaboration we fostered together to take advantage of the business opportunities ahead. I start the call today by providing a few thoughts on the role we play in the broader IT ecosystem, key priorities for our business as we move forward, along with a brief update on our Q3 business performance. We remain a vital link in the IT ecosystem, helping vendors across the world access 150,000 IT solution providers who service everyone, from the Fortune 100 to small and medium-sized businesses.

What differentiates us is our global reach, end-to-end portfolio, and our specialized go-to-market approach. We have customized value propositions by technology that enable our vendors to increase their reach, recruit and enable partners, and provide a full suite of go-to-market services to accelerate growth. All of this is driven by an exceptional team of passionate people that are grounded in a customer-centric culture. Additionally, we are fortunate to have high-quality and trusted relationships across the IT ecosystem and are committed to continuing to be a partner of choice around the globe. Moving on to our business priorities. We have a long track record of delivering profitable growth and sustainable free cash flow, and we expect that will continue. As we move forward, our teams are focused on four major business priorities.

The first area of focus is revenue growth, which will be delivered through geographical expansion, ensuring we cover both Endpoint and Advanced Solutions technologies, expanding existing vendor franchises as well as emerging vendors, and ensuring we meet the needs of our customers. The second priority is being focused on pricing and margin management. We expect to achieve this by continuing to enhance our value proposition, improving our portfolio of services, and remaining disciplined in our execution to enable returns to meet or exceed our expectations. The third area of focus is managing our cost to gross profit percentage, which is a comparison of non-GAAP SG&A to gross profit. This is a key metric and helps to ensure we drive profitable growth. We expect to improve our cost to gross profit percentage through operational discipline, embracing technology and automation, and investing in our people who ultimately make the decisions on opportunities we choose to pursue.

The fourth priority is capital allocation. It is critical we remain disciplined around working capital management and free cash flow generation. We are committed to creating value for stockholders by focusing on investments at accretive returns and returning excess cash to stockholders. Moving on to our Q3 performance. We continue to be optimistic around the IT market recovery. Q3 was a strong quarter, reinforcing our optimism regarding IT market recovery. In particular, we saw significant growth across geographic segments and in both our Endpoint and Advanced Solutions businesses. Additionally, gross billings in Q3 grew 9%, coming in above the high end of our range. These results underscore that our broad global reach, extensive line card, and effective execution of our strategy are helping us grow slightly ahead of market.

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Within the quarter, we experienced year-over-year margin decline driven by product mix and tough compares in Hyve. Our cost to gross profit percentage remained consistent, demonstrating our ability to control our costs while focusing on profitable growth. Looking ahead, I'm excited about the trajectory of TD SYNNEX. Based on our Q3 results and Q4 expectations, we believe the market is returning to growth, and we are uniquely positioned to expand our coverage and services and deliver value-added solutions to our customers. Lastly, I want to reiterate my gratitude to our team for everything you do to make us the partner of choice in IT distribution. Our people and our culture are what differentiates us in the industry.

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, Patrick, and good morning to everyone on today's call. We had a good performance in fiscal Q3 with gross billings ahead of expectations and backlog increasing year-over-year. Total gross billings were $20.3 billion, up 9% year-over-year, which is above the high end of our guidance range. We were pleased to see growth across both Endpoint and Advanced Solutions in the quarter, which supports our thesis that the IT market has returned to growth and we grew at a slight premium to the market. In Q3, there was a 27.6% reduction from gross billings to net revenue, which was consistent with expectations and a slightly higher difference between the two measures year-over-year, driven by the mix of software and as-a-service offerings, which are recorded on a net basis. From a technology perspective, Endpoint Solutions grew 5%, driven by PCs, components, mobile and services. Advanced Solutions grew 12%, driven by Hyve, hybrid cloud, software and services.

Non-GAAP gross profit was $961 million or 4.7% of gross billings, down 1% year-over-year or 50 basis points, primarily driven by tough year-over-year compares in Hyve and business mix. As we commented in the prior quarter, Hyve, which sits within Advanced Solutions, experienced elevated margins in the prior year due to cost recoveries and incremental recognition of inventory carrying costs as we sold through aged inventory in 2023. Non-GAAP SG&A expense was $568 million or 2.8% of non-GAAP gross billings, which represented a 30 basis point improvement from the prior year. As Patrick discussed, we are introducing a new metric comparing non-GAAP SG&A expense to gross profit, as we believe gross profit is a better metric to compare than reported revenue as more of our business is being netted down.

The cost to gross profit percentage in Q3 was 59.1%, representing a slight improvement year-over-year, driven by disciplined cost management, while continuing to balance investments in strategic growth areas. Our cost to gross profit percentage will be an important metric and focus as we grow our business. Non-GAAP operating income was $393 million, down 1% year-over-year. Non-GAAP operating margin was 1.9% of gross billings, down 20 basis points year-over-year, which was consistent with expectations. The decline was primarily due to the Hyve headwinds, which we previously discussed and the mix within our distribution business. On a reported revenue basis, non-GAAP operating margin was 2.68%, down 16 basis points from the prior year, and consistent with expectations. Interest expense and finance charges were $80 million and the non-GAAP effective tax rate was approximately 21%.

Our effective tax rate was lower than expected due to favorable discrete items and mix. Total non-GAAP net income was $245 million and non-GAAP diluted EPS was $2.86, which was slightly above the midpoint of our guidance range. Now, turning to the balance sheet. For Q3, net working capital was $3.5 billion, down $39 million from Q2 and the cash conversion cycle, based on net revenue, was 21 days. This represented an improvement of two days year-over-year and quarter-over-quarter. As a result of our strong working capital management, free cash flow was approximately $339 million for the quarter. We returned $91 million to stockholders in quarter three

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with $57 million of share repurchases and $34 million of dividend payments. Year-to-date, we have generated $530 million of free cash flow and returned $614 million to stockholders in the form of buybacks and dividends.

Similarly, since fiscal 2022, we have repurchased $1.25 billion shares and paid $350 million of dividends, totaling $1.6 billion or 100% of our free cash flow. For quarter four, on a sequential basis, we expect to slightly increase our capital allocation towards share repurchases. For the current quarter, our board of directors has approved a dividend of $0.40 per common share, which will be payable on October 25, 2024 to stockholders of record as of the close of business on October 11, 2024. We ended the quarter with $854 million of cash and cash equivalents and debt of $4.1 billion. Our gross leverage ratio was 2.3 times and net leverage was 1.8 times, which is within our target range. In Q3, we also paid off $700 million of senior notes that matured in August at 1.25%. Now, moving to our outlook for the fiscal fourth quarter. For Q4, we expect non-GAAP gross billings to be in the range of $20.5 billion to $21.5 billion, representing growth of 6% at the midpoint.

We expect our gross to net percentage adjustment to be approximately 27.2%, which translates to $14.9 billion to $15.7 billion of reported revenue. Our guidance is based on a euro-to-dollar exchange rate of $1.1. Non-GAAP net income is expected to be in the range of $239 million to $282 million and non-GAAP diluted EPS is expected to be a range of $2.80 per diluted share to $3.30 per diluted share, which is based on weighted average shares outstanding of approximately 84.5 million. Our non-GAAP tax rate is expected to be approximately 23% and interest expense is expected to be $80 million. As we close out Q4, we expect to generate approximately $1 billion in free cash flow for the fiscal year and are committed to returning excess free cash flow to stockholders, keeping in mind investments needed to strategically grow our business.

We expect IT spend demand will continue to expand in Q4 and into fiscal 2025, which will result in increased working capital and also an increase in cash days, but is expected to result in accretive returns as these investments sell through in fiscal 2025. In closing, we believe we remain well positioned to benefit from the IT market recovery and have a strong balance sheet to fund our unique capabilities, allowing us to be the global partner of choice in IT distribution.

We are now ready to begin the Q&A portion of the call. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We'll take our first question from David Vogt at UBS.

David Vogt
Analyst, UBS Securities LLC

Q

Great, guys. Thanks, again, for taking my question. Maybe a question for Marshall. When you talk about sort of the capital return policy of the business and the cash flow generation this year, when we think about the mix going into next year and the recovery in IT, which I would imagine is sort of [ph] baked in (00:15:13) in your sort of preliminary expectations, how should we think about cash flow, working capital and what the business looks like from maybe a cash conversion cycle over the intermediate term? I know you've talked about getting to $1.5 billion over the long term. But given that we're coming out of this sort of weakened backdrop over the last couple of quarters, we'd just kind of love to think – love to hear your thoughts on how we should think about cash flow next year going forward. Thanks.

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

A

Yeah, thanks for the question, David. So our medium-term outlook is $1.5 billion in free cash flow. We still believe that we can attain that. But you're right, given the recovery out of 2023 and into 2024 and what we expect to be continued growth, that will continue to increase our need for working capital. You bring up a good point about the blend and the mix of the business. As you know, the model on Hyve has requirement for longer carrying costs or longer carrying days in regards to their working capital needs. So, if that continues to expand, we do think that that will increase our overall working capital. Stepping back and looking at our cash conversion cycle for quarter three and beyond, we're right around that 20 days. We still think that that's probably the right target as we go into next year.

And then, if we do see exponential growth beyond, we'll call it the typical 5%-ish growth range – and I'm not giving that as a target, just more as a proxy – we still think that 20 to 21 days, maybe 22 days is appropriate. And we haven't yet modeled out our fiscal 2025 expectations. But given the comments we said about where we expect to finish for 2024 of around $1 billion, our expectation is that we'll be north of that for fiscal 2025.

David Vogt
Analyst, UBS Securities LLC

Q

Right. So, just maybe to paraphrase, Marshall, sounds like so Hyve is the big sort of swing factor in terms of working cap and what cash flow could look like next year given sort of the growth could have different vectors?

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

A

That is correct. Keeping in mind, we've spoken in the past that when we do kind of come out of recovery positions within distribution, we at times do what we call large strategic buys. They're certainly not as big as the swing factor for Hyve, but that also can contribute as well.

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David Vogt
Analyst, UBS Securities LLC

Q

Great. Thank you, guys.

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

A

Thank you, David.

Operator: We'll move next to Keith Housum at Northcoast Research.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Good morning, guys. Appreciate this opportunity. In terms of the Hyve business, perhaps can you provide a bit more color on that? And I think if I look back to last quarter, you guys had spent a little bit extra money building up the working capital, investing in training and whatnot for that large customer you were adding. Can you perhaps also speak to the impact that had on gross margin this quarter?

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

A

Yeah, thanks for the question, Keith. You're right, the customer we spoke to that ramped in quarter two continue to show good strength in quarter three, and our expectation is that will continue in quarter four and beyond. So, the good news is that is – that continues to build. As we mentioned, that has some margin headwinds that we saw in the quarter, but also expected to be a headwind going into Q4 and into next year. You're right, there is investments we continue to make in building out the capabilities and the end-to-end solutions for Hyve, and ensuring that we've got the right resources, capital, and footprint to address and get to where we need to be to meet the needs of the business. More specifically, just on the Hyve impact on the quarter, as you remember, in the prior year, for Q3 and Q4, Hyve experienced two benefits to gross profit. One is we carried quite a bit of inventory coming out of fiscal 2022.

And as that aged out and we sold it through, our customer pays us to carry that and also gives us a margin markup. So, that had significant benefit to us in Q3 of last year and Q4. And then, we also had some cost recovery programs there. They're one-off in nature, they came through in the second half of last year. So, if you just step back and think about where do the majority of the decline in overall profitability come from in terms of our performance in Q3 year-on-year, it was due to those good strength in profit last year and then the investments we're making this year to grow the business.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

And just would like to add one thing. I mean, Hyve enjoys higher margins. So, as we grow with Hyve, it will have a positive impact on our mix and will be accretive to our results.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Great. Thank you. Appreciate it.

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

A

Thanks, Keith.

Operator: Next, we'll move to Ashish Sabadra at RBC Capital Markets.

David Paige
Analyst, RBC Capital Markets

Q

Hi, this is David Paige on for Ashish. Thanks for taking my question. I just had a quick one regarding the strength in strategic technologies, which seems to be continually growing very strongly. Maybe you could just give probably a little bit more color what was driving the growth in strategic technologies during the quarter. And then, if you can, maybe an early read into fiscal 2025. Thank you.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. So, strategic technologies, specifically it's cloud, it's security, and AI. It includes also Hyve. And, clearly, those markets continue to enjoy nice growth. And as you know, the AI market in particular, the hyperscalers have announced that they will continue to invest massively. This year, they will roughly invest $250 billion. I mean, thanks to Hyve, we participate also in that market. So, that – I mean, besides the growth which we see in distribution, in hybrid cloud, in security, and AI, I mean, the acceleration of the investments of the hypescalers will continue to drive that growth rate up.

Operator: We'll move next to Adam Tindle at Raymond James.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you. Good morning, Patrick. I just wanted to start on just kind of a philosophical question on running the business. Obviously, what we're seeing here is very strong growth in gross billings. But margins were down, working capital intensity increased. Understand some of the explanation on Hyve, but that's going to continue into Q4. So I'm just wondering, if you look at Q3 and Q4, is this sort of a precursor for what investors should expect under your leadership, where we're going to focus a little bit more on growth and a little bit less on those other two areas, or potentially sacrifice those two areas in order to grow? And if so, why would that be the right strategy? You've been in the industry a long time. We've seen kind of this play out in component distribution, for example, which I know you've lived through part of. And that didn't really help either of those two players or shareholders.

So, just kind of curious on the focus on revenue growth and growth, generally speaking, given that was the first priority that you mentioned.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. No, thanks a lot for the question. So, I mean, clearly, we are focused on profitable growth and cash flow generation. So, of course, when you look at the results of this quarter, you'll see that we had a very nice sales growth, exceeding, by the way, our expectations and the margin being a little bit more muted. Again, as Marshall explained, the vast majority of the GM percent decline is related to Hyve and then related to the mix. Going forward, I mean, I think we are going to see an improvement on the GM percent. Two reasons. So the first one is when you look from a geographic standpoint at what is driving the recovery or the sales increase, we see that

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Europe and APJ are growing faster than North America. In North America, we enjoy better operating margins. So, as the North American market accelerates its recovery, it's going to have a positive impact on mix.

The second reason is, I mean, at the moment, we benefited from some large deals, which again were accretive. I mean, we had the right return on those deals. But the margins are higher in the mid segment. And so, again, as the mid segment recovers, we should again see an improvement of the margins. The last point I want to insist on is services. I mean, if we want to improve our GM percent and make it sustainable, we need to increase our mix of services, which is going to be at the core of the strategy. So, you're referring to the component business. If you look at my track record there, I always focus not only on the growth, but also growth at the right margin quality. And I intend to do the same here. If we go for large deals with lower margin, we will make sure that the return is right. But again, the target is really profitable growth and growing GP at least at the same pace as sales, if not faster.

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

Thank you.

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

Thanks, Adam.

Operator: We'll move next to Michael Ng at Goldman Sachs.

Michael Ng Q
Analyst, Goldman Sachs & Co. LLC

Hey, good morning. Thank you for the question. I just have one on Endpoint. I was just wondering if you could talk a little bit more specifically around what you're seeing on PCs. Are there any benefits from AI PCs showing up in the quarter? And if you could also just comment on Endpoint margins. We've obviously talked a lot about Hyve, but Endpoint Solutions also saw a little bit of a gross margin decline, at least sequentially. Thank you.

Patrick Laurent Zammit A
Chief Executive Officer & Director, TD SYNNEX Corp.

Yes Thanks a lot for the question, Mike. So, I will take the what we see in the PC market. So, the PC market is back to growth and we see that in all the regions. Now, the pace of recovery is slightly more muted than expected. We were expecting mid to, yeah, high-single digit growth, and we were more in low-single digit growth. Now, I think that going forward, the tailwinds we've talked about, in particular the – so AI PCs, but not only the refresh of the PCs, both during the pandemic and the refresh required with Windows 10 being replaced by Windows 11. I think that story holds and we should see an acceleration of the PC growth, AI PC, very rapidly. So the – again, the weight of AI PCs in the total PC resale at the moment continues to be relatively low. One of the reasons being that the new AI PCs are just coming into the market. So I think customers have been waiting a little bit, especially to see the mid-range PCs coming.

And we had a series of launches at the beginning of the quarter. There will be more by the end of the quarter. And so I think that we will see an acceleration again in the first half of next year. On the margin, you want to...?

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

A

Great. You covered it.

Operator: We'll go next to Joseph Cardoso at JPMorgan.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, everyone, and thanks for the question here. So, yeah, just one for me. It sounds like you're pretty – you're feeling pretty confident around the recovery in the broader IT spending market heading into the second half of this year and into next, which is maybe a bit different than what we're hearing from some of your VAR partners who are seeing more of a, let's say, a mixed environment. Just curious what is driving your confidence around the recovery here? And perhaps maybe you can flesh out that a bit either by product area or customer vertical, where you're feeling the most confident versus other areas that perhaps are still, call it, sluggish. Thanks for the question, guys.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. So thanks a lot. So, I mean, when you look at the markets, so I talked about the PC market. Again, the recovery – we are back to growth, but the recovery in the second half of this year is a little bit below expectation and we should see an acceleration next year. The other technology I want to bring to the table today is networking. I mean, we know that – I mean, we have tough compares. Last year, we had huge backlogs, which got shipped in the second half, which explains why the market year-on-year is down double digits. But that, again, is normalizing. So I think, again, in Q4, we should be at the end of the tough compare. And so next year, we will, again, have a normal compare and we should see the positive. I want also to insist on the geographical aspect.

I mean, Europe and – Europe is recovering faster. I mean, what we see in the market is, I mean, mid-single digit growth, it's driven – so, in Europe, specifically, the distribution – the distributors are serving also the B2C market. And we see a recovery coming from the B2C market. The B2B market is a little bit more muted. But again, we should see some acceleration. APJ, again, is doing well. North America is really where, for the moment, the market is flat, I would say slightly down, but between – I mean, 1% down. And here again, I mean, we expect the market to come back driven by PCs, driven by networking. And all the other technologies are doing much better, too. So, next year, because of that, we believe that we should have a good – we should see an acceleration of the growth.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Thanks, Patrick. Appreciate all the color.

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

A

Thanks. Joe.

Operator: We'll move to our next question from Ruplu Bhattacharya at Bank of America.

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Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my questions. I have two. First one for Patrick. Patrick, where do you see your investments over the next year? Are you happy with the [ph] porto (00:30:37)? Is that something you want to enhance? And then, as we think about the impact of AI, do you think you need to enhance your line card or make any investments in that area to take advantage of that? So, just your thoughts on where you need to invest to drive further growth over the next year.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

So, I want to start – so, investment in technology is going to be key for us. On the ERP, the good news is that in both North America and in Europe, we've completed our conversions, and so we are now on one system. And so, I expect there the investments to come back to normal. When it comes to platforms, in particular to support-as-a-service, here we will continue to invest. The market – so, the weight of software and as-a-service in our total mix is increasing, and we need to continue to enhance our value proposition there. So, yes, more investments in our platform, cloud platform in particular. And...

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

And for – yeah, sorry.

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

A

AI. Go ahead and cover AI.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. So, on AI, again, I mean, we see an acceleration of the demand. So, as you know, we've developed a specific go-to-market and program called Destination AI, which is covering all our technologies because we believe that AI will benefit not only to the software category but also to the endpoint category, to the services category, the networking category. If you look at our line card today, we are, in fact, on all those technologies, very well-positioned. We have, I mean, we believe already, the leaders which will enable us to win in the market. So, yes, we constantly look at new partners to make sure that our product portfolio and our value proposition remains competitive. But, again, I mean, today, we think we are already very well-positioned in that space.

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

A

And, Ruplu, just one thing to add on AI in regards to Hyve, and we've mentioned this in previous discussions. They continue to experience a growing partnership with NVIDIA. That business continues to expand and has an opportunity to be significant for us as we go into 2025.

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Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for all the details there. Marshall, if I can follow-up on capital allocation priorities. I mean, how are you looking at any potential M&A in this space and buybacks? So, can you help us – or debt reductions? Can you help us just prioritize these things? Thank you.

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

A

Sure. Sure, Ruplu. I'll have Patrick first speak to M&A and his thoughts there, then I'll close it.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yes. So, M&A continues to be an opportunity for us to accelerate growth in specific geographies or to acquire specific technologies or to acquire capabilities. The second thing I would mention is that when you look at our M&A policy, we've always been very disciplined. So, we will only go for M&As where we know that the return is going to meet our financial expectations. And there's something I want to – I wanted to add, is we have a very successful track record of M&A and integration. You look at the acquisition of Avnet, the merge between Tech Data and SYNNEX. Again, all those acquisitions or mergers have been accretive. We have a true expertise integrating companies. And so M&A, because of that, will continue to be part of the strategy.

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

A

And then, Ruplu, just on the share repurchase and buyback – excuse me, on the dividends. Certainly holding to our 50/50 allocation that we set out a couple years ago. And looking at our overall share repurchase since fiscal 2022, we repurchased over $1.25 billion of shares and returned dividends of $350 million, so that totals about $1.6 billion which is 100% of our free cash flow. So back to that pivoting where the M&A wasn't there, we filled that in with returning back to our shareholders. In the prepared remarks, we plan to continue to repurchase shares in Q4. From a leverage standpoint, we're happy with where we're at. We're at 2.3 times gross and 1.8 times net. So, we feel comfortable that we're at the right target range.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for all the details. Appreciate it.

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

A

Thank you.

Operator: We'll go next to George Wang at Barclays.

George Wang
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for taking my question. I have just two quick questions. Firstly, I just want to kind of hone in on the Hyve again. Crown jewel asset for you guys. And just curious for, one, are you seeing expansion of new logos? Previously, there might be some customer concentration with a couple of hyperscalers. Just curious if you

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have new design wins on the assembly side and then also curious kind of how is the utilization going for the assembly lines?

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

A

Yeah, thanks for the question. So, we have spoken about a newly landed customer in the prior quarter. That continued to expand in quarter three and we expect that will continue to grow in quarter four and into 2025. We do focus quite a bit on customer diversification. That's one of our key strategies, both at the hyperscalers and the next tier of customer opportunities, and have done a really good job of building out our capabilities. And specifically, our onshore capabilities has been quite a bit of an attribute or a strength for us. Getting quite a bit of attention and interest in those capabilities. The – one of the aspects of onboarding a customer, it's long. It can take 12 to 18 months at a minimum. So that part tends to be what slows us down. But nevertheless, we do like, what I'll call, a pipeline of prospects, a pipeline of close to land and some customers that we're going to start onboarding as we go into next year.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay. Just a quick follow-up on the utilization. Just curious if you guys can talk about if there's any change in the utilization. Previously, you guys talked about you have some excess capacity. Just curious whether the current increase in demand is going to backfill some of the – so the capacity.

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

A

Yeah. We have enough capacity to handle the business today and where we expect it to go over the next couple of years.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay, great. Just quickly, if I can squeeze in, just on the PC, I think just continue sort of AI PC enthusiasm. Just curious if you have any changes in terms of when it's flowing to the P&L. But also, have you seen any sort of kind of near-term cannibalization from the AI PC on the traditional PCs? Some of your competitor talked about sort of this interim period, like you might have some uncertainty on the corporate spend just because you have the impending sort of wave of AI PC. Just curious if you have seen any change in the customer sort of behavior and dynamics over the last three months.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

So, the weight of AI PCs is ramping up. So we see it. It is happening a little bit slower than expected. And again, as I was explaining, I think one of the opportunity is the launch of the new AI PCs. I mean, we address the – I mean, as you know, the first AI PCs were launched with Qualcomm. I mean, so we have the AMD AI PCs coming now. Intel AI PCs are going to come. And so with the increase in the product offering, especially in the mid-range, we should see an acceleration of the adoption of AI PCs.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay. Great.

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

A

Thank you.

Operator: And next, we'll move to Alek Valero at Loop Capital.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Hey, guys. Alex for Ananda. Thank you for taking my question. I have a non-GenAI question. Are you guys seeing any sort of pickup in normal non-GenAI server demand?

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

So, transparently, we don't have yet enough statistics on it. What we know is – what we see is that still, I would say, enterprises are looking at how to utilize GenAI and take advantage of the new technology. So our Destination AI initiative aims at helping our resellers to position GenAI with their end users and identify the right use cases. That's taking a little bit of time. So, again, I mean, we are very confident that GenAI will have a positive impact on the server market. But I think we're going to see the benefit probably more next year, in the second half of next year, not in the short term.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you for that. Just a quick – a slightly different question. Are you guys seeing any impact at 3Q or 4Q from [ph] rev (00:40:48) changes at large customers?

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

A

Alex, can you just repeat that again? I heard have you seen the impact? Did you say on – from large customers in Q3 and Q4?

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Yeah, that's right. Yeah. Any revenue impact from large customers to 3Q or Q4?

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

A

So no, for the moment, I mean, that segment of the market, so in particular in North America, continues to be a little bit more muted. Okay. So, we are not seeing yet an acceleration of the demand. Yeah, that's the status as of today.

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

A

And then just to clarify, Alek, the question is a broader do we see any large corporate activity in the quarter? I think Patrick referenced there were a couple of larger deals that had lower margin impacts, but great returns given the cash day. So those come and go. But outside of that, not much.

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Alek Valero
Analyst, Loop Capital Markets LLC

Q

Okay. No, that's perfect, guys. Thank you for that. Appreciate it.

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

A

Thank you.

Operator: And that concludes our Q&A session. I will now turn the conference back over to Patrick for closing remarks.

Patrick Laurent Zammit
Chief Executive Officer & Director, TD SYNNEX Corp.

Yeah. Thanks very much. So before we wrap the call, I just want to acknowledge our 23,000 coworkers across the globe for their dedication to serving our customers, vendors and the technology marketplace at large. Thank you to everyone for attending today's call and we look forward to reconnecting next quarter. Have a good day.

Operator: And this concludes today's conference call. Again, thank you for your participation. You may now disconnect.

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