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TD SYNNEX Corp. (SNX)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Julienne and I will be your conference operator today. I would like to welcome everyone to the TD SYNNEX Fourth Quarter and Full Year 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 Jack Huddleston, Head of Investor Relations at TD SYNNEX. Jack, you may begin.

Jack Huddleston
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 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 in 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. 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, Jack. Good morning, everyone, and thank you for joining us. I am pleased to share our fourth quarter results and how we are well-positioned for the year ahead. Revenue grew by 10% year-over-year and gross billings grew by 7%. We generated free cash flow of $513 million in Q4, meeting our target of $1 billion for the full year. Demonstrating our commitment to delivering opportunistic value to shareholders, we returned 72% of our free cash flow in buybacks and dividends during fiscal year 2024. Let me share three factors behind our Q4 performance. First, we saw good momentum in distribution. Gross billings in Endpoint Solutions grew by 3% year-over-year, led by strength in PCs. Advanced Solutions, excluding Hyve, showed broad strength across our geographic segments. Our cloud, cybersecurity, and data and analytics portfolios all grew by double-digits in Q4 across all of our geographic segments.

Gross profit within Endpoint and Advanced Solutions showed solid growth year-over-year as we continue to focus on profitable growth. Second, we particularly saw strong top line performance in Hyve. In Q4, Hyve revenue grew by double digits, reflecting its improved end-to-end capabilities. As Marshall will discuss, a tough year-over-year compare from Hyve impacted gross and operating margins. And third, our Q4 results reflect the strength and resilience of our business model in an evolving macro environment. Our diversified product portfolio and our global scale allow us to capture a wide range of IT spend, and our continued operational excellence enabled us to deliver consistent margins and free cash flow. Having been in the CEO role for over 100 days, I'd like to share a few observations from my conversations with many of our partners and vendors. Digitization is increasingly critical for enterprises seeking efficiency and growth.

The rapid evolution of the IT ecosystem, driven further by the integration of technologies like AI, is creating new complexities as enterprises work to meet the evolving needs of their end users. These challenges are creating large opportunities for TD SYNNEX. We are a global leader at the center of many of IT's most powerful tailwinds, and customers and vendors are increasingly relying on us as a trusted strategic partner to navigate this complexity, grow their business, and deliver turnkey solutions that integrate software, hardware, cybersecurity, AI, and other emerging technologies. Let me share a few recent examples of how our unique strengths are helping our vendors expand their business. Two of our top 10 global vendors chose us to expand their business to India. Our specialized expertise across all major technologies in IT and strong management team in India, combined with our financial strength and commitment to upholding regulatory and compliance requirements, is helping them to efficiently and sustainably scale their business.

In another example, a large cybersecurity software vendor chose us as their exclusive distributor for Japan. Our market-leading cyber capabilities in Asia-Pacific, combined with our strong market presence in Japan, played a significant role in our ability to expand with this leading vendor. With more major franchises in place, our market relevance continues to increase in Asia-Pacific where we grew gross billings by 31% year-over-year in Q4. Momentum is also strong with customers around the world. For example, a large reseller customer chose us to transition part of their business from a one-tier to a two-tier model. With our broad capabilities and financial strength, we are delivering comprehensive and customized supply chain and enablement services that significantly reduce their operating costs while enabling new avenues of growth for them.

In another example, a large global solutions provider chose us to manage their AWS business. Recognizing our leadership in the AWS ecosystem and the value of our cloud platform's managed FinOps services, we are enabling this customer's end users to manage cloud workloads at scale and at low cost. Vendors and customers increasingly choose us for four key reasons. First, our end-to-end portfolio is unmatched. This creates deep partnerships with vendors and enables our customers to expand their technology and solutions offerings. Second, our specialist go-to-market approach with expertise across all major technologies in IT, powering an enablement engine that helps our customers grow and reduce their operating costs.

We enable our customers to deliver high-growth technologies like cybersecurity and AI and integrated multi-vendor solutions. At the heart of it is our culture that fosters innovation, collaboration and a relentless commitment to our partners' success.

Third, our large global reach, enabling partners to deploy multi-country solutions, grow across geographies and enter new market verticals while trusting us to ensure they meet compliance and regulatory requirements.

And fourth, we are a collection of specialists, powered by technology and committed to operational excellence. Our cloud platform, StreamOne, is a great example of how we simplify the complex. Customers are using our platform as a central hub to manage their Anything-as-a-Service business. We integrate with key vendors and all hyperscaler marketplaces, giving us the ability to provide customers with access to thousands of vendors.

Our platform provides powerful capabilities, like real-time reporting and billing on Infrastructure-as-a-Service consumption, FinOps capabilities, SecOps capabilities, pre-built white-label storefronts, automation with PSA Connectors and our open API architecture and end-to-end connectivity.

We recently announced marketplace syndication with Microsoft Azure and AWS, simplifying procurement and lifecycle management of hyperscaler catalogs. While customers are embracing our platform, leading next-gen vendors are partnering with us, because we enable them to scale efficiently to reach our large customer base and as our partners grow, so do we.

Moving on to Hyve, our hyperscale infrastructure business. With surging cloud adoption and AI-driven demand, hyperscalers continue to invest heavily in data centers, creating opportunity for Hyve to continue to expand its services and offerings to address areas such as liquid cooling and power management. With operating margins accretive to our results and significant potential, Hyve continues to be a key driver of our growth. In the year ahead, we will build on our momentum by strengthening our position as the vital link connecting the IT ecosystem.

We believe that the IT spending environment will continue to improve throughout the year and that we are well-positioned to capture opportunities as the demand environment stabilizes while also continuing to expand in new areas.

We believe we grew ahead of the market this quarter and we will continue to opportunistically look for whitespace opportunities across geographies, product categories and customer segments to service a greater portion of the overall IT market. Additionally, we are building enablement solutions for our higher-margin services business to help our customers meet the increasing demand for the specializations and certifications that are needed to deliver more complex technologies. We remain intensely committed to profitable growth, delivering sustainable free cash flow and continued disciplined capital allocation.

Any decision we make, whether internal investment, acquisition or returning cash to shareholders, will be thoughtfully and carefully evaluated to ensure we prioritize high-impact investments and create meaningful value for our customers and shareholders.

Now, I will pass it to Marshall for financial performance and outlook. Marshall?

Marshall W. Witt

Chief Financial Officer, TD SYNNEX Corp.

Thanks, Patrick, and good morning to everyone. We had a good performance in the fourth quarter with gross billings and net revenue exceeding expectations. Total gross billings were $21.2 billion, up 7.4% year-over-year and above the midpoint of our guidance range.

As we began the year, we anticipated that revenue growth would show signs of recovery and gain momentum throughout the year. Gross billings growth was roughly flat in the first half and roughly 8% in the second half, aligning to the sequential growth that we were anticipating.

In Q4, there was an approximate 25% reduction from gross billings to net revenue, which was lower than expected and down from quarter three, primarily due to a higher mix of Endpoint Solutions and Hyve business mix. Net revenue was $15.8 billion, up 10% year-over-year and exceeding the high end of our guidance range. Our Endpoint Solutions portfolio grew 3% year-over-year, driven by PCs and peripherals.

Our Advanced Solutions portfolio grew 11% year-over-year, driven by Hyve, hybrid cloud and software. 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.

Gross profit was $1 billion or 4.91% of gross billings, representing a 25-basis-point decline year-over-year, primarily driven by a tough compare in Hyve. As a reminder, in the fourth quarter of last year, Hyve, which is part of our Advanced Solutions portfolio, experienced elevated margins from cost recoveries and recognition of inventory carrying costs as we sold through aged inventory in 2023. Sequentially, margins as a percentage of gross billings were up 17 basis points. Gross profit and distribution showed solid growth year-over-year as we continue to focus on profitable growth.

Non-GAAP SG&A expense was $619 million or 2.92% of gross billings, representing an 8-basis point improvement year-over-year. The cost-to-gross profit percentage, which we define as the ratio of non-GAAP SG&A expense to gross profit, was 59.5% in Q4 and consistent with expectations. Our cost-to-gross profit percentage will be an important metric as we look to profitably grow our business and continue to focus on operational excellence and leveraging our resources to improve profitability. Non-GAAP operating income was $422 million or 1.99% of gross billings, representing a 17-basis point decline year-over-year, which was consistent with expectations. The decline primarily was driven by Hyve headwinds that we previously discussed. Interest expense and finance charges were $86 million, higher than expected due to higher average borrowings throughout the quarter. 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 $263 million and non-GAAP diluted earnings per share was $3.09, both above the midpoint of our guidance range. Turning to the balance sheet. For quarter four, net working capital was $3.2 billion, down $312 million from quarter three. Cash conversion cycle was 18 days, down year-over-year and sequentially. Free cash flow was $513 million for the quarter. We returned $136 million to stockholders in quarter four, with $102 million of share repurchases and $34 million of dividend payments. For the full year of 2024, we generated just over $1 billion in free cash flow, which was consistent with our expectations; and returned $750 million to stockholders in the form of buybacks and dividends, representing roughly 72% of free cash flow in fiscal 2024.

For the current quarter, our board of directors has approved a 10% increase to our cash dividend and $0.44 per common share, which will be payable on January 31, 2025 to stockholders of record as of the close of business on January 24, 2025. We ended the quarter with $1.06 billion of cash and cash equivalents and debt of $3.9 billion. Our gross leverage ratio was 2.3 times and our net leverage ratio was 1.6 times. Now moving on to our outlook. These numbers are all non-GAAP, and for the first quarter we expect that gross billings will be in the range of $19.7 billion to $20.7 billion, representing a growth of approximately 5% at the midpoint and 6% in constant currency. Net revenue will be in the range of $14.4 billion to $15.2 billion, which translates to an anticipated gross-to-net adjustment of approximately 27%. Our outlook is based on a euro-to-dollar exchange rate of $1.05. Net income will be in the range of $224 million to $266 million.

Diluted earnings per share will be in the range of $2.65 to $3.15 per diluted share, which is based on weighted average shares outstanding of approximately 84 million. As I've mentioned before, Hyve had an elevated margin in quarter one of fiscal 2024 and is the primary driver for the expected decline in margin on a year-over-year basis with an approximate 20-basis point impact on margin in quarter one. We expect these headwinds will substantially lap by the end of quarter one of fiscal 2025. We expect a tax rate of approximately 23% and interest expense of $78 million. As we think about full fiscal year 2025, we currently expect gross billings to grow in the mid-single-digit percentage on a year-over-year basis as we continue to expect a PC and server refresh cycle; an easier compare in networking which should turn back to growth, and continued growth in Endpoint Solutions and Advanced Solutions, particularly our cloud, security, and data and analytics portfolios benefiting from AI.

We expect to generate approximately $1.1 billion in free cash flow for the fiscal year and remain committed to disciplined capital allocation, including returning free cash flow to shareholders, with a focus on share repurchases. And we have $1.8 billion remaining on our stock repurchase authorization, all the while keeping in mind investments need to strategically grow our business. We plan to host an Investor Day on April 10 where we will provide more detail on our medium-term targets. 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.

With that, we'll open it up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Adam Tindle from Raymond James. Please go ahead. Your line is open.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you. Good morning. Patrick, I just wanted to start. We've got two quarters under your tenure and a Q1 guide here. And understand the qualitative narrative around profitable growth, but it's not as evident in the current results that we're seeing. Strong growth but margins are declining, and Q1 implies more of the same. I wonder if you might just double-click and revisit that philosophy, growth versus profitability balance and how you plan to manage the business over the medium and long-term going forward. And as a part of that, I imagine you're going to talk a little bit about what's going on in Hyve, weighing on margins. I wonder if you could take a step back, as you've analyzed that business under the covers, how you're thinking about the decision to put incremental investment there given the margin trends that we're seeing right now and why? Thanks.

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

A

Yes. Good morning. Thanks a lot for the question. So, again, when you look at the quarter, so we are very pleased with the growth both in distribution and Hyve. If you look at distribution only, the margin in fact was stable year-on-year, the margin quality, which means that we had a good drop-through from, I mean, sales growth, GP growth, operating income growth; all that was very positive. Hyve, if you exclude the one-off of last year – and again, Marshall is going to explain maybe a little bit more in detail what caused that, if you exclude that one-off, in fact, Hyve had a very nice growth, too, again, not only from a top line, from a GP, and from an operating income. So, it's – if you will, this tough compare which is skewing the picture. Pro forma, I can promise you, we are committed to profitable growth. And indeed, we are seeing the drop-through if we exclude those one-offs.

So, just rebounding on the second question you asked, so Hyve is really having in the market a series of differentiators which justify the double-digit – the high double-digit growth. Their margins are accretive to our overall portfolio and the return on investment is also exceeding cost of weighted capital. So, because of that, we believe that it's appropriate to continue to invest in that business for the long run. And Marshall, maybe you want to comment on the one-offs or just to put it in perspective?

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

A

Yeah. Adam, in quarter one in the prior year, Hyve had some strong profit around – selling through inventory and some equipment and projects and programs that did not repeat this year. And just to reiterate what Patrick said, Hyve which is part of our strategic portfolio, that bundle of revenue and margins are growing faster than the company average, both in revenue and in margins. And we do expect and anticipate to further increase our investment in Hyve, not only in terms of skillsets and engineering capabilities but in terms of manufacturing footprint, whether it's expansion of existing space or new space primarily to address liquid cooling and power needs. And then finally, logistic centers and facilities to support the fulfillment side of the business.

So, we still believe it is an important element of our AI solution or portfolio and believe that as we think through beyond just any one given year – as we've said in the past, Hyve can be lumpy and somewhat unpredictable, but over the last two to three years has performed quite well for the organization.

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

A

And just to add one more thing which is we have one more quarter of tough compare, which will be Q1. After that, things will be normal. The base is – everything will be comparable. And then, you are going to see the drop-through, the normal drop-throughs because again, the team is focused not only on generating growth but also on making sure that the GP is increasing, at least in line with sales.

Operator: Our next question comes from David Vogt from UBS. Please go ahead. Your line is open.

David Vogt
Analyst, UBS Securities LLC

Q

Great. Thank you and thank you, Patrick and Marshall. Patrick, I don't think I heard you reference kind of the macro impact of what's going on in Europe out there, whether it's from the environment or from maybe the swings in the US currency. I know Marshall gave a guide that contemplated where the euro was. But just maybe can you kind of unpack a little bit what you're seeing in that particular market, whether it's from a billings perspective or a revenue perspective on how you're thinking about that plays out in 2025? And then, I have a follow-up.

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

A

Yeah. So, what we saw in Q4, so we have statistics about the distribution market. The market grew 2% in the last quarter, so a little bit slower than in Q3, but it continues to grow. Obviously, we outperformed the market. And so, it's true that the macro environment, if you look at not only the macroeconomic environment, but the whole political instability, is creating, I would say, some uncertainty in the market.

Now, I mean, what we are observing is that the demand is there in distribution from our customer base and we continue – we are very well-positioned in that market and we continue to take advantage of the opportunities of the market. But it's true that you have a level of uncertainty in Europe, but it's not today materializing in the market dynamics- sorry, in the market growth.

David Vogt
Analyst, UBS Securities LLC

Q

Got it. So, my follow-up would be – maybe Marshall could chime in on this as well. So, if the European market distribution market is growing too and you're taking share and you're guiding to full year – preliminary guidance of mid-single-digit billings number, are we to expect that Europe is going to remain relatively status quo as we move through your fiscal 2025? You did talk about a recovery in PC and server. Is that more, obviously, Americas and maybe APAC-centric at this point? Thanks.

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

A

David, I'll give you a less Europe response and more of a broader organization response from a company perspective. As Patrick had said, once we get past Q1, that mid-single-digit expectation in growth rate is expected to play out fairly consistently for Q2, Q3 and Q4. As we think about what our seasonal patterns have looked like, we typically see a slight improvement in revenue in quarters two and three slightly. They tend to mirror each other and look pretty similar in terms of revenue and margin profile. And then, we do expect, just like we finished up quarter four, that there will be an improvement in revenue and margin quality in quarter four. A lot of that is just due to the strength of the quarter itself.

Patrick has mentioned we try to balance the way that we build out our forecast with the overall uncertainty in the economies that we do business in and certainly realize and believe that this is potentially the second year of IT recovery spend. But it's going to be difficult to understand how that evolves through the year.

Operator: Our next question comes from Michael Ng from Goldman Sachs. Please go ahead. Your line is open.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thank you very much for the question. I just had one for Patrick and just a quick follow-up for Marshall. Patrick, I was just wondering if you could talk about the PC recovery. I think this quarter, there were some particular strength in peripherals. I was wondering if you could provide some qualitative color on that. Are you seeing any kind of reseller stocking ahead of any potential tariffs next year?

And then, Marshall, I was just wondering if you could talk about whether you're going to be able to achieve the midterm free cash flow outlook next year. And any thoughts around the cost-to-gross profit percentage for next year? Thank you.

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

A

Mike, thanks a lot. So, concerning the PC, already in Q3, we saw a recovery and we saw it again in Q4. We grew high-single digits in that category. Tough to comment is the reason for the growth is coming in anticipation of a tariff increase. There's a lot of uncertainty in the market about it. So, really, I would be very cautious using it as a reason for the growth.

I mean, what is clearly driving the recovery in demand is the need to prepare for the Windows 10 refresh and the fact that you have this aged PC base coming from the pandemic. So, those two are clearly driving the demand. I would add that, again, if you look at the overall market, it's the commercial segment which is driving the growth. The consumer segment continues to suffer. We made the decision to focus on the commercial segment for PCs across the world. And so, commercial growing faster, that gives us an advantage. So, that's about the PC question.

And, Marshall?

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

A

Yeah. So, Mike, on the questions in regards to free cash flow not only for the upcoming year, but your comment about over the medium term, so we do expect free cash flow of about $1.1 billion in 2025. That's primarily driven by our earnings growth and earnings outcome for the year.

We do expect about a day improvement in our cash conversion cycle to allow us to get to that expected $1.1 billion. For the longer term or medium term, we've referenced $1.5 billion as our aspiration. We still hold on to that and believe that that's an appropriate target to set. We are underway. I think we shared with you last quarter that we're building out a four to five-year strategic plan that we're delighted that we're going to be able to share that with you at Analyst Day. And I think with that will come some further refinement and understanding around that medium-term target for cash flow.

In regards to your other question around cost-to-GP, we came in around 59%. The expectation is that'll probably stay around 59% for the first half of the year and we should expect to see some slight improvement in the second half. Our operational efficiency projects and the way we do business remains an important focus for our organization. We're quite confident that this will lead to sustainable improvement going forward.

Operator: Our next question comes from Joseph Cardoso from JPMorgan. Please go ahead. Your line is open.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Good morning. Thanks for the question. So, we're seeing a lot of investments from your peers in the Hyve space in areas like liquid cooling and power optics, and you guys talked about that as an area of focus or a focus of investment for you as well. We're just curious if you could just provide a bit more color around your footprint here and your portfolio here and how you view it stacks up against some of the peers in the space. And then, any more color on where you're looking to invest and is this more of an organic shift? Or are you looking to do some potential M&A here and how does that pipeline look? Thanks.

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

A

Yeah. Joe, I'll start first and then Patrick, please fill in where needed. So, yeah, you heard in my comments on the previous response, we expect to continue to make investments in manufacturing capacity and capabilities and engineering skillsets, and that is around continuing to build out our ability to have our own designs. Joe, as you know, we do design work ourselves. We co-design, we build out the designs of others, and all three of those elements and aspects we want to continue to provide the right skillset and the right footprint and right capacity for that. In regards to our peers, we act and behave in an ODM and a CM world, so think about those competitors. And when we go to market and go to bid with those opportunities, those are facing competitors. We feel like we're doing quite well in the markets we serve and the customers that we have.

And as you know, we're continuing to expand our customer base and feel that that's going to continue to be an important aspect of our growth in the next two to three years. And then, just thinking about the overall question around is this going to be internal versus inorganic opportunities for now, all the discussions we've had and what I shared with you is more of an organic game plan that we have.

Operator: Our next question comes from Ruplu Bhattacharya from Bank of America. Please go ahead. Your line is open.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking my questions. Marshall, you talked about mid-single-digit growth in billings for fiscal 2025 and I think you said mid-single digits for every quarter from 2Q to 4Q. If I look at this year and fiscal 2024, it looks like Endpoint grew 1% and Advanced Solutions grew 7%. But now in fiscal 2025, you're going to have both segments grow, hopefully like PCs recover and Advanced Solutions and Hyve should do well as well. So, can you give us your thoughts on the relative growth in billings between Endpoint Solutions and Advanced Solutions? How should we think about that relative growth in fiscal 2025?

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

A

Hey, Ruplu. Yeah, I'll start and then Patrick will have some comments as well. We do not yet guide by product portfolio in terms of ES and AS. But you are right, our expectations is that both should grow in relative perspective to the 5% growth. And then, just to put in context on your comment about Hyve, the way we build out our forecast is we look at a full range of outcomes and we're informed by the forecast demand delivered and given to us by our customers. From that, we look at the range of outcomes and default or tend to go towards more of the conservative side of those outcomes just given some of the unpredictability of how that volume falls. And Patrick?

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

A

Yeah. So, the fact is that when you look at all the technologies we take to market, I mean, most of them have today are starting to – have or will have a good momentum. If you think about AS, in particular networking has been suffering last year. The tough compare is behind us, so we should see recovery in networking also. By the way, in Q4, I mean, we had low single-digit growth despite still a tough compare with last year. Now, to put things in perspective for the whole year, you have the macro uncertainties: geopolitical; macroeconomic in particular in Europe; the tariffs, what will be the impact on demand. So, we are trying to find a balanced view between, again, some of the tailwinds, some of the dynamics in the market, and some of the risks which are creating uncertainties on the overall dynamic. And so, the guidance we've provided is taking that into account.

We are comfortable with our guidance despite this uncertain environment. But, yeah, that's how I would quantify it for the moment.

Operator: Our next question comes from Ashish Sabadra from RBC Capital Markets. Please go ahead. Your line is open.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. I just wanted to focus on the impact of mix shift as we think about not only the first quarter but the rest of 2025 as well. Thanks.

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

A

So, if you look at Endpoint Solutions, we continue to – so, the PC market should have a positive impact on the growth. There's another category which is quite important in our portfolio which is mobile. And here, the demand is going to be, for the moment, what we see is going to be probably a little bit more muted. That's more a European statement, by the way. Most of our mobile business comes from Europe so, I mean, so that's how we see the market on Endpoint. When you look at Advanced Solutions, again, specifically for distribution, we see that compute should continue to recover. By the way, not only AI compute, for the moment, the demand for AI servers, what we see in the enterprise space, enterprise customers are looking for their use cases. So, it's not really driving the demand yet except for a very specific category of customers which are the Tier 2 CSPs. But traditional servers is recovering. I talked about networking, software, cloud, and security should continue to do well.

So based on that, I think that probably AS should progress a little bit faster than Endpoint based on what we see at this very moment. A lot will depend, again, on what mobile will do next year. But as of today, that's what we see.

Operator: Our next question comes from Keith Housum from Northcoast Research. Please go ahead. Your line is open.

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Good morning, guys. Appreciate it. Just trying to unpack the growth a little bit more you saw in the quarter, obviously a solid quarter at that. It does sound like you guys have strategic wins with some vendors or some of your companies wanting to take them to other geographies. Can you perhaps unpack the growth in terms of how much your growth was more end market-driven versus expansion of your relationships with your existing vendors?

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

A

Yeah. We don't look at – we don't quantify it. What we see is twofold. So indeed, you have the dynamics of the market. We continue to leverage our global relationships to expand – to win the franchises in all our key markets, and we see some good success doing so. For the franchisees I referred to for India, obviously, we don't see yet the impact in our results, but that's going to position us well for the future, yeah. So, short term, I think it's two things. It's market dynamics in the countries we play. And in addition, I mean, our value proposition, our go-to-market are differentiating us in the market and enable us to grow faster than the demand in the market.

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

A

And, Keith, I would just add on your end market question, it feels pretty stable just in terms of our end markets. Whether you're comparing us to Q3 or prior Q4, it feels fairly stable just in terms of the percent of relationships.

Operator: Our next question comes from George Wang from Barclays. Please go ahead. Your line is open.

George Wang
Analyst, Barclays Capital, Inc.

Q

Morning, guys. Thanks for taking my questions. Firstly, can you kind of unpack on the peripherals? It's interesting you guys called out in Endpoint including some peripherals growth in the quarter. But also just kind of shifting to storage, you haven't talked too much on storage. It seems poised for growth as well. So, maybe can you kind of double-click on two sub-segments if you can.

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

A

Yeah. On peripherals, we see demand coming back. For the moment, it's low-single-digit growth in that space, but our strategy is as much as possible to bundle peripherals with the sale of PCs, for example.

So, I mean, we hope that as the dynamic continues on PCs that we'll have success in bundling peripherals to the PCs. On the storage, I mean, it's a segment last quarter where we – I mean, that segment of the market didn't grow last quarter. But I mean, it's very common when you have a recovery in the data center, it comes first from the compute and then storage follows. And so, we are quite confident for the coming quarters despite the fact that, yes, in last quarter storage was relatively muted.

Operator: Our next question comes from Matt Sheerin from Stifel. Please go ahead. Your line is open.

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

Q

Yes. Thank you. Good morning. Two quick ones from me. One, Marshall, just thinking about you talked a lot about the mix of business. What should we think about gross margins? You're running around mid-6%, 6.5%, 6.6%. Given that mix and the stability you're talking about through the year, is that the right number to model or is there going to be any changes in the second half that would move that higher?

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

A

Hey, Matt. Thanks for the question. We don't guide on gross margins, but we'll refer to the comments I made earlier around op margin stability as we exit quarter one being that our billings growth of 5% should have a commensurate fall-through to operating income. So, we do think op margins will stabilize. And as I said earlier, Matt, we think that that normal seasonality shows some improvement in operating margins in quarter four.

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

Q

Okay. And relative to the Hyve business, I know you've had very strong growth there and I know part of that was due to the ramp of a second major customer. Could you tell us where you are in terms of that ramp and opportunities for other customers?

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

A

Sure. Yeah. We continue to see strong performance with that customer in quarter four. Expected another good, strong performance in quarter one. And as I said earlier, we are working towards expansion of other services and capabilities for that customer. Typically, with Hyve and our partnerships, we're able to bring on more services and capabilities as the relationship grows.

And then, just the other comment about further expansion of our customer base, we're excited and believe there's going to be opportunity to expand that as we move through this year and into the 2026.

Operator: Our next question comes from Alek Valero from Loop Capital. Please go ahead. Your line is open.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Hey, guys. Thank you for taking my questions. This is Alek on for Ananda. I actually have another Hyve question for you guys. So, on Hyve and GenAI demand, what do you guys view as the greatest levers this year? And how do you expect them to play out throughout the year?

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

A

So, Hyve in fact is active not only on compute, it's also strong on networking. And as you know, this is a business which is project-based. So, we are working on several projects. Yes, on compute, so, today, we are heavier on traditional compute and we will see some opportunities on AI compute. And again, networking is also – we see good demand in that space.

Operator: [Operator Instructions] Our next question comes from Ruplu Bhattacharya from Bank of America. Please go ahead. Your line is open.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. I just wanted to ask a clarifying question on the Hyve margins. You talked about a year-on-year headwind in the current quarter or even in the first quarter. Is there any headwind from ramping of the second customer or any other future customers? And does that – when you get a new customer, is there some upfront investment you have to do that impacts margins?

And then, for Patrick, software and services have higher margins. Is there any plan to increase the mix of software and services through inorganic growth and M&A? Thank you.

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

A

Marshall, you start with...

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

A

Yeah, I'll start.

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

A

...and I will answer on services and software.

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

A

So, on the customer that ramped in 2024 and continues to perform well, we're close to where we hope those margins should be, but there's still some investment we're doing within that second customer. But nothing out of the ordinary and expect that to normalize and to get somewhat mature. I do want to just touch back on the investments we're making in Hyve and that is for – it will serve us some SG&A headwinds and some margin headwinds around what we're doing to build out as I said earlier, the skills, the manufacturing footprint, and logistics requirements.

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

A

Yeah. Software and services is an opportunity for growth. That's an area where we've been consistently growing. On software, again, I mean, we see software as we look at the different technologies in that segment. We are investing in differentiated value propositions to grow and to grow faster than the market. We think that we are very well-positioned in general. There may be some countries where we are missing franchises and we are working on, again, getting those franchises to be competitive in those countries, so most of it is going to happen organically. If we can find an acquisition which accelerates getting us the franchise and the capabilities, we will do if, again, the acquisition meets our requirements. On services, you will get an update at Analyst Day. It's clearly an opportunity for us where we want to accelerate. But again, I prefer to wait for the Analyst Day to give you more detail, share more detail on what is going to be our strategy to accelerate in that space.

Operator: Our next question comes from Alek Valero from Loop Capital. Please go ahead. Your line is open.

Alek Valero
Analyst, Loop Capital Markets LLC

A

Hey, guys. A quick follow-up. So on networking, can you guys provide any color on current networking inventory in the system and demand? And do you guys think the industry is over the inventory bump?

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

A

Yeah. So on networking, we are expecting growth this year. Last year, I mean, we had the very tough compare because 2023 was inflated by the release of the backlog. When you look at it from a technology standpoint, WiFi 7 is going to bring a lot of demand. We also know that we have in front of us the upgrade of the data centers in terms of switching, so to support the AI technology. So, I mean, we feel confident because of the underlying demand, but also because the tough compare is behind us.

Operator: We have no further questions. I would like to turn the call back over to Patrick Zammit for closing remarks.

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

Thank you, everyone, for joining us. I want to take a moment to thank our customers, partners, and our investors for their support and, importantly, our outstanding team of over 23,000 coworkers around the globe for their dedication to serving our customers. We look forward to reconnecting next quarter. I hope you have a good day.

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