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TD SYNNEX Corp. (SNX)

Q1 2025 Earnings Call

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CORPORATE PARTICIPANTS

David Jordan
Chief Financial Officer-Americas & Head-Investor Relations, TD SYNNEX Corp.

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

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

OTHER PARTICIPANTS

David Vogt
Analyst, UBS Securities LLC

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Keith Housum
Analyst, Northcoast Research Partners LLC

George Wang
Analyst, Barclays Capital, Inc.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

David Paige
Analyst, RBC Capital Markets LLC

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Vincent Alexander Colicchio
Analyst, Barrington Research Associates, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Kate, and I will be your conference operator today. I would like to welcome everyone to the TD SYNNEX First Quarter Fiscal 2025 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, Americas CFO and Head of Investor Relations at TD SYNNEX. David, you may begin.

David Jordan

Chief Financial Officer-Americas & Head-Investor Relations, 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 discussions contain forward-looking statements within the meanings 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 financial 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 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 will now turn the call over to Patrick. Patrick?

Patrick Laurent Zammit

President, Chief Executive Officer & Director, TD SYNNEX Corp.

Thank you, David. Good morning, everyone. Thank you for joining us today. I'm excited to report a strong start to fiscal year 2025. Let me begin by highlighting two key themes from this quarter.

First, our Q1 results demonstrate strong momentum across the business, with all regions and major technologies contributing. Gross billings grew by 7.5% year-over-year in Q1 and 9.5% in constant currency. Advanced Solutions grew by 7% year-over-year, reflecting continued demand for integrated IT solutions. Endpoint solutions grew by 8% year-over-year, with growth across PCs and mobile.

Second, in an evolving macroeconomic environment, we are executing with discipline and focus. Within distribution, we saw solid growth in gross profit and operating income, reflecting our focus on profitable growth and operating efficiencies. As Marshall will discuss further, in Q1, Hyve was below expectations, due to a component shipment delayed from Q1 to Q2 and demand shortfalls, which may last a few quarters. While the

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business is temporarily soft, we are confident the situation will normalize as the market conditions continue to be favorable.

Finally, the strength of our business model allowed us to grow ahead of the market in Q1. Our end-to-end strategy, global reach, and specialist go-to-market approach continues to allow us to capture wide range of IT spend. For example, within strategic technologies, all portfolios including cloud, cybersecurity, data and analytics, and Hyve, once again grew by double digits in Q1 and across all our geographic segments.

In Q1, we expanded our reach to 30,000 active partners and 500,000 end users transacting through our cloud marketplace. Our ability to deliver local expertise with a global reach makes us a go-to partner for vendors looking to expand in higher growth markets. Latin America and APJ once again grew by double digits in Q1 in constant currency. In these regions, we continue to build margin-accretive partnerships with leading innovative vendors, helping grow their business by vastly simplifying market complexity at the country level for both vendors and customers. The expansion of our line card also drives expansion of our partner base as we continue to enrich our value proposition and product offering in those markets.

These results demonstrate our position as the vital link in the global IT ecosystem. As IT solutions become more complex, driven by trends such as the convergence of hardware and software and the proliferation of technologies such as cloud, cybersecurity and AI, our collection of specialist go-to markets combined with our market leading depth of capabilities, position us to be the partner of choice for customers and vendors.

Because of our specialized units and local knowledge, we solve some of their most challenging business problems, accelerate growth and reduce costs. For example, building on our past success with a major cybersecurity vendor, we recently won their US business with a large customer. Leveraging our best-in-class cybersecurity practice, we are helping this vendor deliver platform-wide solutions that integrate hardware, software and AI. We are also providing enablement and support services, offerings that expand our value proposition to our partners.

Our broad range of specialist approach also positions us to be a natural extension of our vendor's go-to market across multiple specialties in IT, creating opportunities for us to add value with services and solutions. For example, this quarter, we significantly expanded our business with a leading infrastructure software provider across multiple countries around the world. By partnering with TD SYNNEX, they rationalized their distribution footprint and leveraged us for a variety of pre- and post-sale services. Our broad geographic reach and in-country expertise and knowledge were differentiators and gave them confidence to lean in with TD SYNNEX. As this win demonstrates, new and existing partners are looking to us for assistance in delivering the next generation of technology solutions, all while helping them broaden their partner and end user reach in a cost efficient way.

Meanwhile, as more B2B buyers become digital first, our purpose-built digital capabilities are making it easier than ever to transact with us. For example, this quarter, we launched our Digital Bridge Microsoft Teams app, the first of many connectors in development within the platform. Both connectors will enable our partners' coworkers to connect to our platforms directly from the applications they are using in their daily work. Our vision with Digital Bridge is to provide our partner community with a marketplace of pre-built integrations, which provide real-time information and enable faster automated workflows for quoting, backlog management and more that reduce cost and increase efficiency.

Another example is our PACE platform, which is a fully digital customer lifecycle tool that leverages our unique data lake and powers our digital go-to-market channel. Already gaining significant traction in Europe with over 50,000 partners, PACE delivers personalized customer insights that enables us to expand our reach and drive

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demand across the long tail of SMB. With growth and profitability significantly above the overall company average, we are now expanding the platform into the Americas.

We continue to receive industry recognitions for these capabilities and expertise. This quarter, we were honored to be named Distribution Partner of the Year for multiple industry leaders like AWS, Palo Alto Networks, Insight Enterprises, and NVIDIA. In North America, we were awarded Best Distributor of the Year by ChannelPro, a recognition of all contributions to the MSP community.

These are just a few examples, but all moved TD SYNNEX in one direction from traditional IT distribution to accelerating adoption of the next generation of technology solutions, capitalizing on conversion trends in IT and driving our long-term sustainable leadership. We remain resilient in the face of uncertainty and will lean on our broad technology and product portfolio and ecosystem to adapt to the continuously changing economic environment.

Throughout all of this, our North Star continues to be a profitable growth and free cash flow. We will thoughtfully and carefully allocate excess cash to the highest return opportunities to ensure sustainable value creation for customers and shareholders. We look forward to sharing more about our long-term vision and how we'll get there at our Investor Day on April 10th in New York City.

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, everyone. We had a solid performance in the first quarter with total gross billings of $20.7 billion, up 7.5% year-over-year, 9.5% in constant currency, and at the high point of our guidance range. We were pleased to see year-over-year growth across all major geographies and most product categories.

In quarter one, there was an approximately 30% reduction from gross billings to net revenue, which was higher than expected and up from Q4, driven primarily by higher mix of infrastructure and software business, which is part of our Advanced Solutions portfolio.

Net revenue was $14.5 billion, up 4% year-over-year and within our guidance range. Our Endpoint Solutions portfolio grew 8% year-over-year, driven by PCs and mobile. Our Advanced Solutions portfolio grew 7% year-over-year, driven by software, servers and storage, and Hyve. Gross profit was $1 billion or 4.82% of gross billings, representing a 9-basis-point sequential decline and a 40-basis-point decline year-over-year.

Most of the decline in profit margin year-over-year was driven by the expected tough compare in Hyve. There was an additional 10-basis-point impact within Hyve attributed to investments in design and assembly, as well as the impact of a temporary change in project composition.

Non-GAAP SG&A expense was $599 million or 2.89% of gross billings, representing a 13-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 60% in quarter one and slightly below expectations due to Hyve. From a distribution perspective, we dropped through 50% of gross profit growth, demonstrating our commitment to profitable growth.

Non-GAAP operating income was $399 million or 1.92% of gross billings, representing a 7-basis-point sequential decline and a 28-basis-point decline year-over-year, primarily driven by Hyve. Interest expense and finance

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charges were $88 million, higher than expected due to increased working capital to support Hyve's largest customers. The non-GAAP effective tax rate was approximately 23%, which was in line with expectations. Total non-GAAP net income was $237 million, and non-GAAP diluted earnings per share was $2.80, both within our guidance range.

Turning to the balance sheet for quarter one, net working capital was $4.3 billion, up approximately $1 billion, primarily due to the increase in Hyve inventory, which was previously discussed, the timing of payables and the overall growth of the business. Free cash flow usage for the quarter was approximately $800 million, primarily due to Hyve working capital. We returned $138 million to stockholders in quarter one, with $101 million of share repurchases and $37 million of dividend payments. For the current quarter, our board of directors has approved a cash dividend of $0.44 per common share that will be payable on April 25, 2025 to stockholders of record as of the close of business on April 11, 2025. We ended the quarter with $542 million of cash and cash equivalents and debt of $4.3 billion. Our gross leverage ratio was 2.5 times and our net leverage ratio was 2.2 times.

Moving on to our outlook. These numbers are all non-GAAP. For the second quarter, we expect gross billings in the range of $19.7 billion to $20.7 billion, representing growth of approximately 5% at the midpoint. We do not anticipate a material currency impact year-over-year. Our outlook is based on a euro to dollar exchange rate of $1.08, net revenue in the range of $13.9 billion to $14.7 billion which translates to an anticipated gross to net adjustment of approximately 29%, non-GAAP net income in the range of $205 million to $247 million, diluted earnings per share in the range of $2.45 to $2.95 per diluted share based on weighted average shares outstanding of approximately $83 million. We expect a tax rate of approximately 23% and interest expense of $86 million.

We continue to assess the macroeconomic environment, including tariffs. And as of today, we are well positioned to outperform the IT distribution market. In fiscal 2025, we continue to be committed to mid-single-digit gross billings growth and generating $1.1 billion of free cash flow. Our outlook is adjusted to reflect temporary shortfalls in Hyve, however, we remain highly confident in the long-term outlook. We plan to host an Investor Day on April 10, where we will provide more detail on our strategy, medium-term targets, and capital allocation framework.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of David Vogt with UBS. Please go ahead.

David Vogt
Analyst, UBS Securities LLC

Q

Great. Thanks, guys. Thanks, Patrick. Thanks, Marshall. So, obviously, I think the elephant in the room is can we maybe dig in a little bit more on Hyve? A couple of reasons. One, what were the component shortages in the quarter? And then you mentioned, Marshall and Patrick, sort of a softer than expected demand backdrop. Can you kind of help us understand kind of what's kind of driving that sort of outlook? Is it product transition? Is it lack of components? Is it just sort of a pause because I'm trying to think it through with regards to the gross billing commentary for the full year, still being relatively solid in that sort of mid-single digit range? So is it a timing issue or just how do you think about it and put some more color and some more guardrails around what's going on at Hyve? Thanks.

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

A

Yes, good morning. Thanks a lot for the question, David. Just would like to set the scene. So, we had overall a very strong sales growth this quarter, driven by distribution and Hyve. Hyve, again, grew double-digit year on year, but unfortunately, slightly lower than expectation and that's what we will provide a little bit more color on it in a second. Just very rapidly on distribution, I just want to make some statements. First, we enjoyed very nice growth. We think we grew faster than the market at, I mean, with a mid-single digit growth. Operating margins are stable and we were very pleased with the fact that we could bring to the bottom line more than 50% of the GP growth. So, that's on distribution, solid performance.

When you look at Hyve, what happened is, again, double-digit growth. But some demand not materializing. So, indeed, we have on stock. In fact, those components were on stock. As you know, for our customers, we also do strategic buys, which we keep on stock, we get remunerated for it. And when they need the components, then we ship them. I mean, we had, in particular, one very large business we thought we would ship in Q1 but didn't materialize. We believe it's going to happen in Q2. So, it's just temporary. It's just a delay in the shipment. But unfortunately, it impacted our gross profit, our operating margin percent, and obviously, our cash flow generation.

Marshall, do you want to add any color?

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

A

Yeah. Yeah, thank you, Patrick. Just, David, to your question on softer demand and I'll reference what we spoke to in terms of guidance for quarter two. We have one customer that has some temporary demand pause in their outlook. And so, that's one of the reasons why we're seeing a little bit softer backdrop in quarter two related to Hyve. But thinking broader, just in terms of the position we play, the markets we serve, the projects we're participating in, and also the upcoming customers that we're about to onboard, we feel really good about the demand environment and our ability to participate and grow.

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

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:20:07) taking my questions. This quarter, did you see any pull-in or pre-buying by customers to avoid any increase in tariffs? And Marshall, you had last quarter guided that billings would grow mid-single digits every quarter. Is that still your understanding for 3Q and 4Q? And how should we think about the reduction from billings to revenue for the full year since I think you said software is a bigger part of the mix? So, if you can give any color on pre-buys, on what you're thinking about quarterly billings growth and billings to revenue reduction. Thank you.

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

A

So good morning, Ruplu. Thanks a lot for the question. I will take the first one about the pre-buys. So, in particular, when you think about PC where pre-buys could be an option, I mean, we had a very strong high-single-digit growth in PCs this quarter. We believe that the impact of tariff has been relatively limited. Okay. So, we believe that for the moment the growth is driven really by the refresh of the PC base boards during the pandemic and the Windows 11 refresh. So, again, limited impact for the moment.

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

A

And then, Ruplu, just on the theme of tariff for Hyve, just to cover that off, we effectively pass through tariff-related costs. We recoup those. So no impact to the Hyve business. And our position with Hyve relative to the last time tariffs were introduced back in 2016, 2017, we're much better positioned today with our onshore capabilities that we continue to provide Hyve with a competitive advantage in the marketplace.

If I respond to your question about the mid-single digit growth for the full year, we still believe that we will be able to achieve mid-single-digit growth in quarter two. We think that distribution will be at mid-single digits or a little bit higher, and that Hyve will have a slightly down year-over-year revenue performance. But we do expect that that mid-single digit will play through for the second half of the year.

And then your last comment or question in regards to gross versus net, we came in just around 30%. I did mention that that was up about 300 bps from what we had expected. That continues to reflect a mix shift in the AS versus ES portfolio. We do think it's somewhat flattened out. If we think about our ES/AS balance for the rest of this year, we think they're going to be fairly equal in terms of their growth rate. So right now, my expectation is that probably stays in that 28% to 30% gross versus net for the next three quarters.

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

Keith Housum
Analyst, Northcoast Research Partners LLC

Q

Thanks. Appreciate the opportunity. Guys, in terms of the price increases that you're seeing from your vendors, perhaps you can provide a bit guidance about what you're seeing as perhaps the average price increases and if we're seeing them come into play yet as being effective. And then, is this enough to offset some perhaps demand challenges that may happen throughout the rest of the year as a result of price increases? How do you all think about how they work together?

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

A

So good morning, Keith. So we see some price increases. Some vendors are starting to increase prices. But again, it's not across the board. It's relatively limited for the moment. It's very specific. I mean, clearly, if indeed we see an acceleration of the price increases, as you know, we are going to pass it through then to the channel. I mean, it would create a tailwind in the short term and, of course, then the question will be what could be the impact on the volume. But again, for the moment, okay, based on what we see, it's relatively limited. And where we have visibility, we took it into account in our guidance.

Operator: Your next 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 just wanted to return to Hyve for a second, Marshall. You talked about, I think, 10 basis points in Q1 impact. The heart of the question would be if you could maybe help quantify this issue and the timing to return? What happens in Q2 and on a go-forward basis?

And I'm wondering if that is also impacting cash flow, which was very weak in the quarter. If you could maybe speak to what happens to cash flow for the rest of the year and your expectations on that and maybe rope in some capital allocation on that, given the stock's starting to approach book value here in the pre-market. Thanks.

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

A

Sure. I'll start and, Patrick, please chime in. In regards to the 10 basis points, Adam, it's around – in quarter one, we referenced the temporary portfolio mix. That's really just the mix of the current projects underway, and that has a slight negative impact to gross profit or gross margin. The other piece is that as we're seeing this temporary pause in demand, we're committed to keep our specialized skilled resources onboard, knowing that demand will return and expecting it to return. So that's the headwind we spoke to.

As we think about that now for quarter two, those two same commitments are in place as well, temporary project portfolio mix, bringing down the margin slightly, and then the overall commitment for labor. The broader comment that is playing out for fiscal 2025, Adam, that we spoke to last call was the significant investments that we're making in Hyve around specialized skill sets. We recognize that in our design capabilities, we need to continue to enhance that and win new business. So we're onboarding a significant amount of technical engineers to enable that to happen. And as you know, in many situations, the onboarding and the success of that can take 18 to 24 months to manifest itself. So we feel good about the investments, but we know that the revenue may come in future quarters.

In regards to the cash flow usage in the quarter, typically, within our business, we'll see some cash consumption within the distribution behavior between quarter four and quarter one. A lot of that has to do with the large quarter four, some of that carries into quarter one and we usually see a cash usage. The incremental amount is driven by Hyve, primarily due to two things: one, elevated inventory; and two, quite a bit of payables that came out the door. So that did hurt us. As I think about how we recover that, we expect to see a recovery of about two to three days per quarter. That gets us back to around a 20-day cash conversion as we exit 2025.

The last thing I'll remind you and the rest is that we in a similar situation coming out of fiscal 2021 into 2022, where we saw strong demand, but we saw inventory build within our Hyve portfolio, and it built for the first two to

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three quarters in 2022. We saw margin depression associated with carrying that. But then we started to see it sell through. We saw strong recovery of our cost to capital and good margin profile for the inventory that we purchased on the behalf of our customers. We expect that to be a similar pattern that will take place with Hyve this year and going into 2026.

And then, finally, absolutely, our position has been that we will be and remain opportunistic on our share buyback strategy. We repurchased $100 million in quarter one. We commented about $100 million in quarter two. As you know, in fiscal 2024, we repurchased and also through dividends, 72% of our free cash flow went to share buybacks and dividends. And we expect that to be what we would do in 2025, given that that still remains a very good IRR and a very heavy and positive ROI.

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

A

Just want to add a few comments. The first one is, thanks to Hyve, we can play in this huge hyperscaler market, I mean, $250 billion at least of investments, and so we believe that that demand continues to be healthy. The fact is that the demand in that space is really project driven. And yes, we have a few projects where for the moment the demand is lower than expected. But again, we believe it's temporary. It's going to come back, and it will help us consume some of the elevated inventory. Yeah, the inventory is really for the moment, from a cash flow standpoint, the issue. But, again, we are covered and it's a temporary situation. So, we are very confident that we are going to address and fix it over the next two quarters as Marshall mentioned.

From a cash flow standpoint, just want to add that on the distribution side, the cash days, in fact, are even lower than expected in Q1, so that's good. So, we have a very healthy cash flow situation on distribution, which should help us also for the coming quarters.

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

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hey, good morning. Thanks for the questions. Maybe just quick kind of clarification questions, so I'll ask them kind of upfront here. First one is just in terms of the F 2Q lower seasonality maybe relative to expectations heading into the fiscal year, sounds like that's a bit of a Hyve dynamic. But just want to be clear, like anything else you're seeing contributing to the lower sequential decline or the sequential decline in the quarter beyond Hyve in the traditional distribution portfolio?

And then, the second clarification question here is just in terms of the full-year outlook, any change in terms of how you're thinking about the contribution of ES and AS to the full-year guide and including Hyve? and then just piggybacking off of that, just if Hyve is kind of tracking a little bit lower than you expected from a full-year contribution standpoint, I guess, what are you seeing in the AS portfolio offsetting that, if you're still expecting that to track kind of in that mid-single-digit range? Thanks for the questions.

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

A

So, good morning, Joe. Thanks a lot for the question. I will take the first question. So, for distribution, again, very solid Q1, mid-single-digit growth. Our guidance for Q2 assumes that we will see the same pattern. We are cautiously optimistic about the market. We have a few technologies, right, in the demand at the moment. The PC refresh is one. Cloud continues to be very solid. Security continues to be very solid. AI-related products are

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ramping up. In enterprise, it's not ramping up as fast as expected but, I mean, quarter after quarter, we see the weight of AI products increasing. And we are also expecting the Networking Technology segment to recover and Software continues to be very strong. So, lots of technology segments in distribution justifying us to be cautiously optimistic.

On the margin side, again, as I mentioned at the very beginning, we see the margin stabilizing, which is a positive. And because of our cost management, we are going to drop through a significant amount of the additional GP. So on the distribution side, again, cautiously optimistic, but overall positive.

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

And just to add to that, Joe, on your question about the growth expectations for the portfolio and how that plays out, ES and AS, and how we sustain that confidence in AS growth. Just what Patrick said, security, cloud, data/analytics, we put that in that Strat technology portfolio. That was growing for the quarter at over 20%. So it's a healthy growth rate that will kind of buoy some of the softness that we anticipate seeing in Hyve for the rest of this year.

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

Michael Ng
Analyst, Goldman Sachs & Co. LLC
Q

Hey, good morning. Thanks for the question. I just have two clarification questions on Hyve. I guess, first, on the customer that had a temporary demand pause. Was that related to your historically main, large customer or is it the newer customer that ramped last year? And then second, I just want to ask if I could get some clarification on if there was a specific business within Hyve that was key driver of some of these issues. Was it primarily the strategic BI piece? And the reason I asked is I think the strategic BI piece, that will have some revenue recognitions when you ship those components. But any thoughts there would be great. Thank you.

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

Sure. Yeah, I'll start. So, the temporary pause was with the customer that we ramped last year. And a lot of what we believe is taking place is that the demand precision and forecasting is what has caused that temporary pause. We felt that in quarter one, we anticipate it to take place in quarter two. Our expectation is that it kind of returns back to its momentum as we go into quarter three.

And then just back to the question about around what business segments, if you will, within Hyve were key drivers. You're right, Mike, Strat procurement is one of the four kind of major elements of what we do within Hyve. We made that component purchase in 2024. We thought it would get shipped in Q1. It didn't, so it moved into quarter two. So, you could say that part of our business showed some softness within Hyve.

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

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Hey, thanks guys. Good morning. Thanks for taking the question. Yeah, actually, just kind of staying on Hyve there. Does any part of this, and just picking up on the language that you guys used, sort of in the prepared

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remarks? Was any part of this due to upper inventory buys? The market has seen a dynamic where folks you sort of basically customers whether it is larger CSPs and even the Tier 2 guys buying less hopper servers than they originally anticipated kind of through the fall into this year. And so, some folks have had more hopper inventory than they anticipated they might. Just that's been a general industry dynamic. Is any part of what you guys are experiencing, getting caught up in that dynamic is really the question?

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

A

Hey, Ananda, thanks for the question. Let me just step up a little bit higher with that and not get specific on SKUs per se, but the majority, if not all of the inventory that we repurchase on the behalf of our customers is to fulfill their demand forecast. And where we find there is either an oversupply of certain components or SKUs, that is where we have full protection to recover the carrying cost associated with that and no obsolescence risk around that. So, there could be some buildup of how they want their supply chains to be covered in the way that gets satisfied in terms of how we built out the racks, but nothing specific around what elements of the SKUs are in more or less demand.

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

George Wang
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for taking my question. Patrick, can you kind of talk about the broader geographic exposure for TD SYNNEX relative to some of the smaller players in the space? How does that sort of translate into potential share gains, especially in this environment? And then maybe to Marshall, can you kind of talk about the dynamic in Europe? I noticed on a regular basis, Europe was a bit softer, based on gross billings in terms of the year-over-year growth rate. So can you kind of talk about puts and takes.

And if I can squeeze in one more a kind of follow up, but just in terms of the operating expense efficiency, Marshall, can you talk about the expectation for the SG&A kind of operating expense versus the gross billings, kind of how to think about in the second half? Thank you.

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

A

On the SG&A question, Patrick's got quite a bit of good knowledge on Europe, so I'll let him talk about that in terms of just the softness that we experienced there on margins. And then, I think what you wanted was a better understanding of how our overall breadth and depth of capabilities is positioning us relative to our peers or our competitors.

So with SG&A, in the prepared remarks, we said that the cost to serve was around 60%. It came in a little bit heavier than what we had expected, primarily due to Hyve, and the Hyve element was two things: it was a little bit more SG&A, but a lot less GP. And so, that combination is what caused that cost to serve to come in at 60%. We expect that that will improve over time.

If you look on distribution side of the house, extremely efficient, in the prepared remarks, seeing 50% of the GP fall through the bottom line is fantastic. It's a great representation and reflection of the hard work that the teams are doing to continue to build ways of supporting the growth of our business and a very profitable fall through.

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I'll say a couple of words on Europe and pitch it over to Patrick. But within our regional portfolio, we had mentioned in last quarter's call that we knew there was going to be headwinds in Europe due to vendor mix, and we saw that play out. But Patrick, if you want to provide a little bit more color on Europe and then the geo competitive pressures.

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

Yes. In Europe – by the way, I just want to mention the figures you see include Hyve. So again, I'm speaking only about distribution now. So in Europe, market is growing. We grew faster than the market. And from a margin standpoint, as Marshall mentioned, it's a mix. It's a vendor mix – it's driven by the vendor mix, which had an impact more specifically on the backend margin. But again, the team does very well from a cost management standpoint. And so, from an operating margin standpoint, they managed to keep it flat year on year. And so, nice growth, operating margin flat, nice drop through to the bottom line. So Europe contributed nicely to the good performance of distribution.

Now, looking from a global standpoint, as you know, in North America and in Europe, we have a strong market position. APJ and Latin America are really faster growing countries and our market share is much more modest. So for us, it's a very nice opportunity for profitable growth. I want to insist on the fact that in both regions, we focus on the SMB market, which drives higher margin. So not only we should continue to enjoy, I would say, faster growth than in Europe and in North America, but on top of it, it should have a very positive impact on our operating margins.

The last point is, obviously, I mean, we have both strong relationships with the vendors, thanks to our position in North America and in Europe. And we are clearly benefiting from it as we continue to expand in Latin America and APJ. So that explains the very good results in those two regions and the nice double-digit growth in those regions.

Operator: Your next question comes from the line of David Paige with RBC Capital Markets. Please go ahead.

David Paige
Analyst, RBC Capital Markets LLC
Q

Hi. Good morning. Thank you for taking my question. Just, I guess, a more broader question and initiatives at TD SYNNEX. What is the, I guess, the benefits over the long term with initiatives like Digital Bridge and StreamOne, and how is that helping you navigate through, I guess, just like a very uncertain macro environment? Thank you.

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

Yeah. So when you think about our value proposition to our customers, and again, customers for us as partners and vendors. I mean, one, we are here to accelerate their growth, help them grow in the market. But the other dimension is, obviously, optimizing their operating models and basically reducing the cost of transacting in the market. And that's where our platform in Digital Bridge play a big role. So we have an excellent digital platform which, basically, provides our customers the opportunity to transact with us 24/7, automate transactions with us.

And if you look at Digital Bridge, it's the same concept, but we think it's even more powerful because when you think about it, when our customers interact through the platform, they have to move out from their, I would say, applications to go into our platform. With Digital Bridge, what we are doing is integrating our platform into their tools. And that's the reason it's so powerful and resonates very well. It's a tool we developed, by the way, with our

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community solve. And so our customers, I mean basically they came to us with a specification and together we've engineered that solution, which is going to, I think, differentiate us very nicely in the market.

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

Vincent Alexander Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Yes, it looks like despite the strength in PC, peripherals weren't overly strong. What are your thoughts going forward for peripherals?

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

A

Yes. So, peripherals include printing. So, the market for printing is continues to be challenged, okay, with low-single-digit decline. But then the main reason for the decline is in North America, we had one large business which was not profitable. I mean, we had to bid. As you know, we are absolutely focused on strict financial discipline. We could not get the right return, and so we have lost that business. So, that's the reason for the decline – the two reasons for the decline on peripherals. We are not – I just want to insist on it. So, what happens in both cases is obviously, I mean, we are looking for new business more in the SMB segment where the margins are higher and more sustainable for the long run. So that's what we are working on.

Operator: I will turn the call back over to management for closing remarks.

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

So thank you, everyone, for joining us. I want to take a moment to thank our customers, partners, and investors for their support. This quarter, we were named as one of the world's most admired companies by Fortune for the fourth consecutive year. This achievement reflects the culture fostered by our 23,000 coworkers worldwide. We are committed to delivering exceptional value to 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.

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