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TD SYNEX Corp. (SNX)

Q2 2025 Earnings Call

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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 SYNEX Second 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 SYNEX. David, you may begin.

David Jordan

Chief Financial Officer-Americas & Head-Investor Relations, TD SYNEX Corp.

Thank you. Good morning everyone and thank you for joining us for today's call. With me today is Patrick Zammit, our CEO; and Marshall Witt, our CFO.

Before we continue, let me remind you that today's discussions contain 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 financial expectations for future fiscal periods. Actual results may differ materially from those mentioned in these forward-looking statements as a result of risk and uncertainties discussed in today's earnings release, in the Form 8-K we filed today, 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. Reconciliations of GAAP to non-GAAP results are included in the earnings press release and the related Form 8-K available on our Investor Relations website, ir.tdsynex.com. This conference call is the property of TD SYNEX 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 SYNEX Corp.

Thank you, David. Good morning, everyone, and thank you for joining us today. I'm excited to report on our strong second quarter performance and provide an update on the impacts we are seeing from the macroeconomic uncertainty. Our Q2 results demonstrate the continued strength of the IT Distribution and Hyperscaler markets. Meanwhile, our strategy and the execution of our team are enabling us to grow ahead of markets. In Q2, gross billings grew 12%, 11% in constant currency and non-GAAP diluted EPS exceeded the high end of our guidance with all regions and major technologies contributing. We believe the quarter benefited from some demand pull-forward.

Within TD SYNEX, excluding Hyve, gross billings grew 11% year-over-year and operating margins expanded, resulting in strong operating income growth. From a technology perspective, we saw strong growth across both Endpoint and Advanced Solutions. Hyve, which is included within the Advanced Solutions portfolio, grew gross billings in the high-teens. High profit margins declined sequentially on which Marshall will provide more color.

Within TD SYNEX, all regions and major technologies experienced growth during the quarter. Software continues to be a bright spot in our portfolio, experiencing 20% billings growth fueled by cloud, cybersecurity and infrastructure software. Additionally, we continued to see strong growth in PCs driven by the refresh cycle and we were also pleased to see growth in networking after multiple weak quarters. We saw broad-based demand across all our major customer segments, specifically SMB, MSPs and public sector, all of which grew double-digits during the quarter.

At Investor Day, we shared five strategic imperatives we believe will enable us to deliver above market growth. These include unifying our reach, targeting new customers, distribution market expansion, diversifying our offerings and accelerating on services. The execution of our strategy is recognized by 40-plus honors we received in the channel during the quarter. Additionally, HP announced yesterday TD SYNEX as their Global Distribution Partner of the Year. Other highlights of honors during the quarter include being named NVIDIA's Americas Distributor of the Year, CrowdStrike Americas Partner of the Year (sic) [Americas Distributor Partner of the Year], Dell EMEA Distributor of the Year, Lenovo US Distributor of the Year, NetApp LATAM Distributor of the Year, and Fortinet Hong Kong Distributor of the Year among others.

A key component of our strategy is targeting new customers and allowing them to scale through our digital capabilities. For example, many customers invest a significant portion of their SG&A in operational overheads. And in the US, we helped a new customer to address this with a specialized solution. We partnered with our customer to develop a completely integrated and automated operational model that drove efficiencies through TD SYNEX transactional APIs and custom workflows, everything from configuration to renewals.

By fully leveraging our digital capabilities, our partner was able to make an outsized investment in sales, marketing and engineering talent. This has resulted in exponential sales growth at accretive margins for both our partner and TD SYNEX. Additionally, we continue to make great strides with our delivering services strategic imperative. In a recent example, we have a leading Advanced Solutions OEM. We are deeply engaged in several important services initiatives, including building various data center solutions and deploying the AI infrastructure solutions. We are certified to build solutions on their behalf, both at a direct and indirect channels and this facilitates robust supply chain acceleration to significantly improve their time to cash and extend their overall capacity. Between our multivendor technical expertise and our robust integration, supply chain, support and professional services, we are well-positioned to connect OEMs with a network of technology vendors required for their AI infrastructure solutions. Our North Star remains generating profitable growth and free cash flow while being a valued partner to our vendors and customers across the world. We continue to allocate excess cash to high-return opportunities to ensure sustainable value creation for our shareholders.

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

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

Thanks, Patrick, and good morning, everyone. We had a strong performance in the second quarter with gross billings of \$21.6 billion, up 12% year-over-year, 11% in constant currency and above the high end of our guidance range. We were pleased to see year-over-year growth across all regions and major technologies. Our teams continued to execute extremely well and in addition to that, we believe we were modestly aided by our customers advancing their forecasted purchases in light of a volatile economic environment. In Q2, there was approximately 31% reduction from gross billings to net revenue, which was slightly higher than our expectations. This was primarily driven by an increase in high transactions where we act as an agent and a higher mix of software. Net revenue was \$14.9 billion, up 7% year-over-year and above the high end of our guidance range. In Q2, our Endpoint Solutions portfolio grew gross billings 13% year-over-year, driven by the ongoing PC refresh

cycle and customers modestly advancing their forecasted purchases. Our Advanced Solutions portfolio grew gross billings 12% year-over-year, 10% year-over-year when excluding the impact of Hyve, driven by accelerated demand for data center infrastructure and continued growth in cloud, security, AI and other high-growth technologies. Hyve, which is reported within the Advanced Solutions portfolio, grew in the high-teens, primarily due to strength in programs associated with server and network rack builds. Gross profit increased 7% year-over-year to \$1 billion. Gross margin as a percentage of gross billings was 5% which was consistent sequentially and a decline of 21 basis points year-over-year. Excluding Hyve, gross margins were relatively flat year-over-year. Hyve gross margins declined from Q1 due to unrealized FX losses and program mix. We expect a portion of the unrealized FX losses will be recovered as we sell-through the product in the back-half of the year.

Non-GAAP SG&A expense was \$632 million or 3% of gross billings, representing an 11-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 Q2, consistent with quarter one. Non-GAAP operating income increased 7% to \$414 million. Non-GAAP operating margin as a percentage of gross billings was 2%, representing a 10-basis point decline year-over-year and consistent with Q1. Interest expense and finance charges were \$90 million, slightly higher than expectations and relatively consistent quarter-over-quarter. The non-GAAP effective tax rate was approximately 23%, which was in-line with expectations. Total non-GAAP net income was \$251 million and non-GAAP diluted earnings per share were \$2.99, both above the upper end of our guidance range.

Turning to the balance sheet for quarter two, net working capital was \$4 billion, which is an improvement quarter-over-quarter despite the accelerated growth that we experienced throughout the business. We experienced a four-day improvement in our cash conversion cycle on a net basis quarter-over-quarter consistent with expectations. Free cash flow generation for the quarter was approximately \$543 million. We returned \$186 million to stockholders in quarter two, with \$149 million in share repurchases and \$37 million in 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 July 25, 2025 to stockholders of record as of the close of business on July 11, 2025. We ended the quarter with \$767 million in cash and cash equivalents and debt of \$4.1 billion. Our gross leverage ratio was 2.4 times and our net leverage ratio was 1.9 times. Moving on to our outlook, I want to start by addressing the fact that we're in a volatile environment given the ongoing developments with respect to global trade. I also want to acknowledge that this is our best view based on what we know today.

With that, for the third quarter, we expect non-GAAP gross billings in the range of \$21 billion to \$22 billion, representing growth of approximately 6% at the midpoint. Our outlook is based on a euro to dollar exchange rate of \$1.13. Net revenue in the range of \$14.7 billion to \$15.5 billion, which translates to an anticipated gross-to-net adjustment of 30%. Non-GAAP net income in the range of \$227 million to \$268 million. Non-GAAP diluted earnings per share in the range of \$2.75 to \$3.25 per diluted share based on weighted average shares outstanding of approximately 81.8 million. We expect a non-GAAP tax rate of approximately 23% and interest expense of \$89 million. We expect to execute approximately \$175 million of share repurchases during the quarter and we'll remain opportunistic in our strategy to return excess cash to our shareholders.

In closing, we believe we are in a strong financial position heading into the second-half of the year and are leveraging our strategy to ensure we remain the partner of choice in IT distribution. With that, we'll open it up for your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Katherine Campagna with Goldman Sachs. Your line is open.

Katherine Campagna

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you for the question. It would be helpful if we could get some more color on the demand pull-forward that you noted in the prepared remarks. Were there any particular products that benefited, likely PCs is my guess but would love to know more about the financial impacts there? And is there any impacts we should be mindful of when we think about the ES and AS mix through the balance of the year because of this pull-forward? Thank you.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Yes. Good morning. Thanks a lot for the question. So, first thing, overall, I mean we had a very strong quarter with sales and EPS at the high end of guidance and double-digit growth. So we looked at any pull-forward. So we saw a little bit of it in PCs. It's difficult to quantify but we think that max, we benefited from \$100 million to \$200 million in sales of pull-ins, no more than that. For the moment, on PCs, we see the demand continuing to be strong especially in B2B. And it's driven again by the refresh of the base purchase during the pandemic and of course the Windows 11 refresh.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

And Katherine, this is Marshall. Just a follow-on comment to what Patrick said. From a overall margin benefit for the quarter, we expect that probably was around \$10 million of gross profit that was incremental to the quarter. And then thinking about your question on ES/AS mix for the second-half of the year, we do continue to expect there to be refresh strength in the second-half. So, right now we think it's probably equal in regards to the ES/AS mix for the portfolio for the second-half.

Katherine Campagna

Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Thank you.

Operator: Your next question comes from the line of Adam Tindle with Raymond James. Your line is open.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you. Good morning. I just wanted to talk about that pull-forward dynamic, Marshall. As I look at your guidance for Q3, it's similar to what you guided to last year and we've got this pull-forward dynamic that you talked about. We also have typically a big public sector quarter in Q3. Just two factors that might be a little

different and cause Q3 to be sub-seasonal this year. So I guess the question would be as you thought about Q3 guidance, why wouldn't we see a little bit more muted seasonality in that quarter this year versus last?

And then secondly, if you could maybe just revisit, obviously you're tracking very well relative to the fiscal 2025 guidance that you gave at the Analyst Day, particularly on an earnings basis, that \$11.50 to \$12. I wonder if that's something that we should be sort of reconsidering or maybe pushing the models towards the high end of that as we kind of think about shaping Q4? Thanks.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Sure. I'll cover the pull-forward and its impact or potential impact in the second-half. Patrick will talk about the public sector and then I'll talk about the Analyst Day comments about the second-half. So, yeah, as I said, we did we did experience some pull-forward as Patrick mentioned, \$100 million to \$200 million of revenues, some margin benefit. Right now, we're being fairly prudent in our thoughts for that continuing benefit in the second-half of the year. Again, I think the overall thought for us is that demand will soften in the second-half of the year, which is pretty consistent to what we had said at Analyst Day. We are expecting to be a little bit on the higher end of that range outcome for our guidance that we provided in quarter three. And then just thinking about quarter four, fairly similar to what we shared at Analyst Day, which is that 3% to 4% growth and the typical seasonality you would experience historically between quarter three and quarter four activities and relationships. And Patrick, the public sector comment?

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Yeah. So we had a very strong quarter for the public sector, including Fed. I mean we saw also solid growth in the Fed business for Q3. Again, I mean the majority, the vast majority of our public sector business comes from the SLED and we continue to be positive on the prospects there.

I'd just add to what Marshall explained that for the moment what we see the underlying trends by technology continued to be relatively positive, thinking about software, PCs, server, networking is back to growth and cloud but there is also a macro environment. Tariff is one but also the situation in the Middle East which for the moment leads us to be cautiously optimistic and a little bit prudent in our outlooks.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Q

Okay. Maybe just a quick clarification for a follow-up. Marshall, you talked about free cash flow for the year of \$1.1 billion I think was the target. Obviously a much better quarter this quarter but still negative year-to-date and it's a pretty big climb in the back-half of the year. So just wanted you to maybe revisit your thoughts on free cash flow for the year. Is that something that should still stand? And if so, what would the levers be to get there? Thanks.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Yes. Sure. So we still believe that we'll be able to attain the \$1.1 billion in free cash flow. We were happy with the improvement in cash conversion and working capital in quarter two with a four-day improvement. As you know when we were commenting last quarter, we expected that to happen. It did. The majority of the working capital improvement is with our Hyve organization. We entered the year a little bit heavy on working capital for the reasons we articulated in our quarter one call and expect that to unwind throughout the year. So far, it's going as we had thought. There is some additional optimization that we think we can garner out of Hyve. So our

expectations for quarter three and quarter four for cash days is probably two to three days in quarter three, maybe one to two days in quarter four. And the other thing just to think about as we're talking about the muted IT thought for the second-half of the year, as you know as growth rates decline, even though they are improving in terms of year-over-year, that does also aid and allow us to improve our working capital as overall growth rates decline. And then finally, as we mentioned at Analyst Day, we do expect the net income to cash flow conversion to be at 95% for the full-year. So we still feel good about hitting our \$1.1 billion target.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Makes sense. Thank you.

Q

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

Thank you.

A

Operator: Your next question comes from the line of Erik Woodring with Morgan Stanley. Your line is open.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Hey, guys. Good morning. Thank you so much for taking my question. Patrick and Marshall, just for either one of you. I would love if you could just maybe give us a bit more detail on demand linearity in the quarter. And really what I'm trying to get at is, is April was a relatively challenging month. We heard from some of the enterprise OEMs and so obviously your May quarter kind of straddles that. So I'd love to just better understand a little bit how demand progressed from April into May and then May thus far into June. And anything that stood out for you guys if you look at that by either AS or ES trends? Thanks so much.

Q

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

Sure, Erik. I'll start. Within the quarter, we did see strength in March and April, call it mid-teen growth rates. Then it softened a little bit in May but still a good growth rate in terms of year-over-year, so it ended up being a very solid quarter for us. But so far in June it reflects what we're guiding if you just think about our outlook. So, we generally see fairly consistent behavior all-in quarter two and quarter three from a gross billings perspective. You could see that in our guidance.

A

And then just to comment briefly on Hyve. For quarter two, as you remember when we came into the quarter, we thought that they would be slightly down. In Patrick's prepared remarks, Hyve grew in the high-teens, so they did exceptionally well during the quarter. So great momentum. So in addition to the distribution intra-quarter behavior, we also saw strong growth in Hyve.

And Patrick, anything on ES or AS you want to comment on?

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

Yes. So very rapidly, I mean if I look at the main product categories, if you look at – so let me start with software. I mean software continues to be really strong, especially in virtualization. We see very nice demand. As I mentioned, public cloud continues to grow double-digits, very solid growth and no reason to see a slowdown

A

there. Security is another bright spot. I mean the need for defending against cyberattacks continues to be there and so demand should remain healthy.

PCs, we had a very strong quarter. We still believe that next quarter the demand will be there as I mentioned because of the refresh cycle. But refresh cycle is not over. I mean the good news this quarter was networking. I mean as we talked about in the previous quarters, there was a tough compare. But now we see this market also coming back, growing and becoming a tailwind overall. So that's positive.

From a regional standpoint, Europe continues to be strong. APJ was very strong. And most important, North America is we see the market also enjoying solid growth. So from a geographic standpoint, yeah, I am cautiously optimistic.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much for the color, guys. Good luck.

Operator: Your next question comes from the line of Ruplu Bhattacharya with Bank of America. Your line is open.

Ruplu Bhattacharya

Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my questions. So last quarter, you talked about two issues in Hyve. There was a demand shortfall I think from a customer and there was an issue with inventory and working capital. So are you seeing improvement in both issues with respect to Hyve?

And then Patrick, for my follow-up, I'd like to ask that if we look at your billings growth in 1Q, it was high single-digits, about 8% year-on-year. 2Q, you just reported 12%. Europe seems to have grown very strong, 17% year-on-year. So what is it that is giving you pause to think or giving you cause to think that there is a pause in demand in fiscal 2Q? Or are you just being conservative for the full-year? Thank you.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

I'm going to take the first part.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Yeah. So go start with Hyve.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Hey, Ruplu. So, yeah, you're right. The two items we discussed in quarter one around Hyve. First of all, Hyve still had a great quarter in quarter one; another fantastic quarter in quarter two. I think quarter one, we said 23% growth, so pretty good. Quarter two, 19%, high-teens, pretty good. So the demand shortfall was relative – are muted against the strong growth within the quarter for both quarters. We did comment about a component buy that we expected to see in quarter one. We expect that to sell-through in the second-half of this year so we're happy about that. And then the comments around inventory working capital, I addressed this a little bit earlier with

Adam's question around improvement that we saw in cash and in working capital, which was primarily driven by the improvement in Hyve working capital as well. And we would expect that to continue to unwind for the rest of this fiscal year.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

And Ruplu, just on the second question about the year-on-year growth rates for Q3. So it's true that Q1, Q2, we were close to double-digit or above double-digit. So for Q3, I would say, first, last year Q3, we started to see the recovery in distribution and Hyve had a very strong quarter, so a tougher base, if you will, in Q3 last year versus – so which explains a little bit the growth rate – of the forecasted growth rate for Q3.

Second point is the macro uncertainty, which leads us to be again a little bit more cautious. And – but nevertheless as I just explained before, good underlying tailwinds by technology and by region. So the blend of all that leads us to the guidance we provided and we will see at the end of Q3.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

And then Ruplu, just to follow up on the comment of your question on quarter one being 8%, quarter two being 12%. And in Patrick's prepared remarks, across the board we just saw a better-than-expected outcome for the reasons that we articulated. So just a good performance, good position and good outcomes for the business.

Ruplu Bhattacharya

Analyst, BofA Securities, Inc.

Q

Sorry. Just to clarify one thing. Are you actually seeing any weakness right now in any region or any product line? Or is it your expectation that based on the political and the economic issues that are out there, there could be some weakness or are you actually seeing any slowdown right now?

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

So what we see in June is in-line with the guidance we provided. As you know, July is when we will know more about tariffs and so difficult to forecast the impact. So July, August, and August is a month which is interesting. So, it's a vacation month, for example, in Europe. And you have the Middle East, what could be the impact. So again, so far, no concerns. Everything is in-line with the guidance.

Ruplu Bhattacharya

Analyst, BofA Securities, Inc.

Q

Okay. Thank you so much.

Operator: Your next question comes from the line of David Vogt with UBS. Your line is open.

David Vogt

Analyst, UBS Securities LLC

Q

Great. Thank you. Thanks, Patrick. Thanks, Marshall. Patrick, can I just dive back into Hyve for a second? I think you talked about strong billings of high teens but the margin mix was a little bit lower. So could we infer from that comment that what you saw strength in this quarter was more on the CM side versus sort of the spare parts ODM side of the business and then how does that play into the comments? Again, I think you touched on it briefly, but

last quarter there was some pushout of orders. Did we see those orders come back this quarter for that second customer that's ramping or is that still on the come as we go into the third and the fourth quarter? And then I have a follow-up.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNnex Corp.

A

I'm going to comment – thanks a lot – I'm going to comment on the top line and Marshall will give you more color on the margin. So if you look at the top line, again, very, very strong growth for the ODM/CM business, 45%, primarily driven by our largest customer. So really the largest customer drove that growth. The second customer, in fact last quarter the demand paused and we saw demand coming back this quarter, slightly below our expectation but the demand is back, which is a positive.

Marshall W. Witt

Chief Financial Officer, TD SYNnex Corp.

A

Hey, David.

David Vogt

Analyst, UBS Securities LLC

Q

Hey, Marshall.

Marshall W. Witt

Chief Financial Officer, TD SYNnex Corp.

A

How's it going? So – yeah. In regards to the overall margin profile and in my prepared comments I referenced unrealized FX that was a hit to our margins in Hyve but we expect that to recover in the second-half of the year. So that was one of the headwinds related to margins for Hyve. The other is within the CM/ODM mix itself, just the various programs, its profile for the quarter ended up being a little bit negative to the margins expectations for the quarter. We do expect those to unwind and for margins to improve for Hyve in quarter three.

And then if you think about the overall range of the portfolio, ODM/CM is around 6% of total product. And then as we said at Analyst Day, which is still consistent, is our spares, what we call our data center supply chain ranges between 2% to 4% of total gross billings. The reason why we give that range we got a little bit of volatility and bumpiness quarter-to-quarter but we were a little bit more towards the higher end of that 2% to 4% in quarter two. But wanted to give you that context as well.

David Vogt

Analyst, UBS Securities LLC

Q

No. That's helpful. I appreciate it.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNnex Corp.

A

Just...

David Vogt

Analyst, UBS Securities LLC

Q

I'm sorry. Go ahead, Patrick.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNnex Corp.

A

Yeah. I just wanted to add one thing, which is that what we see is really the – I mean, exclude the unrealized effects, the margin for Hyve is really stabilizing now. I mean when you look at it quarter-to-quarter, we see this stabilization, which is very encouraging. Sorry.

David Vogt

Analyst, UBS Securities LLC

Q

Got it. And Marshall, just one final question. Can you remind us again, I guess in April when you kind of laid out the balance of this year, kind of what was the underlying assumption for the tariff regime forward? As we're coming up to July, not really a comment about the demand profile now, but just remind us again what were you kind of embedding? Do tariffs come back sort of on a 10% reciprocal basis across most of the markets that you serve? Kind of just how should we think about it just given the level of uncertainty, maybe kind of the baseline?

Marshall W. Witt

Chief Financial Officer, TD SYNnex Corp.

A

Yeah. Well, if you remember, we were living it live in April.

David Vogt

Analyst, UBS Securities LLC

Q

Yes.

Marshall W. Witt

Chief Financial Officer, TD SYNnex Corp.

A

And so it wasn't a ground-up assessment other than knowing the demand based on kind of the last iteration that we saw in 2018 and 2019 did soften. I think that to some extent our ability to see that and forecast at a high level what that represented. And now we're laying out maybe a little bit stronger spot for quarter three within that context. But back to Patrick's point, still a lot of uncertainty. It's really going to be difficult to know what happens on July 9 and its impacts and where that ultimately settle. So, it's a long way of telling you that it's still very uncertain as to what that demand outcome looks like as we finish up this year and going into next year.

David Vogt

Analyst, UBS Securities LLC

Q

Great. Thanks, Marshall. Thanks, Patrick.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNnex Corp.

A

Thank you.

Operator: Your next question comes from the line of David Paige with RBC Capital Markets. Your line is open.

David Paige

Analyst, RBC Capital Markets LLC

Q

Hi. Good morning. Thank you for taking our question. I just want to circle back to PC refresh. I was wondering if you could, just in terms of innings, where are we in terms of the refresh cycle or are we just starting, in the middle, towards the end and that's it. Thanks.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Hey. Good morning, David. So, according to me, we are in the middle of it. We are not at the start. We saw already the refresh starting at least one, if not two quarters ago. So I think we are in the middle of it. So – yeah. Yeah. And that's the reason when you look at our guidance, we continue to be positive on the contribution of PC to the overall growth.

David Paige

Analyst, RBC Capital Markets LLC

Q

Thanks, Patrick. Appreciate it.

Operator: Your next question comes from the line of Joseph Cardoso with JPMorgan. Your line is open.

Joseph Cardoso

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for the question. Maybe another follow-up question on PCs or ES maybe more broadly. You've had a couple quarters in a row of sequential margin improvement in this business. And I was just curious if you could walk us through what is driving this margin improvement, particularly maybe not an apples-to-apples comparison. But when I look at your OEM partners, they've obviously highlighted some margin pressure within their respective PC businesses. So just curious what's been driving the strength in the margin sequentially now for it looks like four quarters or so? And how are you thinking about the sustainability of that as we think about going into the back-half of this year? Thanks.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Hey, Joe. It's Marshall. Typically, when we do see refresh, we've been through a few of these, there is increased demand. With that, does come a little bit of a stronger pricing environment in general. So we did mention in the call that we saw some of the momentum following related to that strength and also the incremental margin associated with the pricing associated with that. So there is a little bit of temporary aspect to that.

But as Patrick said, middle of the game here. I still think there's probably benefits for us as we go forward. As you might know, in certain parts of our markets, specifically North America, we do a lot of large buys around the PC ecosystem that creates benefits for us that may continue going forward. Your question about what does it look like after the refresh kind of gets through its gain? We typically expect to fall back to normal IT spend plus our normal market share expectations for that. So sustainability, we feel good about it. Probably have a little more momentum behind it. Hard to know if that carries through the end of this year or if extends into next year.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

I just want to add one more thing. It's also mix-related, product mix-related. PC has been driving the growth of the Endpoint segment. Also, the component business has been very strong and those two categories have better

margins. Relatively speaking, the mobile category has grown much slow here and there the margin is lower. So, again mix is also nicely contributing to the improvement of the margin.

Joseph Cardoso

Analyst, JPMorgan Securities LLC

Q

That's very clear. Thanks for the color, guys. Appreciate it.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Thanks, Joe.

Operator: Your next question comes from the line of Vincent Colicchio with Barrington Research. Your line is open.

Vincent Alexander Colicchio

Analyst, Barrington Research Associates, Inc.

Q

Yeah. On APJ, what drove the strength there and is that sustainable?

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Yes. So good morning. So we had a very strong quarter in APJ. More or less every country contributed but specifically India and Japan. In Japan, it's driven by the consumer business. India, it's more the B2B business. We continue to be positive about the prospects of APJ. I mean we have a low share in the region, so we have an aggressive growth plan. But most important, we are – I mean our growth plan is focused on the margin-rich customer segments and product segments. So we believe that we are going to continue to see solid growth but also a solid gross profit generation and operating profit generation.

Vincent Alexander Colicchio

Analyst, Barrington Research Associates, Inc.

Q

Thanks for the color.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Thanks, Vince.

Operator: Your next question comes from the line of Ananda Baruah with Loop Capital. Your line is open.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Hey. Good morning, guys. Thanks for taking the question. I guess going back to Hyve, a couple if I could. Is there any distinction or what are the distinctions to be aware of between the 45% growth in the ODM/CM segment and in the high-teens growth in Hyve?

And then Patrick in your prepared remarks, you talked about in some detail working with hyperscalers, [ph] with the (00:38:26) data center solutions and some of the work you're doing there. Is that sort of discretionary? Are we

watching real-time you expanding the complexities of your engagements and the complexity of the scope of the work you're doing with the hyperscalers? Could that be part of the reason the margins are starting to be more favorable as to your remarks a moment ago?

And then just one last thing. It's a clarification. Would you say that networking – are you seeing networking improvement in Hyve or that Hyve was one of the drivers for the improvement in networking? And I'll stop there. Thanks, guys.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Hey, Ananda. I'll go first and then pass it over to Patrick. Good question. So, yeah, we did call out the ODM/CM compare and the growth year-over-year is around 45%. And you're right. Mid-teens. What's the difference? Supply chain was a little bit down year-over-year, so that's why the math works that way. So we still, as we acknowledged, believe it's a good part of our business. It's lumpy so it does move around quite a bit. But that's how you get to that mid-teen overall growth for Hyve.

In regards to the complexity of engagements with our hyperscale customers, I'll let Patrick speak to that. I'll let him speak to the pipeline not only with existing customers but potential new expansion as well. And then anything around how network might be driving high growth.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Yeah. So good morning and thanks for the question. So I start with Hyve and then I will address the networking question. So I mean our strategy is clearly we want to move up the value chain. That's the reason we are investing in engineering capabilities to be more on the ODM side rather than CM. We're also investing in our SMT capabilities in the US because we think that based on the environment, it's going to give us a competitive advantage. But also we are diversifying our customer base and we may do more in the future, for example, with sovereign customers where we believe the margin should be slightly better. So, yes, that's the reason margins are stabilizing. And we hope that the outcome of all the actions I just talked about would in fact take us to even better margins going forward.

On networking, yes. Hyve also had a strong quarter on networking. But excluding Hyve in distribution, networking got back to growth, modest growth, I mean low single-digit but we are back to growth.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

That's all super helpful. Quick follow-up, if I could. Are you guys seeing any sort of increased conversation with regards to Hyve from a Made in America context with the hyperscalers? And I know the customer base opportunity is more global than that with sovereign and in neocloud. But just with the hyperscalers specifically, is there any sort of incremental Made in America conversation that's going on? Thanks. That's it for me. Thanks.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

A

Yeah. Again, very high-level. I mean we have a very nice pipeline of opportunities. So with our existing customers, we are working on several programs and hopefully working to close some of them. Again, the design cycle is long so we are never completely sure when that's going to close but many, many opportunities. But I can

confirm that there is also interest from other customers to work with us because of the expertise and the manufacturing capabilities and the services we are providing.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Great. Thank you, guys.

Marshall W. Witt

Chief Financial Officer, TD SYNEX Corp.

A

Thanks, Ananda.

Operator: [Operator Instructions] I will turn the call back over to Patrick for closing remarks.

Patrick Laurent Zammit

Chief Executive Officer & Director, TD SYNEX Corp.

Thank you, everyone, for joining us. I want to take a moment to express gratitude to our customers, partners and our investors for their support and importantly our outstanding team of over 23,000 co-workers 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.

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