TD SYNNEX Corporation NYSE:SNX

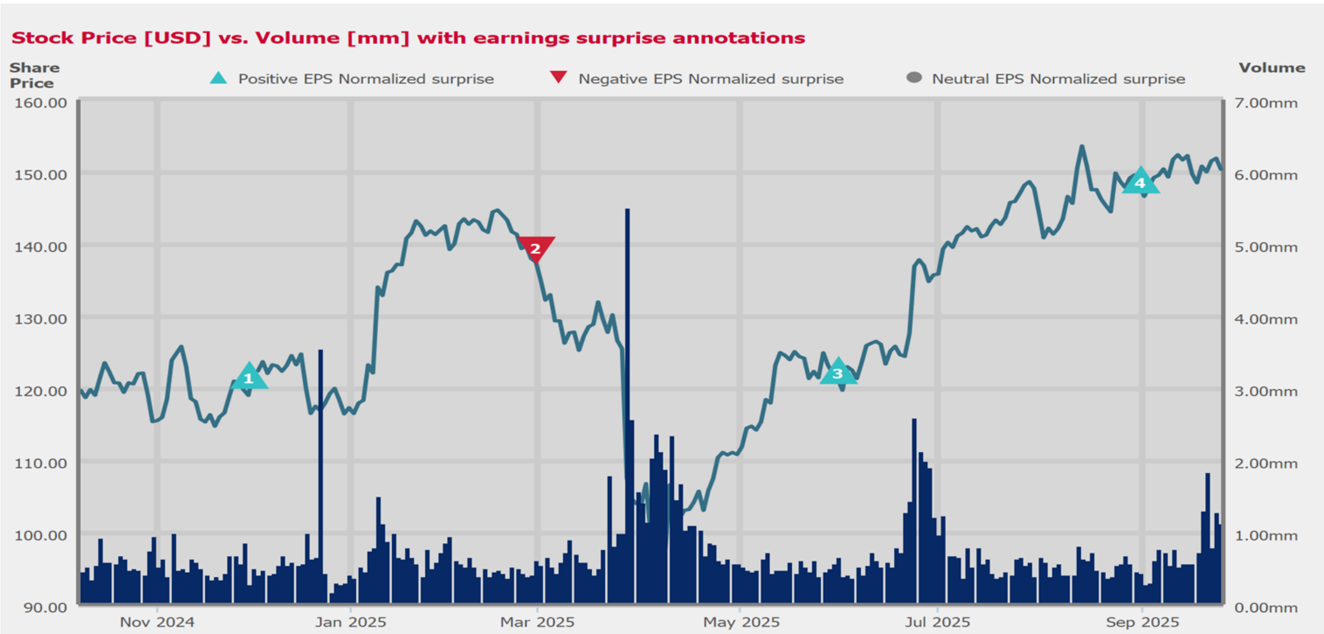
FQ3 2025 Earnings Call Transcripts

Thursday, September 25, 2025 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2025-			-FQ4 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.05	3.58	▲17.38	3.41	12.27	13.66
Revenue (mm)	15111.33	15650.92	▲3.57	16290.33	60959.74	63102.14

Currency: USD
Consensus as of Sep-25-2025 1:27 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2024	3.05	3.09	▲1 1.31 %
FQ1 2025	2.91	2.80	▼2 (3.78 %)
FQ2 2025	2.72	2.99	▲3 9.93 %
FQ3 2025	3.05	3.58	▲4 17.38 %

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Call Participants

EXECUTIVES

David Jordan
Head of Investor Relations

Marshall W. Witt
Chief Financial Officer

Patrick Zammit
CEO, President & Director

ANALYSTS

David Paige Papadogonas
RBC Capital Markets, Research Division

Keith Michael Housum
Northcoast Research Partners, LLC

Michael Ng
Goldman Sachs Group, Inc., Research Division

Unknown Analyst

Presentation

Operator

Good morning. My name is Tiffany, and I will be your conference operator today. I would like to welcome everyone to the TD SYNNEX Third Quarter Fiscal 2025 Earnings Call. Today's call is being recorded.

[Operator Instructions]

At this time, for opening remarks, I would like to pass the call over to David Jordan, America's CFO and Head of Investor Relations at TD SYNNEX. David, you may begin.

David Jordan
Head of Investor Relations

Thank you. Good morning, everyone, and thank you for joining us on 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 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 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 in the Risk Factors section of our Form 10-K and our other reports and filings with the SEC. We do not intend to update any forward-looking statements.

Also, during this call, we will reference certain non-GAAP financial information. Reconciliations of GAAP to non-GAAP results are included in our earnings press release and the related Form 8-K 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 Zammit
CEO, President & Director

Thank you, David. Good morning, everyone, and thank you for joining us today. I'm excited to report that our third quarter non-GAAP gross billings and diluted earnings per share established new records for our company. Our performance is a clear result of our team's strong execution, a differentiated go-to-market strategy and a global end-to-end portfolio of products and services that is unrivaled.

Beginning with our financial performance for the quarter, consolidated gross billings were $22.7 billion, growing 12%, 10% in constant currency. And non-GAAP diluted earnings per share of $3.58 exceeded the high end of our guidance, representing a 25% increase year-over-year. Within TD SYNNEX, excluding Hyve, gross billings increased 9% year-over-year with gross profit and operating income each increasing by double digits. Hyve had a strong quarter with gross billings increasing in the mid-30s year-over-year and ODM/CM gross billings increasing 57% year-over-year, fueled by continued strength in hyperscaler investments in cloud infrastructure. Hyve total gross margins returned to historical levels and operating profit exceeded expectations.

The majority of our technology products and services in endpoint and advanced solutions experienced an increase in gross billings year-over-year. Highlighting a few key areas. Software continued to be a standout, experiencing a 26% increase in gross billings, fueled by cybersecurity and infrastructure software. Additionally, we are still experiencing strong demand in PCs, driven by a higher mix of AI PCs and the Windows 11 refresh cycle.

We experienced healthy momentum across each of our regions with exceptionally dynamic performance in Latin America and Asia Pacific and Japan, each increasing strong double digits in gross billings in the quarter and exceeding expectations. Broad-based adoption of IT products and services continues to build in these geographies, validating the strength of our go-to-market strategy and positioning us to continue to capture profitable growth.

Moving to our diversified customer end markets. We are experiencing broad-based strength in SMB and MSPs, which grew substantially above the company average in most of our geographies. By developing bespoke value propositions and deploying dedicated commercial teams with deep industry knowledge, we have successfully positioned ourselves as a trusted partner for this strategic customer segment. Enterprise demand remains largely stable with balanced revenue growth throughout the majority of this customer base.

Our U.S. public sector business increased its gross billings low single digits in the quarter. Strength in state and local was offset by anticipated softness in federal as our customers navigate a dynamic environment, led by the revaluation of budgets and expected changes to federal funding programs. As a reminder, federal is a small portion of our total portfolio, but one we will continue to invest in growing.

Next, our differentiated and highly specialized go-to-market strategy that we outlined during Investor Day strengthens our competitive position and drives our business forward every day. A great example of this strategy in action is expanding our addressable market by introducing new vendors to the channel and leveraging our network of partners to accelerate growth. Last year, we onboarded a cybersecurity vendor in North America, who was attracted by our specialist go-to-market and partner enablement capabilities. Within 18 to 24 months, we have grown that business from zero to hundreds of millions of dollars by expanding the customer base and improving their net revenue retention rates with existing clients.

We have many more examples like this, and we are continuing to onboard cutting-edge vendors and help accelerate the adoption of new technologies in the market. As the adoption of AI technologies evolves, we are enhancing our Destination AI enablement program to include 3 strategic focus areas that are designed to help our partners adopt, scale and secure AI solutions. Agentic AI, security for AI and AI factory. Launching next week, these programs will deliver comprehensive solution support such as designing modern architectures that blend multiple AI technologies and enable hybrid deployment models that deliver flexible, intelligent threat detection, prevention and responses.

Within Hyve, we are extremely proud of our performance during the quarter and remain confident in our ability to be a leading partner for data center infrastructure build-out. We are continuing to invest in new capabilities, taking a holistic approach to data center requirements that anticipate our customers' needs and provides an end-to-end solution for the world's leading hyperscalers and cloud service providers. As a result, our portfolio is becoming more diversified.

We are participating in more compute, networking and storage rack builds as the deployment of GPU and AI integrated racks accelerate, and we have seen robust growth throughout the majority of our programs. Additionally, our customer mix is also shifting favorably, and we have seen substantial growth beyond our top customer. Moreover, our second largest customer grew faster than expected within the quarter, and we anticipate similar strength in Q4.

At our Investor Day, we outlined a digital strategy, including the creation of a unified experience, seamless workflows and actionable insights to drive customers' growth. Today, we are taking the next step of that journey with the launch of TD SYNNEX Partner First in North America, a unified portal that optimizes the partner experience by combining commerce, services, education and community in a single digital environment. Partner First marks an important milestone in TD SYNNEX omnichannel strategy using AI, automation and advanced analytics to enhance our operations and streamline the buying journey. Partner First will be rolled out globally in the coming quarters.

In summary, our team's strong execution, our differentiated and highly specialized go-to-market strategy and our unrivaled global end-to-end portfolio of products and services are enabling us to continue to deliver a superior level of service and customer experience.

Now I will pass it to Marshall to go over the financial performance and Q4 outlook in more detail. Marshall?

Marshall W. Witt
Chief Financial Officer

Thanks, Patrick, and good morning, everyone. As Patrick highlighted, we're excited to report that we achieved 12% gross billings growth and 25% non-GAAP diluted EPS growth in the third quarter, which exceeded the high end of our guidance range. Our Endpoint Solutions portfolio increased gross billings 10% year-over-year, driven by continued demand for PCs as the refresh cycle progresses as well as a higher mix of AI PCs. Globally, PCs have increased double digits for 3 consecutive quarters, and we believe that we are in the mid- to late innings of the refresh cycle.

Advanced Solutions portfolio increased gross billings by 13% year-over-year and 8% year-over-year when excluding the impact of Hyve, driven by meaningful demand in cloud, security, software and other high-growth technologies. Hyve, which is reported within the Advanced Solutions portfolio, increased in the mid-30s, primarily due to strength in programs associated with server and networking rack builds. Hyve's capabilities, capacity and U.S. manufacturing footprint positions it to support the increased demand.

In the quarter, there was an approximately 31% reduction from gross billings to net revenue, which was slightly higher than our expectations, but consistent with previous quarters. Our net treatment as a percentage of billings continues to remain elevated versus the prior year, primarily driven by an increase in Hyve transactions where we act as an agent and a higher mix of software within distribution. As a result, net revenue was $15.7 billion, up 7% year-over-year and above the high end of our guidance range.

Gross profit increased 18% year-over-year to $1.1 billion. Gross margin as a percentage of gross billings was 5%, which increased 23 basis points year-over-year and improved sequentially. Notably, we expanded our gross margin profile in both distribution and Hyve. Non-GAAP SG&A expense was $655 million or 3% of gross billings. Our cost to gross profit percentage, which we define as the ratio of non-GAAP SG&A expense to gross profit was 58% in Q3 and an improvement from the 60% level that we experienced in the first half of the year, demonstrating our progress towards managing cost as a percentage of gross profit down over time while still making key investments into the business.

Non-GAAP operating income increased 21% year-over-year to $475 million. Non-GAAP operating margin as a percentage of gross billings was 2.09%, representing a 15 basis point improvement year-over-year. Interest expense and finance charges were $91 million, an increase of $11 million year-over-year. Our non-GAAP effective tax rate was approximately 23% compared to 21% in the prior year. Total non-GAAP net income was $296 million, and non-GAAP diluted earnings per share was $3.58, an increase of 25% year-over-year and an all-time high for TD SYNNEX.

Free cash flow was $214 million, driven by strong earnings growth and a slight improvement in our cash conversion cycle. Within the quarter, we returned $210 million to stockholders with $174 million in share repurchases and $36 million in dividend payments, bringing our total return to stockholders for the year up to $534 million. Net working capital was $4 billion, which is consistent with quarter 2.

We have added a gross cash days metric to the investor presentation, which we believe better reflects the fundamentals of the 2-tier distribution industry and our organization. Our gross cash days were approximately 16 days, which was consistent with the prior year and a 1-day improvement from the prior quarter. We ended the quarter with $874 million in cash and cash equivalents and debt of $4.2 billion. Our gross leverage ratio was 2.3x, and our net leverage ratio was 1.8x. For the current quarter, our Board of Directors has approved a cash dividend of $0.44 per common share that will be payable on October 31, 2025, to stockholders of record as of the close of business on October 17, 2025.

Now moving on to our outlook. These numbers are all non-GAAP. For the fourth quarter, we expect gross billings in the range of $23 billion to $24 billion, representing an increase of approximately 11% at the midpoint. Our outlook is based on a euro to dollar exchange rate of $1.18. Net revenue in the range of $16.5 billion to $17.3 billion, which translates to an anticipated gross to net adjustment of 28%. Non-GAAP net income in the range of $281 million to $322 million. Non-GAAP diluted earnings per share in the range of $3.45 to $3.95 per diluted share based on weighted average shares outstanding of approximately 80.7 million. We expect a non-GAAP effective tax rate of approximately 23% and interest expense of $91 million.

In closing, we remain in a strong financial position to close out what has been a great year for our business and are leveraging our strategic pillars that we outlined during our Investor Day to ensure we continue to be the partner of choice in IT.
With that, we'll open it up for your questions. Operator?

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Erik Woodring with Morgan Stanley.

Unknown Analyst

This is Maya on for Erik. Last quarter, you talked about the potential for Hyve to potentially decline in the fiscal 4Q on tough compares. Given the strong results in the August quarter and the strong November quarter guide and the momentum we're seeing in cloud CapEx trends more broadly, how should we think about Hyve dynamics in fiscal 4Q? And then any high-level color on as we look to next year?

Patrick Zammit
CEO, President & Director

Thanks a lot for the question. So indeed, we were a little bit cautious last quarter. As you know, I mean, Hyve is a lumpy business. But I mean, the quarter did -- I mean, went extremely well as did distribution, by the way. So what explains the overperformance? First, I mean, we saw growth, significant growth across all the programs and all the customers. So that's point number one. Point number two, we see our second customer demand coming back, and we are confident, by the way, for next quarter 2. That's the second thing.

Then also, we saw more demand for supply chain services than expected. And so the combination explains the overperformance of Hyve. And we believe that, I mean, those dynamics will remain in Q4 and is reflected in our guidance.

Marshall W. Witt
Chief Financial Officer

And Maya, this is Marshall. Just thinking about the growth expectations being above what we initially had thought. As we said in previous discussions, we continue to make investments in skill sets, engineering capabilities, capacity, manufacturing, et cetera, to ensure that we stay ahead of capacity requirements.

Operator

Your next question comes from the line of David Paige with RBC.

David Paige Papadogonas
RBC Capital Markets, Research Division

I guess I had 2 questions. Just any comments around the pull forward for PCs in the quarter? I believe last quarter it was anywhere from $100 million to $200 million. And if I could stick one other question in on free cash flow. Should we still expect $1.1 billion for 2025?

Patrick Zammit
CEO, President & Director

David, thanks for the questions. On the first one, so again, we looked at it, as you know, it's difficult to assess, but we think it's very limited. I mean what we see is we continue to see very good momentum on PCs across the world. So all regions are contributing to it. And again, it's driven really by the refresh related to Windows 11, the refresh of the base, which was built during the pandemic. And we also see the start of some momentum on AI PC. So some customers coming to us because they want an AI PC. Again, the vast majority is related to the refresh.

Marshall W. Witt
Chief Financial Officer

And David, in regards to free cash flow expectations for the year, our expectation is that the free cash flow will be approximately $800 million for the year. And let me give you some color behind that. As we were thinking about H2 coming out of H1, we had given a mid-single-digit growth rate to the overall portfolio with distribution being a little bit above and Hyve being that flat to down. Clearly, the results for quarter 3 showed a 10% growth rate and expectations again for a 10% growth rate in Q4.

So in essence, that has lifted the overall working capital requirements for the entire portfolio, both distribution and Hyve. As you know, Hyve has a little bit longer cash conversion cycle given what is required in terms of raw materials to ultimately finish racks and how that sells through and staying ahead of our customers' requirements ensuring they have a smooth supply chain. If we think about quarter 4, which ultimately is where this goes, if you look at our press release, you could see that our year-to-date free cash flow was 0 coming into Q4. So how do we get there?

And thinking about Q4 cash flow, we think that's going to be around -- free cash flow is going to be around $850 million. It's roughly divided evenly between earnings growth for the quarter and expected cash conversion improvement of 2 to 3 days. I will say with that and thinking about what we had said at Investor Day, we still believe over the medium-term cycle that net income to free cash flow conversion should stay right around 95%.

Operator

Your next question comes from the line of Keith Housum with Northcoast Research.

Keith Michael Housum
Northcoast Research Partners, LLC

I apologize if my phone is breaking up. Guys, great quarter, obviously, in terms of better than expected. I guess the question that may be asked here is, how sustainable do we see this being -- is there any pull forward that we saw from fourth quarter and the third quarter?

Patrick Zammit
CEO, President & Director

Yes. Again, I mean, if you look at what is driving the overperformance, so if I think about distribution, it's PCs, it's software, it's cybersecurity, it's compute. I mean we believe that, that dynamic will continue into Q4. And then Hyve benefits from a very favorable environment. Hyperscalers are confirming or increasing their spend, and we are positioned on programs where the demand continues to be healthy.

Operator

Your next question comes from the line of Michael Ng with Goldman Sachs.

Michael Ng
Goldman Sachs Group, Inc., Research Division

I just have 2 quick ones on Hyve. First, I was just wondering if you could talk a little bit about the progress in onboarding new customers beyond the 2 main ones that you have. And then secondly, could you just talk about whether the growth in Hyve volumes tend to be more from the traditional server side or AI server side?

Marshall W. Witt
Chief Financial Officer

Mike, I'll start and then Patrick, please chime in. So we continue to make good progress in what we'll call programs, as Patrick mentioned earlier, programs to us is the way we define our ability to continue to grow our presence in Hyve and ODM/CM and data center supply chain management. We do expect to continue to diversify our portfolio. Our pipeline remains quite healthy and strong. That continues to grow. We will continue to seek out more customers in the Super 6 and beyond that. And so we feel good about where that's heading. Patrick, do you want to cover?

Patrick Zammit

CEO, President & Director

Just adding that the growth is coming from networking and compute and more traditional compute. We have some GPU projects in the pipe. But when you look at Q3 and the vast majority of Q4, again, the demand will come from networking and traditional compute.

Operator

That concludes our question-and-answer session. I will now turn the call back over to Patrick Zammit for closing remarks.

Patrick Zammit
CEO, President & Director

So thank you, everyone, for joining us. I want to close by reiterating that our goal isn't simply to perform today. It is to continue building a company that can do so reliably over the long term. That means continuing to invest in our people, in innovation and in the systems that allow us to anticipate change rather than react to it. Our approach has always been about building enduring capabilities, deep customer and vendor relationships, operational discipline and a culture that adapts quickly to change.

These are the factors that we believe will allow us to continue to deliver differentiated performance year after year regardless of the market cycle. Of course, none of this will be possible without our coworkers around the globe who are the driving force behind our success. We are grateful for the trust our vendors, customers and shareholders place in us, and we remain focused on earning it every day.

Thank you, and have a great day.

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