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TD SYNNEX Corporation NYSE:SNX

FQ1 2026 Earnings Call Transcripts

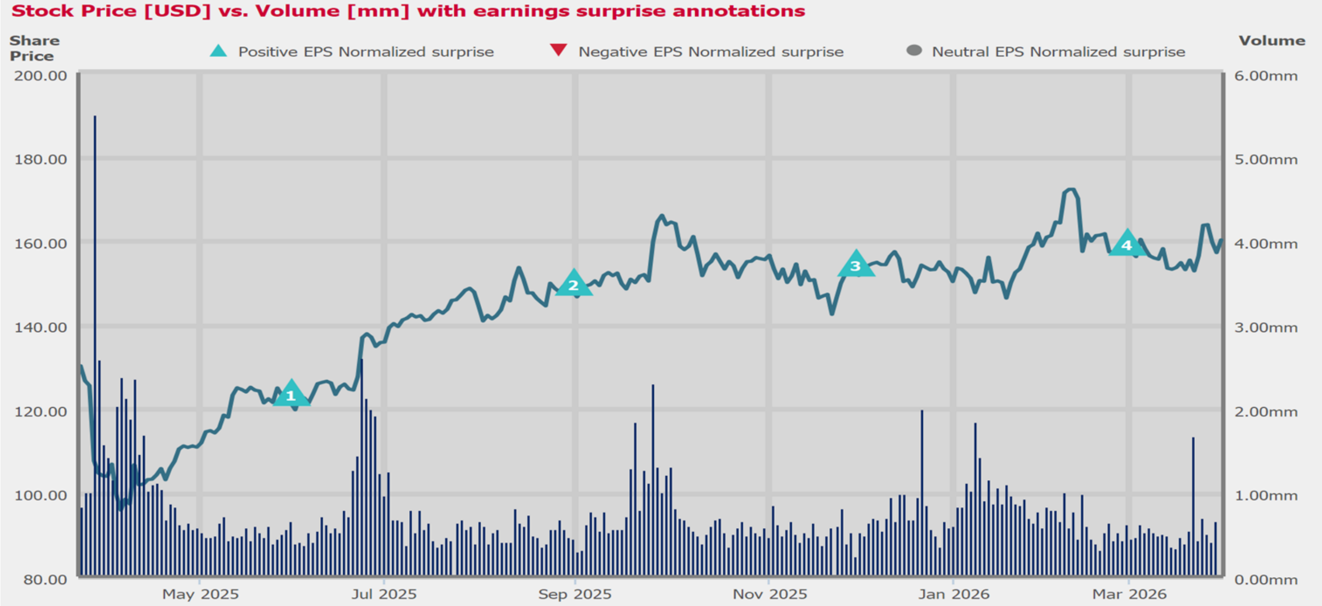
Tuesday, March 31, 2026 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2026-			-FQ2 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.31	4.73	▲42.90	3.58	14.86	16.09
Revenue (mm)	15647.53	17161.20	▲9.67	16037.07	65904.99	67679.32

Currency: USD
Consensus as of Mar-31-2026 1:47 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2025	2.72	2.99	▲1 9.93 %
FQ3 2025	3.05	3.58	▲2 17.38 %
FQ4 2025	3.73	3.83	▲3 2.68 %
FQ1 2026	3.31	4.73	▲4 42.90 %

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Table of Contents

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Presentation

Operator

Good morning. My name is Warren, and I will be your conference operator today. I would like to welcome everyone to the TD SYNNEX First Quarter Fiscal 2026 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 Nate Friedel, Head of Investor Relations at TD SYNNEX. Nate, you may begin.

Nate Friedel
Head of Investor Relations

Thank you. Good morning, everyone, and thank you for joining us for today's call. Joining me on today's call are Patrick Zammit, our CEO; and David Jordan, 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 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 Zammit
CEO, President & Director

Thank you, Nate, and good morning, everyone. Thank you for joining us today. We are very pleased with how we started fiscal year '26. In the first quarter, we delivered record non-GAAP gross billings and non-GAAP earnings per share while continuing to expand profitability and built on the execution and momentum established over the past year.

Our results reflect strong performance across both our distribution and Hyve businesses as well as the continued alignment between our strategy and the needs of our partners. Together, this reinforces the strength of our operating model and our ability to create long-term value for our shareholders.

Before turning to our operating results in more detail, I want to start by discussing my rationale for updating our reportable segments. These changes better reflect how I manage the business and allocate capital and resources.

Going forward, we will primarily discuss our performance and strategies through 2 businesses: Distribution comprised of our 3 regional distribution segments and Hyve. Each business has a distinct value proposition and operating model with clear drivers of growth, profitability and returns.

We believe this structure provides clearer insight into how our businesses perform and how we create long-term shareholder value.

With that context, I'll start with our distribution business. Within distribution, we delivered a strong start to the year with excellent results across all geographies and key technology categories. Performance was supported by continued customer investment in infrastructure software and security as well as notable

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strength in infrastructure and PCs as we help partners navigate an inflationary cost environment and a dynamic supply chain.

By leveraging our global reach, diversified sourcing and close vendor partnerships, we are helping our customers manage supply chain constraints, navigate pricing, improve availability, reduce uncertainty and plan deployments with greater confidence while helping vendors efficiently extend their reach and activate demand across markets.

Our accelerated growth was accompanied by expanding gross and operating margins, driven by favorable geography and product mix and disciplined cost management. These results underscore the strength and value proposition of our global distribution business, delivering attractive returns today while positioning us to capture opportunity tomorrow.

Last quarter, we outlined 4 strategic pillars that define how we compete, create value across our portfolio and differentiate ourselves in the channel. And these continue to shape where we invest and how we execute moving forward.

These pillars are omnichannel engagement, specialized go-to-market, best-in-class enablement and expanding our brand visibility. I'll highlight a couple of examples of how we are bringing this to life. Starting with omnichannel engagement, where we are making it easier for customers to engage with TD SYNNEX in the ways that best fit their workflows. This approach is powered by our partner-first platform and suite of digital services that integrate billions of customer, vendor and end user data points to drive demand at scale, supporting continued growth within our SMB customer market globally.

Our capabilities are translating into tangible results. By embedding predictive AI directly into our onboarding and go-to-market motions, we are meaningfully increasing the number of customers onboarding new vendor portfolios each quarter, helping vendors expand their reach within our ecosystem and accelerating profit-generating activity across the ecosystem.

Our Agentic AI assistants are now supporting customers and internal teams across complex workflows from multi-vendor solutions aggregation to intelligent quoting and cross-sell recommendations, helping shorten deal cycles and improve attach rates.

Paired with our relationship-driven model, this allows us to scale expertise and engagement globally without compromising the high-touch experience that differentiates TD SYNNEX. This quarter, our progress was reinforced by achieving Microsoft Frontier distributor designation across all of our regions globally, a recognition of excellence in support, security, channel enablement, platform innovation and technical delivery.

This designation highlights our ability to bring technologies to market in a consistent, scalable way across regions and digital platforms, marketplaces, high-touch engagement models and to do so consistently as customers move from AI experimentation to deployment.

Building on that foundation, our specialized go-to-market strategy continues to deliver tangible results, particularly in security. Earlier this month, TD SYNNEX was named Palo Alto Networks Fiscal Year '25 Distributor of the Year in North America, recognizing our ability to drive above-market growth while expanding customer participation and accelerating new customer acquisition.

Importantly, this recognition reflects the value of our specialized distribution model. By combining deep market expertise by technology and customer segment with our global reach, we enable vendors to reach new customers, activate customers more effectively and drive growth beyond what they can achieve on their own.

Capabilities such as inventory management, seamless customer transitions, pre- and post-sales support and higher levels of automation enable our vendors and customers to scale with speed and consistency, reinforcing the long-term benefits of leveraging the distribution channel.

Now turning to Hyve. We delivered an impressive quarter, driven by continued demand for cloud and AI-enabled data center infrastructure across our hyperscale customers. Growth was broad-based

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across our programs and customer base. Our integrated engineering, manufacturing and supply chain capabilities enabled efficient deployment of sophisticated rack-level solutions at scale, which translated into meaningful year-over-year operating income growth. These results reinforce Hyve's strategic opportunities within this fast-growing market.

Building on this momentum, Hyve is focused on evolving its strategy over time toward more complete system-level solutions across traditional compute, accelerated compute, networking and storage offerings. Through targeted investments in engineering and manufacturing capabilities, we are helping customers simplify design, accelerate deployment and reduce total cost of ownership.

These ongoing investments have attracted a growing pipeline of opportunities, including signing programs with 2 new hyperscale customers in 2026, which we expect to contribute to results in future quarters.

We have already started to ramp our third U.S.-based hyperscaler. And with these 2 wins, we now have at least one program secured with each of the top 5 U.S.-based hyperscalers.

To close, we remain very confident in the long-term value creation opportunities across both distribution and Hyve. The addressable markets we serve are continuing to expand, and we believe our differentiated value proposition and strategy positions us to capture a growing share of that opportunity while delivering attractive returns for shareholders. Now I will pass it to David to go over the financial performance and outlook in more details. David?

David Jordan
CFO & EVP

Thanks, Patrick, and good morning, everyone. We're pleased to report a strong start to our fiscal year with first quarter results that exceeded our expectations across all key metrics.

Walking through the numbers, our non-GAAP gross billings for the first quarter was $25.8 billion, increasing 24% year-over-year or 20% year-over-year in constant currency and exceeded the high end of our guidance range, driven by accelerated growth in both distribution and Hyve.

Non-GAAP operating income was $590 million, an increase of 48% year-over-year or 44% year-over-year in constant currency. Non-GAAP earnings per share was $4.73, an increase of 69% year-over-year and above the high end of our guidance range.

GAAP operating income was $489 million, an increase of 61% year-over-year or 57% year-over-year in constant currency. GAAP earnings per share was $4.04, an increase of 104% year-over-year and also above the high end of our guidance range. Together, these results demonstrate our ability to convert strong top line growth into operating leverage and meaningful shareholder value.

Turning to quarterly performance for each of our businesses. Distribution generated non-GAAP gross billings of $22 billion, increasing 17% year-over-year and exceeding our expectations, driven by broad-based strength across both product categories and geographies.

Endpoint Solutions increased 14% year-over-year, supported by ongoing PC refresh activity and strong demand for premium devices. Advanced Solutions increased 19% year-over-year, driven by continued strength in infrastructure, security and software.

Distribution non-GAAP operating income was $431 million, increasing 42% year-over-year and non-GAAP operating margin as a percentage of gross billings was 2%, an improvement of 34 basis points year-over-year. Overall, we estimate the distribution gross margins benefited by approximately 10 to 15 basis points during the quarter, driven by incremental profit from strategic inventory purchasing.

In addition, we estimate that approximately 2 percentage points of year-over-year gross billings growth were attributed to higher average selling prices and modest pull-forward activity as we partnered with OEMs to pass through higher memory and component costs.

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Moving to Hyve. Hyve generated non-GAAP gross billings of $3.8 billion, increasing 95% year-over-year and exceeded expectations, driven by broad-based strength across both manufacturing and supply chain services.

Manufacturing and assembly increased in the mid-70% year-over-year on a gross billings basis, driven by demand increases from all major customers in each of the major programs we support.

Supply Chain Services grew in excess of 100% year-over-year on a gross billings basis, driven by increased demand for components supporting our customers' AI infrastructure deployments. Margins in this business can vary quarter-to-quarter depending on mix.

Hyve non-GAAP operating income was $159 million, increasing 66% year-over-year and non-GAAP operating income margin as a percentage of gross billings was 4.2%, decreasing 72 basis points year-over-year, primarily driven by mix as discussed earlier.

We are in a period of accelerated growth. However, we continue to remain disciplined in our cost management approach. Our teams are focused on driving operating leverage while ensuring we make investments that position both distribution and Hyve for sustained long-term growth.

Shifting to cash flow and capital allocation. Free cash flow usage for the quarter was approximately $929 million, consistent with our first quarter in the prior fiscal year. Over the trailing 12 months, we have generated $1.2 billion of free cash flow and returned $723 million to shareholders, demonstrating the strength of our model and our disciplined approach to capital allocation.

As the business grows, we're focused on ensuring we maximize our net income to free cash flow conversion ratio on an annualized basis. Return on equity is also a key financial priority for us. And beginning this quarter, we're highlighting return on equity as a key metric that we are focused on improving over time.

During the first quarter, we returned $118 million to shareholders through share repurchases and dividends. Net working capital ended the quarter at $4.2 billion with a gross cash conversion cycle of 16 days, an improvement of 4 days year-over-year, reflecting our continued focus on strong cash conversion and efficient working capital management.

We ended the quarter with $1.6 billion of cash and cash equivalents, and our leverage ratio finished at 1.5x, modestly below our medium-term framework, providing ample flexibility to invest in the business while continuing to return meaningful cash to shareholders.

In addition, our Board of Directors approved a cash dividend of $0.48 per common share payable on April 29, 2026, to shareholders of record as of the close of business on April 15, 2026.

Turning to our outlook for the second quarter of fiscal 2026. We expect non-GAAP gross billings of approximately $25.1 billion, plus or minus $500 million, representing a year-over-year increase of approximately 16% at the midpoint, a gross to net adjustment of approximately 34%. Revenue of approximately $16.5 billion, plus or minus $400 million. Non-GAAP net income of approximately $322 million, plus or minus $20 million.

Non-GAAP diluted earnings per share of approximately $4, plus or minus $0.25 based on approximately 79.8 million diluted shares outstanding, representing a year-over-year increase of approximately 34% at the midpoint, share repurchases to increase from the amount purchased in our first quarter.

To close, we're encouraged by our start to the year and believe we are well positioned to execute on the opportunities in front of us. Our global reach, differentiated capabilities and expanding portfolio position us to perform well across IT market cycles and deliver long-term value to shareholders.
With that, I'll turn it over to the operator. Operator?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of David Paige with RBC Capital Markets.

David Paige Papadogonas
RBC Capital Markets, Research Division

Congrats on the really great results here. I was wondering if we could just double tap into the Hyve solutions growth. It was -- billings were up 95%. So I was curious if that was concentrated in your 2 main customers? Or was it more broad-based across the 5 hyperscalers that you have programs with?

And then just as a quick follow-up, I think you mentioned 2 new customers coming on board, one maybe in 2026. But I guess if you could just size that opportunity relative to your other 2 large customers.

Patrick Zammit
CEO, President & Director

Okay. David, thanks for the question. So I mean, very pleased with the performance this quarter, distribution and of course, Hyve. So yes, the growth came from the 2 main customers.

As I mentioned, the diversification has started, but the ramp-up of the programs we won is going to take a little bit of time. So we believe that we are going to see really the impact of the ramp-up more towards the end of fiscal year '26 and in '27.

David Paige Papadogonas
RBC Capital Markets, Research Division

That's great. Maybe if I could stick one more in. I know the first quarter seems seasonally a weaker free cash flow quarter, but cash conversion did get better.

So I was just wondering what pull-in or inventory build you were seeing in PCs. I know you benefit from higher ASPs. But just, I guess, puts and takes on how you're seeing the PC demand market evolve throughout the year.

David Jordan
CFO & EVP

David, so when you think about working capital and cash flow for Q1, there's a couple of dynamics. You rightfully pointed out that on a gross cash days basis year-over-year, we made significant improvements.

With that being said, we also made sure in our first quarter that we had the right amount of inventory. We recognize that some products are on allocation and could potentially be short in supply. And so we went long on inventory to try and make sure we had adequate supply to support all of our customers on the distribution side.

On the Hyve side, we're continuing to make investments in working capital to -- as that business continues to grow. But overall, when you put the two together, we're quite pleased with the cash days that we were able to land given the growth rates in the business.

Patrick Zammit
CEO, President & Director

Yes. And so on the PC, so we had a strong quarter on PCs. So for Q2, we continue to be reasonably optimistic about the PC dynamic. I mean just a few thoughts. So one, we continue across the world in all the region, except in Latin America, but across the other regions.

We are very focused on continuing growing faster than the market when it comes to PCs, and it's -- I mean, we are seeing a clear success there. I want also to mention that we are focused primarily on B2B

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when it comes to PC. And that's important because in the coming quarters, we are going to see a strong tailwind coming from the ASP increases, okay?

And obviously, comes the question about the impact on elasticity on volumes. So we foresee some reduction in units -- but I think the reduction in units should be significantly less than in the consumer space. So all in all, I think PC should continue to be a good category for us in the coming quarters.

Operator

Your next question comes from the line of Adam Tindle with Raymond James.

Adam Tyler Tindle
Raymond James & Associates, Inc., Research Division

David, I just wanted to start, obviously, congrats on such a strong start to the year. As we think about the typical financial model for TD SYNNEX from an EPS progression standpoint, normally kind of see sequential growth in earnings from here.

But if we roll that out, we're going to be in the neighborhood of $18 or so of EPS for the year. And I just don't want to get ahead of ourselves given the trajectory that you've been on. So I guess the question would be maybe just helping to level set.

I understand not seeking to give annual guidance, but maybe some color for us to think about our models, what might be similar or different this year from that normal EPS progression that we're used to, just so we can understand the models. And I have a follow-up after that.

David Jordan
CFO & EVP

Great question, and thanks for asking. So Q1 and Q2, so we provided guidance for Q2. We're not providing guidance beyond that. But what I would share with you, which I think will help is, for the moment, demand remains strong in our business.

However, we are cautiously optimistic for the second half and would just remind people that the second half of last year for us was very strong. As you think about the second half and more on a long-term basis, using the Investor Day framework that we laid out is a good place to start.

But it is true for the moment, I mean, Hyve and our distribution businesses are performing quite well. But given the broader macro environment, we are cautiously optimistic for the second half, but we do believe both businesses will grow.

Adam Tyler Tindle
Raymond James & Associates, Inc., Research Division

Okay. That's helpful. Patrick, just a follow-up. I'm getting this question a lot, and it's related to core distribution and the impact of inflation and memory costs and all those things to margins for the channel.

There's a general fear from investors that the vendors will take margin away and one of the big networking vendors on their earnings call talked about changing contractual provisions with channel partners, and it kind of fired the gun on this fear.

So I thought this might be a good forum. I'm looking at the Americas region results for distribution, and there's clearly no evidence when I see gross and operating margin up meaningfully currently. But maybe just level set us on those comments that we're hearing from the vendors and what you're actually experiencing boots on the ground in the distribution business.

Patrick Zammit
CEO, President & Director

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Yes. So thanks for the question. So indeed, in Q1, no impact on margin. I would add that we built inventory at the end of last fiscal year to be able to cope with -- or I should say, smoothen the introduction of price increases for our customers.

What we've done is to work very closely with both the vendors and our customers in order for them to be in a position to anticipate some of the price increases and reflect it in their quotes.

So today, I mean, across the board, we believe that the price increases will not impact our margin because of this close collaboration between with vendors, but also the customers.

Operator

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

Erik William Richard Woodring
Morgan Stanley, Research Division

Congrats on a really strong quarter and more disclosures here. So Patrick, I'm unfortunately going to kind of ask maybe a similar question that Adam just asked. And my first blush reaction to these results and guidance where it was almost too good to be true, right?

Gross billings and revenue nearly 10% above the high end of your guide, growth accelerating across every technology category. Can you just help us understand maybe just how you ring-fence the risk around pull forward? Because typically, pull forward and the ability to size that really isn't clear until after the fact.

And so when you talk about 2 points of benefit from ASPs and pull forward, just how do you come to that conclusion? And what are you hearing from customers about their desire to accelerate purchases and whether that's a pricing dynamic, a supply dynamic? If you could maybe just marry those 2 together, that would be super helpful. And then just a quick follow-up, please.

Patrick Zammit
CEO, President & Director

Yes. Thanks a lot for the question. So the approach we've taken, we looked at seasonality in units. So we compared, for example, sequentially between Q4 and Q1, how the units evolve for all our hardware categories, and we compare with what we've seen in the past.

And that was the first indicator where we concluded that, I mean, the seasonality was not skewed. It was quite consistent with what we've seen in the prior years. Second, we did a quick survey. We asked the teams to provide to us some color. And again, we took it into account. And so based on that, we believe that those pull forwards have been limited for Q1.

The other thing I would add is when you look at how fast the vendors have passed the increase of their component cost to the market, how fast -- I mean -- and today also, we have to deal with "validity dates, which are very short. I think the market had to react and adjust very rapidly. It was quite -- I mean, yes, I think that has also had an impact on some of the behaviors at the end users.

So again, at the moment, based on what we can see out of our data, the way we -- the feedback we receive from customers and the teams, I think that's the best we can share on the pull forward.

Erik William Richard Woodring
Morgan Stanley, Research Division

Okay. All right. Very fair. And then as my follow-up, Patrick, there is clear intent in breaking out Hyve as a separate stand-alone business. And I'm just curious, today, Hyve is 15% of gross billings. It's nearly 30% of operating income, at least in the last quarter.

Is there a target that you have for either of those metrics if we think 3 years out, just the opportunity for growth and margin expansion at Hyve. I'm just curious, like, again, putting a longer-term hat on, how big you think Hyve can be for some of these key fundamental metrics?

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Patrick Zammit
CEO, President & Director

Yes. So first thing, I mean, we've disclosed Hyve separately this year. So my management system is to empower my business unit owners. We have a lot of autonomy. And so it was justified to disclose Hyve separately.

And also, we think it improves significantly the quality of the financial understanding of how results are being formed. When it comes to Hyve, you should assume that Hyve is going to continue to grow faster than distribution. The margins I mean, at the moment, obviously, we continue to invest in both engineering and manufacturing capabilities to cope with the rapid increase in demand.

And so the margins for the moment are relatively stable in that context. As we get more mature, probably investments will start reducing a little bit. But I would say for the foreseeable future, the margins you are seeing are reasonable.

And so the combination of both -- and sorry, I should add that the operating expense for Hyve are significantly lower than for distribution, that's structural. The combination of that, I think that the weight of Hyve in the total business will continue to increase both from a gross billing revenue and operating income.

Operator

Your next question comes from the line of Joseph Cardoso with JPMorgan.

Joseph Lima Cardoso
JPMorgan Chase & Co, Research Division

Congrats on the results. Maybe just for my first one, I wanted to follow up on the customer behavior question relative to the distribution business, but maybe less on pull forwards and maybe more so on what you're seeing from customers placing orders much earlier relative to what they expect from deliveries as they navigate cost and whether that is driving better visibility than you would typically see? And then I have a follow-up.

Patrick Zammit
CEO, President & Director

Yes. So backlog is increasing. So we are getting more visibility. I mean vendors have been very clear, very explicit. The price increases are going to continue over the year because, I mean, driven in particular by both the memory price increases and now also the CPU prices increases. So yes, we are getting more visibility.

At the same time, yes, end users have got their budgets and the timing of their budgets has also some influence on when they are going to place the orders. I would say for the moment, indeed, I mean, we -- I mean, we see a very high activity in terms of quoting. We are trying to secure the prices as well as we can with some inventory to help again our resellers serve their end users in the best possible way.

But again, there's no indication of a major pull forward at the moment when we look at our figures. There's some, but it's not dramatic.

Joseph Lima Cardoso
JPMorgan Chase & Co, Research Division

No. Got it. I appreciate that color there. And then maybe just in light of the new Hyve disclosures, which I think everyone is happy to see for sure.

Just wanted to touch on the strong variance between gross billings and revenue this quarter. It seems like a big change quarter-over-quarter, year-over-year. And just wanted to better understand whether that's being driven by the change in mix that you alluded to?

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And maybe as a second part of that question, how do you expect that trending going forward? And maybe just adding on to that, like given that you talked about new customers, like any implications from a mix perspective we should think as those start to onboard maybe in the latter part of this year going into next year?

David Jordan
CFO & EVP

Joe, this is David. So it's a good question. I think you're thinking about it the right way. So at a high level, and I'm going to answer an additional question that you didn't ask.

When you look at Hyve's margins on a year-over-year basis, -- the decline was largely driven by mix. We put that in the transcript. And what the mix was related to was some large GPU fulfillment deals that went through. A lot of those programs are recorded on a net basis. And so you've actually seen the opposite impact to margins on a net basis. When you think about Hyve, each one of the programs is set up slightly differently and the gross versus net components can be different.

And so that's why we've always looked at the business on a gross billings basis. And depending on how the mix will shift, you could have a higher margin on a net basis based on the relative weighting. And we would likely expect as we move forward, some of these net programs are growing faster than the overall.

Operator

Your next question comes from the line of Katherine Murphy with Goldman Sachs.

Katherine A. Campagna
Goldman Sachs Group, Inc., Research Division

To ask another one on Hyve. In the deck, you disclosed that Supply Chain Services grew in excess of 100% year-over-year in the quarter. It would be helpful if you could talk more about the strength here.

And in the prepared remarks, you also noted a strategy pivot to selling more complete solutions in Hyve. Is there any impact we should think about on the Supply Chain Services business as it stands today?

Patrick Zammit
CEO, President & Director

Okay. So this is -- so Supply Chain Services is really a service we render to the customer, and it's a relatively volatile business. The reason being that taking into account the market environment, we may have more requests from our customers to basically support them in that space, buy inventory in advance and store it.

So I mean, clearly, lots of demand at the moment, driven by the pricing volatility. So that explains why, I mean, we had such a growth in Supply Chain Services. But at the same time, you can see that our manufacturing activity is also growing extremely fast, and we believe faster than market. And so yes, I just wanted to raise it here on the call.

Sorry. And just to answer your second question, the growth through time. So we are confident about the growth in manufacturing. This is more steady. You're talking about programs with better visibility. So if the demand from the customer stays consistent, then we should continue to see stable growth in that space.

Again, the supply chain segment is more volatile and really depends on the market environment. So here, I would be a little bit more cautious, and we probably will see more variations in the growth rates quarter-by-quarter, again, depending on the needs of the customers.

Operator

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

Keith Michael Housum
Northcoast Research Partners, LLC

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As we think about the quarter and looking forward, obviously, investors are struggling with trying to understand the magnitude of the price increases and the impact of demand destruction.

So I guess, David, as you look about the second quarter guidance, how much does that 2% grow in terms of what you think the impact is from the increased prices? And then I guess the second part of the question is, at what point do you think we start seeing demand destruction?

Is it when you hit 15% or 20% price increases? Or as we've already seen, you've got a lot more on that in some different product categories out there right now?

David Jordan
CFO & EVP

So I'll start and kind of help frame up the Q2 guidance, and then Patrick, you can comment on kind of unit elasticity. So when we built the guidance for Q2, we did a full bottoms-up roll-up from the teams. And what I can tell you is, for the moment, demand remains strong. This is true both in the distribution business. It's also true in Hyve.

The one thing to think about as you think about price increases and how that makes its way into our P&L, remember that we have a lot of revenue that is back-to-back, meaning it's build, put into a backlog, it might take 2, 3, 4, 5 months to ship. And so it's not like you're going to see this massive hockey stick into our P&L immediately from price increases.

But we do expect as we move through the quarters to have price increases become slightly more meaningful than they were in the first quarter. And then maybe, Patrick, if you can provide a little bit of color on how you think about units and demand as it relates to the latter part of the year.

Patrick Zammit
CEO, President & Director

Yes. So let me look at the 4 main hardware categories for us. The first one is PCs. So the refresh is not over. And so that continues to be a tailwind for us. But the other aspect is that the weight of AI PCs continues to increase. And I think that one of the driver for it is that you will have more and more applications -- AI applications running at the edge. So having an AI PC is going to become more and more important in companies. So that's for PCs.

When you look at general compute, so I mean, general servers, here again, there is a refresh cycle going through at the moment. So yes, it should be -- continues to be a tailwind. But similar to PC, we see an acceleration of the purchase of AI-enabled servers. What we see is that end users have now defined their use cases. They are starting to build their AI factories, and that's driving demand in the market, which we are benefiting from. And then you have storage.

And this quarter, we had a very good quarter on storage. And we believe that the data center modernization, which has been a topic, but not really materializing in the previous quarters, maybe we are going to see more of it going forward. And last, networking. I mean, clearly, after 2 very difficult years, I mean, networking is back, is growing single to double digit depending on the regions. And again, I'm quite optimistic when it comes to the networking category.

Keith Michael Housum
Northcoast Research Partners, LLC

I guess, Patrick, what we're hearing from some of our contacts is some of the equipment that you guys are selling are seeing price increases well beyond the 20% or 30%, sometimes 60%, 70%, 80%.

I guess it would seem natural that there's got to be some demand destruction and people just going to the refurb market or push just pushing things off entirely. Are you hearing this from customers yet?

And I guess, how are you guys -- I understand you want to give guidance for the second half of the year, but what are your thoughts or what any color you can provide on the remainder of the year?

Patrick Zammit

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CEO, President & Director

So based on what we see again, and it's reflected in our guidance, we -- our assumptions have been reflected. And so we haven't seen it yet in Q1, the demand destruction. We continue to be confident for Q2. For the rest of the year, I will leave you with that.

There may be some demand destruction. Again, I mean, everybody is waiting for how good or how bad the elasticity will be on volume. I mean, I shared with you some of the tailwinds, which could mitigate a little bit the impact.

But from a revenue standpoint, when you have such ASP increases, I think the net between potential decline in units and the ASP increase, net-net, revenue growth -- sorry, it should impact positively the growth in revenue.

Operator

Your next question comes from the line of David Vogt with UBS.

David Vogt
UBS Investment Bank, Research Division

I have 2 also. So Patrick, historically, Hyve has been a more traditional compute networking-centric business in terms of billings and revenue. Can you share with us kind of how that's evolving as you onboard incremental hyperscaler customers and you talked about having at least one program at the top 5, how that mix is changing going forward to a more accelerated compute and networking mix? And then I'll get David my question as well.

So David, when we think about the price increases, I know everyone is talking about PCs, but we're seeing incredibly strong demand for traditional CPU-based server, just generally speaking, in the industry right now.

I would love to get a sense for how you're thinking about that demand ex sort of the price increases because we're seeing relatively strong demand for hard-to-get CPU-based products. I just would love to kind of get your perspective on that.

Patrick Zammit
CEO, President & Director

Yes. Thanks for the question. So historically, Hyve demand is driven by general compute and networking. Some of the wins will be accelerated -- accelerated compute wins. So that's starting -- we are going to start seeing it in the mix in the coming quarters.

Just zooming up a little bit, when you look at the Hyve strategy for many quarters now, and we are starting to see the benefits is, I mean, we had 2 objectives: diversify the customer base and also going after the 4 main technologies we can serve, namely general compute, accelerated compute, networking and storage.

And really, we've made investments in both our engineering capabilities and manufacturing capabilities to be well positioned to go after those opportunities. And so expect in the coming quarters to see a diversification of the customer base, but also a diversification of the program types.

David Jordan
CFO & EVP

And David, just to provide a little color on your question around general compute. So we have worked hand-in-hand with both vendors and customers to raise pricing on a variety of infrastructure products. As Patrick said, for the moment, demand remains quite strong. And it is true in some of these categories, the price increases are double digits.

Our current thesis is that while there will be some elasticity around unit demand, our belief is that the price increases will more than offset that. And so again, we'll continue to give you guys updates. But

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for the moment, demand remains strong, and there's less elasticity around pricing than people initially thought.

Operator

Your next question comes from the line of Ruplu Bhattacharya with Bank of America.

Ruplu Bhattacharya
BofA Securities, Research Division

Patrick, a question on Hyve. So you mentioned that Hyve has secured at least one program in the top 5 U.S. hyperscalers. Can you give us more details on what type of opportunities these are? Are they for full rack builds or for supply chain services? So first, how should we think about CapEx for Hyve? Do you have enough capacity to support these programs?

And second, when I look at operating margin, it was 7.4% this quarter on a revenue basis. You said 4.2% on a billings basis. But when we think about the AI server space and rack building space, the industry itself is getting squeezed in terms of margins, right? So should we think that op margin can take a dip initially as you ramp these new hyperscalers? And what are you doing to offset some of that margin pressure?

Patrick Zammit
CEO, President & Director

Thanks, Ruplu. I will answer the first question. David will take the second one. So I mean, the programs we won are full racks. So it's really for the manufacturing segment. We also won some supply chain. But as I mentioned, the supply chain opportunities are more volatile. So what -- when we refer to those program wins, it's really for our manufacturing activity.

David Jordan
CFO & EVP

And then, Ruplu, when you think about the overall -- I'm sorry.

Ruplu Bhattacharya
BofA Securities, Research Division

I was just going to follow up on that and ask for the CapEx question I had. In the past, you said that you need to add capacity.

Patrick Zammit
CEO, President & Director

So I'll take it. So obviously, I mean, we're constantly looking at our capacity requirements, and we are investing in increasing our capacity as we speak to be able to be in a good position to serve our customers. So yes, CapEx are required.

Again, as -- when you look at the amount at stake, it's very reasonable. And I want to insist on the fact that both distribution and Hyve continue to do a great job reducing the cash days, so improving the working capital velocity.

And that's, again, enabling us not only to finance the growth without any issues, but also to finance investments in capital expenditure. So no concerns from that point of view either.

Ruplu Bhattacharya
BofA Securities, Research Division

And then just on the margin side, David, I think you were saying about -- was there -- do we expect any initial margin pressure from the ramp of these programs? Or how should we think about these margins going forward?

David Jordan

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CFO & EVP

No, you bet. So at a high level, when you think about Hyve's operating margins, we feel pretty good about where they are. It is true as you ramp new customers, especially in the early innings, there can be a slight headwind in operating margins as we make investments and kind of get the programs up to speed.

What I would tell you is each of these are going to ramp on a different time line, and we'll continue to provide you updates, but we feel very good about the current operating margins of Hyve, the programs that they have and how that will play out as we move forward.

And then actually, let me clarify one thing for you, Ruplu. You mentioned accelerated compute. While we do have some accelerated compute programs, it is not the majority of our portfolio. And so some of the margin pressure that you may have seen from others won't play out to the same degree in Hyve just given the overall mix and the programs that we have.

Operator

Your next question comes from the line of Vincent Colicchio with Barrington Research.

Vincent Alexander Colicchio
Barrington Research Associates, Inc., Research Division

Yes. Can you talk to the relative distribution strength in Europe? Is there -- do we have legs there? And has there been any change in sentiment given the geopolitical environment?

Patrick Zammit
CEO, President & Director

Yes. So Vince, thanks for the question. So the market in Europe in distribution grew mid-single digits in Q1. And I mean, the market forecast for the rest of the year is between low to mid-single-digit growth for the rest of the year.

And so I mean, when you look at our results, we are growing at double digit. So we -- so I would say the market conditions continue to be positive. But most important, in that market environment, the team continues to grow much faster than the market.

I mean we have an end-to-end portfolio. We are very well positioned on every technology. And we're also very well positioned in all the key markets in Europe. We have really a strong pan-European presence. So we are taking, I would say, advantage of the -- some countries growing a little bit faster than the average in Europe.

So for example, Poland is growing faster. Spain is growing faster. And again, it's a favorable mix, and we are well positioned in those countries. So net-net, it explains the double-digit growth and the fact that we are growing significantly faster than market. And we've done so now for several quarters, and I'm confident for the quarters to come.

Vincent Alexander Colicchio
Barrington Research Associates, Inc., Research Division

And my follow-up is on acquisitions. What are your thoughts in terms of what you're looking at currently and have the valuations come in with the overall public markets?

Patrick Zammit
CEO, President & Director

Yes. So M&A is at the core of the strategy. And for us, M&A is a way to accelerate the execution of our strategy by geo, by technology or to acquire vendors we are missing in some countries. So we are looking at several opportunities in basically all the regions.

In terms of valuation, we are very strict. We -- our objective is that the price we would have to pay, I mean, we would have the right return within 2 years of the acquisition and after completion of the

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integration. So that's our North Star when it comes to M&A. And with that in mind, so we are working on the projects, sticking to our strong financial discipline, and we'll see if some of the opportunities materialize in the coming quarters.

Operator

Your next question comes from the line of Ananda Baruah with Loop Capital.

Ananda Prosad Baruah
Loop Capital Markets LLC, Research Division

A couple, if I could. I apologize for any background noise here. I guess the first, Patrick, is a few months ago, you talked about starting to see data center modernization. And what customer base are you seeing that across?

I would guess hyperscale, but also in non-hyperscale, where are you seeing it there as well, colo, on-prem, other? I would love to get some context there. And then I have a quick follow-up as well.

Patrick Zammit
CEO, President & Director

Yes. So obviously, it's -- I'm talking on-prem. And yes, we see enterprise, but also the higher end of the mid-segment, we saw very promising activities.

Again, I'm a little bit cautious, of course, because that was not what we've seen in the prior quarters. But this quarter, we saw very solid demand. And so, yes.

Ananda Prosad Baruah
Loop Capital Markets LLC, Research Division

That's super helpful. And then the follow-up is just on Hyve's mix longer term, you're getting more into GPU base. So is it as simple as saying, over time, the mix begins to shift to include more of that? Or could you also see more storage and networking as well given like the resources requirements of Gen AI builds?

And then also just to that real quick, could Arm, just given their announcement last week and the revenue ramp that they're talking about in the CPU servers, can Arm become a distribution partner of the company as well? That's it for me.

Patrick Zammit
CEO, President & Director

So let me start with Arm. So yes, I mean, when you have a vendor who is changing his strategy and is starting to produce his own products, we believe that distribution TD SYNNEX in particular, a fantastic partner to accelerate the go-to-market. So nothing to disclose today, but in principle, I mean, if there's an opportunity to partner, we will absolutely do it.

I mean back to Hyve. So what's important is our customers are looking for support across all 4 technologies, okay? So general compute, accelerated compute storage and networking. And so that's the reason it's important for us to have the capabilities, the expertise to be able to respond to their needs and requirements.

Now when you look in the -- so we will have more accelerated compute wins in our portfolio. But I think that still going forward, general compute, networking and storage will represent the majority of our total business.

Operator

There are no further questions at this time. I will now turn the call back to Patrick Zammit, CEO, for closing remarks.

Patrick Zammit
CEO, President & Director

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So thank you for joining us today. I want to close by thanking our coworkers around the world for their hard work and dedication and our customers and vendors for the trust they place in us. And to everyone on the call, thank you for your continued interest in TD SYNNEX. Have a great day.

Operator

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

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