

— PARTICIPANTS

Corporate Participants

Deirdre Skolfield – Director-Investor Relations, SYNNEX Corp.

Thomas C. Alsborg – Chief Financial Officer & Executive Vice President, SYNNEX Corp.

Kevin M. Murai – President and Chief Executive Officer, SYNNEX Corp.

Other Participants

Jim Suva – Analyst, Citigroup Global Markets Inc. (Broker)

Brian G. Alexander – Analyst, Raymond James & Associates, Inc.

Matt J. Sheerin – Analyst, Stifel, Nicolaus & Co., Inc.

Louis R. Miscioscia – Analyst, Credit Agricole Securities (USA), Inc.

Osten H. Bernardez – Analyst, Cross Research LLC

Rich J. Kugele – Analyst, Needham & Co. LLC

Shaw Wu – Analyst, Sterne, Agee & Leach, Inc.

— MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Joe and I'll be your conference operator today. At this time, I would like to welcome everyone to the SYNNEX 2013 First Quarter Earnings Conference Call. All lines have been placed on a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect. Thank you.

At this time, I'd like to turn the call over to Ms. Deirdre Skolfield, Director of Investor Relations at SYNNEX Corporation. Ms. Deirdre Skolfield, you may begin your conference.

Deirdre Skolfield, Director-Investor Relations

Thank you, Joe. Good afternoon and welcome to the SYNNEX Corporation's fiscal 2013 first quarter conference call for the period ended February 28, 2013. Joining us on today's call are Kevin Murai, President and Chief Executive Officer; Dennis Polk, Chief Operating Officer; Thomas Alsborg, Chief Financial Officer; and Chris Caldwell, President of Concentrix Corporation.

Before we begin, I'd like to note that statements on today's call which are not historical facts may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements include, but are not limited to, statements regarding our strategy, including growth, market share, operational improvements, investments and growth of our GBS business, operation of new call centers, profitability and returns, growth in shareholder value, our leadership position, strength of our balance sheet, expectations of our revenues, net income and diluted earnings per share for the second quarter of fiscal 2013; our expectations of our tax rate, our expectations regarding foreign exchange rates, our performance, general economic recovery, anticipated benefits of our platforms and performance in our GBS segment, investment opportunities, anticipated benefits and cost of our acquisitions, timing of acquisitions and acquisition-related payments, funding sources and cash availability, future acquisitions, benefits of our business model, our product mix, demand and pricing expectations and market conditions, our expectations regarding vendor incentives, operating expenses and operating margins, and expectations regarding any margin expansion.

These are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements. Please refer to today's press release and documents filed with the Securities and Exchange Commission, specifically our most recent Form 10-K for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements.

Additionally, this conference call is the property of SYNNEX Corporation and may not be recorded or rebroadcast without specific written permission from the company.

Now, I'd like to turn the call over to Thomas Alsborg for an update on our financial performance. Thomas?

Thomas C. Alsborg, Chief Financial Officer & Executive Vice President

Thank you, Deirdre. Good afternoon everyone, and thank you for joining our call today. I'll begin with the few highlights and by summarizing our results of operations and key financial metrics. Then I'll conclude with guidance for the second quarter of fiscal 2013.

We are pleased to report solid results in our Distribution business in the quarter and we continue to see strong above market growth in our GBS, Concentrix business as a result of our ongoing investments in that segment.

Let me share some of the details behind our consolidated Q1 performance starting with revenue. In our first quarter, total consolidated revenue was \$2.46 billion, essentially flat year-over-year and in-line with our guidance.

Our first quarter revenue from the Distribution segment was \$2.42 billion, essentially flat year-over-year and down 11% sequentially, consistent with seasonality. Adjusting for the weaker year-over-year yen, our Distribution business on a constant-dollar basis would be up approximately 1.2%.

In our GBS segment, revenue grew to \$52.5 million up 17% year-over-year. We are clearly seeing the impact of our ongoing success in signing new business, which resulted from the investments in our business and sales efforts in prior quarters.

This quarter consolidated gross margin was 6.34% compared to 6.88% in the first quarter of 2012 and 6.48% in Q4 2012. It is important to note that in the first quarter of last year, our gross margin was unusually strong, benefiting from the hard disk drive shortage. The first quarter 2012 gross margin had largely offsetting puts and takes, including benefits from our business segment mix and lower amounts of required reserves in large part offset by an increasingly competitive pricing environment on the Broadline side of our business, and incentive rebates slightly less than historical norms.

First quarter total selling, general and administrative expenses were \$100.1 million or 4.07% of revenues. This compares favorably with \$105.3 million or 4.28% of revenues in the first quarter of fiscal 2012. This 21 basis point decrease reflects continued efficiencies in managing the cost structure of our Distribution business, lower bad debt expenses, lower translated SG&A expense due to weaker foreign exchange rates in Japan, these being partially offset by growing GBS investments in resources and infrastructure to win and support new Concentrix contracts. SG&A was \$104.4 million or 3.78% of revenue in Q4 2012.

Consolidated operating income before non-operating items, income taxes and non-controlling interest was \$55.9 million or \$2.27% of revenues compared to \$64.0 million or 2.60% in the prior year first quarter, and \$74.7 million or 2.70% in the seasonally stronger Q4 2012.

At the segment level, in fiscal Q1, Distribution income before non-operating items, income taxes and non-controlling interest was \$52.1 million or 2.15% of Distribution revenues compared to \$70.4 million or 2.59% sequentially and the prior year quarter results of \$62.4 million or 2.57%.

In the GBS segment, income from continuing operations before non-operating items, income taxes and non-controlling interest was \$3.9 million or 7.43% of GBS revenues, an increase in operating income of \$1.9 million over the prior year quarter, when we were deep into our integration of recent M&A and in-line with our Q4 2012 GBS figure of 7.89%.

Net total interest expense and finance charges for the first quarter of 2013 were \$5.5 million, down \$0.5 million from the prior year quarter due to lower average borrowings and improved rates on our lines. Net other income was \$1.3 million down \$800,000. This is largely made up of changes in earnings on our deferred compensation investments and foreign exchange gains and losses.

The tax rate for the first quarter of fiscal 2013 was 35.4%. For fiscal 2013, we anticipate the annual tax rate to be in the range of 35% to 36%. Our first quarter net income for SYNNEX was \$33.4 million or \$0.88 per diluted share. This compares to \$38.2 million or \$1.02 per diluted share in Q1 2012, when we had the hard disk drive benefits.

Turning to the balance sheet, accounts receivable totaled \$1.2 billion at February 28, 2013 for DSO of 44 days, unchanged from the prior year first quarter. Inventory totaled \$916 million or 36 days at the end of the first quarter, down two days from the first quarter 2012. Days payable outstanding was 37 days, unchanged from the prior year first quarter. Hence, our overall cash conversion cycle for the first quarter of 2013 was 43 days, down two days from the same quarter of last year and up three days from Q4 of 2012.

Our debt to capitalization ratio was 18%, down from 20% in the first quarter of 2012. At the end of Q1, between our cash and credit facilities, the company had over \$0.75 billion available to fund growth and other potential financial needs. The pending acquisition of Supercom Canada announced earlier this month will utilize approximately C\$36.5 million, of which C\$32.1 million is anticipated to be paid during our fiscal second quarter. The remaining C\$4.5 million of deferred payments represents a holdback as expected to be settled over approximately 18 months. Kevin will speak more about the Supercom acquisition in his remarks.

Other financial data and metrics of note for the first quarter are as follows. Depreciation expense was \$4.3 million. Amortization expense was \$2.0 million. Hewlett-Packard at approximately 31.2% of sales was the only vendor accounting for more than 10% of sales. Cash capital expenditure for the quarter was approximately \$3.0 million. Preliminary year-to-date cash flow provided by operations was approximately \$41 million. Trailing fourth quarter ROIC was 10.1% and Q1 annualized ROIC was 8.9%.

Now, moving to our second quarter 2013 expectations, we expect revenue to be in the range of \$2.425 billion to \$2.525 billion. For net income, the forecast is expected to be in the range of \$29.8 million to \$31.0 million, and the corresponding diluted earnings per shares anticipated to be in the range of \$0.78 to \$0.82.

A few comments about the projection, which does not include any costs or benefits related to the pending Supercom Canada acquisition. When the acquisition does close, we do anticipate booking certain restructuring charges. We are projecting that the demand environment will remain mixed consistent with recent trends and we are factoring in the recent trends in key foreign exchange rates such as the yen. We are also working through an incrementally more challenging competitive pricing and market environment, which Kevin will speak to in a moment. As a reminder, these statements of Q2 expectations are forward-looking and actual results may differ materially.

I'll now turn the call over to Kevin Murai, President and Chief Executive Officer for his perspective on the business and our quarterly results. Kevin?

Kevin M. Murai, President and Chief Executive Officer

Thank you, Thomas. Good afternoon everyone and thank you for joining our call today.

I'll provide some additional color on our first quarter results, our second quarter outlook and our recently announced acquisition of Supercom Canada. Within our first quarter, the demand markets for technology products have been mixed with some geographies and product segments growing and others decelerating. In addition, we experienced a somewhat more competitive pricing environment. Overall, however, I'm pleased with our first quarter results, which we accomplished through steady sales and the strong execution in our core distribution business and a continued path of driving scale in our GBS segment.

Looking at the business by geography, in the first quarter we saw a stable commercial demand environment in the U.S. including solid SMB business. Our federal business experienced some slowdown late in the quarter likely due to the impending sequestration, and despite some softness and an ongoing shift in product sets at the retail level, our U.S consumer business performed reasonably well on a year-over-year basis, primarily due to our ability to sign new lines over the past year.

In Canada, frankly the market was softer than anticipated with slow retail sales as retailers reported higher inventory levels in stores due to weaker-than-expected holiday sales. The beginning of the Canadian federal year-end spend was also well below what we typically see through the end of February and coming into the March year-end for the Canadian government.

In our Japan business, we're pleased that in local currency, we grow our Infotech business on a year-over-year basis. Overall demand remained subdued, which was expected given the current economic environment, but it's important to note that within that environment, we continue to move the ball forward with new products, new sales and managing the day-to-day of the business, while implementing key actions for driving efficiencies and costs we control.

Overall from a product line perspective, everything cloud and mobility related continued to show solid growth. Tablets have been strong in the consumer segment and connectivity into the enterprise public or private cloud, networking, storage and security continued to show strength as well. Categories that had been soft such as printing and PCs continued to be soft.

In our GBS segment in Q1, we saw continued good market growth performance from Concentrix within the ongoing business, highlighted by healthy gross margins and a strong 17% sales growth. We continue to win significant contracts in the quarter from both existing and new clients. We also successfully on boarded a number of new contracts we won in prior quarters, and as discussed in the past, our objective is to aggressively grow our GBS business through incremental investments in sales and marketing. These investments combined with expansion in various markets will continue to mute our operating margin in the near term but the underlying business is producing returns we had anticipated and expected.

I'm pleased with our strong growth trend as scale in this business is an important factor in enhancing our operating margins. An example of our investments is the recent opening of a Japan call center. We have won a marquee client in the Japanese market and we expect the new centers to go online in mid-April. In addition, this past quarter, we also expanded our centers in the Philippines, Costa Rica, the U.S. and Europe all to support new business wins.

Now turning to Q2. Our revenue guidance reflects steady market performance in our Distribution segment within a market environment that is overall stable in the U.S. but impacted by the soft economies elsewhere, in particular Canada. We expect that the more aggressive pricing environment will continue in the short term and that we will be defending our market share. As a result of these factors, we also believe that our ability to earn incremental incentives will be limited as these targets take time to adjust to the market reality.

Collectively, these issues will have a short term impact on our gross margin. However, as we have done successfully in the past, we will continue to work with our customers and vendors to find growth opportunities and adjust our go-to-market programs. We also expect that the pricing environment will stabilize as the market adjusts to the demand environment and improving more quickly as the market experiences growth later this year.

Within our GBS segment in Q2, we expect to continue our success of signing new contracts and on-boarding new business. Looking beyond the current quarter headwinds, we're optimistic about our competitive position in our business strategy. We have key competitive advantages such as our low-cost model, our stable and effective ERP, and our strategic relationships with key channel partners. Equally important, we continue to make progress in our business strategy, which we believe will create additional competitive advantages in key growth areas such as cloud and mobility.

Our focus is creating shareholder value and we believe we're well positioned to grow sales and profitability over the long term. I'd now like to provide additional color on the impending Supercom Canada acquisition we announced earlier this month. Supercom is a roughly C\$440 million Broadline business and provides our Canadian business with a significant scale opportunity.

The combination of customers and line card will create sales synergies and help to lower our overall costs. In addition, we expect to benefit from many of Supercom's talented employees, including founder Frank Luk, who will be staying on and will be responsible for global relationships with key customers and vendors. We expect this deal to close during the month of April and we'll provide more detail in the coming months.

So while 2012 was primarily a year of organic investment and consolidation of recent GBS acquisitions, we foresee additional investment opportunities in the future for SYNNEX. As Thomas mentioned, our strong balance sheet and cash flows along with our modest debt to capitalization ratio, provides us with ample capital to fund growth and other potential financing needs. I would like to acknowledge the hard work and dedication of all of our 11,000 SYNNEX associates around the world and also thank our vendors, customers and shareholders for their continued partnership and support.

And with that, let's turn the call over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We have several questions already queued. [Operator Instructions] Our first question comes from Jim Suva. Your line is open.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Great. Thank you very much and congratulations to you and your team there at SYNNEX. In your prepared remarks as well as the press release, you've mentioned ongoing competitive pricing and more limited ability to earn incremental incentives. It seems like to me that these are actually two very different items and if so, can you let me know if they're different? And can you explain a little bit more about why you think you're going to be able to work back to the type of profitability given these two newer dynamics? Thank you.

<A – Kevin Murai – SYNNEX Corp.>: Sure. Thank you, Jim. And yes, they are different. Really what we're describing this current quarter is really just the reality of the environment, which is certainly softer demand in some larger product segments, increased competition and probably due to the overall softer demand and as a result of that when your overall top-line performance is not growing at historical levels, it makes it – it does limit your opportunity to earn incremental incentives. And that's really what we're speaking to and collectively those have an impact on our gross margin.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Then as my quick follow-up is, if we look at that limiting the growth opportunity, if I compare it to say a year ago or even two years ago to remove any type of HDD benefit, it seems like sales are growing year-over-year, but earnings per share is not, so is it just the mix that's less profitable and – it just seems like that investors don't really like that disconnect, the sales growing yet earnings shrinking?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, I guess the story is really one layer below. When you take a look at businesses within region, our U.S. business continues to perform at or slightly better than market in overall growth rate, in the mid-single digit year-on-year growth level. The Canadian demand has been extremely soft. In fact, overall IT demand from what we can tell from third-party sources is a decline year-on-year into the double digits. So when you experience a decline like that on a year-on-year basis, as you know, distribution is a scale business and not only do you have less opportunity to earn incremental incentives, but at the same time, you have to manage your costs very, very carefully and your ability to just maintain margins becomes more difficult. So, the story is a little more complex than when you look at it on the surface.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: I understand. Thank you very much for the clarity, much appreciated.

<A – Kevin Murai – SYNNEX Corp.>: Thank you, Jim. Next question, operator.

Operator: Our next question comes from Brian Alexander with Raymond James.

<Q – Brian Alexander – Raymond James & Associates, Inc.>: Follow-up on the pricing environment issue and if you could just provide more context or color on where you're seeing that incremental competition intensify either by segment – customer segment, product segment, and just talk about whether it's broad based competitively or is this really more acute coming from one competitor that might have lost share in the last couple of quarters?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, so, Brian, as you can imagine, from a product set perspective it's predominantly in the higher volume and lower margin category. So that would be more indicative of PCs, laptop, and desktop as well as some high volume – other high volume areas like printers. As I said, likely one of the factors that's driving that is just a bit of a softer

demand environment than many had anticipated. Geographically, we do see it primarily in our North American business.

<Q – Brian Alexander – Raymond James & Associates, Inc.>: Okay. And then just in terms of how this affects the financials at least for next quarter, should we assume that Distribution operating margins fall below 2%? I think it's been a couple of years since that's happened, and that overall gross margins fall below 6%? I'm just trying to get a sense for the magnitude. And then I guess when you look at the gross margin decline year-over-year and sequentially, how much would you say is attributable to the vendor incentive issue versus how much is competitive pricing?

<A – Kevin Murai – SYNEX Corp.>: Okay. So it's hard to be too specific at the gross margin – specifically at the gross margin level, but – and by the way Brian, were you asking about current quarter or Q3?

<Q – Brian Alexander – Raymond James & Associates, Inc.>: I'm asking about the May quarter, Q2.

<A – Kevin Murai – SYNEX Corp.>: Okay. So in the May quarter, that's where we do expect to see compression in our gross margins. And you can take a look at where our – you can take a look at where our range is on our net income and where our range is on our revenue and you can kind of triangulate around where the gross margin and operating margins would end up. But all that being said, what I do want to make sure I'm clear on though is that we do feel that the – managing through this process, we are in control of much of the factors in order to do that.

And by the way, this is not a situation that we haven't seen before. We have seen situations and managed through situations like this in the past, but typically what we do is we just continue to work in particular with our vendors to make sure that programs that they have going to market are adjusted to the market reality. We do expect that competitive pricing will eventually subside, hopefully sooner rather than later, and again just adjusting more to the market reality. So, we do have confidence that we will work ourselves to a better margin answer as time goes on and probably coming into the second half of this year.

<Q – Brian Alexander – Raymond James & Associates, Inc.>: And as you look at the second half, just final follow-up, do you think if demand plays out seasonally, we start to see growth on a year-over-year basis, how early do you think you can see operating margins expand again on a year-over-year basis at the consolidated level? Thanks.

<A – Kevin Murai – SYNEX Corp.>: Yeah, it's a – Brian, it's a tough question to answer because our visibility is relatively limited, but what I can tell you is that we do expect that margins will improve from where they are in the current quarter.

<Q – Brian Alexander – Raymond James & Associates, Inc.>: Okay. Thanks Kevin.

<A – Kevin Murai – SYNEX Corp.>: Thanks Brian.

Operator: Our next question comes from Matt Sheerin with Stifel.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Yes, thanks, good afternoon. So just following up on the earlier questions regarding the margins and the whole issue of competitive pricing pressure, which you – and the competitive environment you talked about defending, you parallel that against the whole rebate issue and obviously you need higher revenues in order to qualify for better rebates, so where do you draw the line, Kevin, in terms of being competitive, taking the lower margin? And I guess in theory, higher volume and then higher asset velocity type of business just to kind of get a top-line number versus being more disciplined in your pricing approach?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, I wish I had a simple answer to your question.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Yeah, fair enough.

<A – Kevin Murai – SYNNEX Corp.>: It actually is quite complex and it's going to vary in different segments of our business as well. But Matt as you know, we operate proprietary ERP that gives us outstanding and real-time information on what profitability of our business looks like. So we're able to make those decisions dynamically. We understand exactly what our business looks like as things start to change. We do have our floors of course on what is good business and what is bad business. However, there's also a scale issue that we have to deal with. And as I said in my prepared remarks, we are defending our market share, but also putting an equal effort into continuing to focus on where new growth opportunities are. And that we do in conjunction with our vendor partners and our customers.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And as you look toward the next quarter or two, how long does it take for some of these rebate programs to reset? I know some are quarterly, some are based on a trailing rate of quarters, different time periods. So when – with these different programs that you have in place, when would you expect to see gross margin move in the right direction?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, and as you said, most of our programs operate on a quarterly basis, some a little bit longer than that. But as I said, we are anticipating impact to our gross margin this quarter, but we do expect improvement in the second half of this year.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And it also sounds like you're not that concerned about demand a quarter or two out, because you're not talking about lowering your cost structure or pulling back any of these – these investments in resources that you've been discussing and doing and implementing over the last few quarters, correct?

<A – Kevin Murai – SYNNEX Corp.>: We always have to operate a tight ship. We're always focused on productivity and cost control, but at the same time, we're committed to where we believe growth opportunities to be and where we have invested in those growth areas, we continue to.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And then just lastly and importantly on the GBS business where you've seen a very strong growth, yet the margins seem to be stuck in that 7%, 8% range. And I appreciate that you're still investing in that business. So help us understand, what gets us to a double-digit operating margin? Is there a volume; is there a timeframe in which you're basically all built-out in terms of the infrastructure for customers? Could you just walk us through that?

<A – Kevin Murai – SYNNEX Corp.>: Sure. And some of this I alluded to in my prepared remarks as well. Number one is, I'm extremely pleased with the sales momentum that we have. In a market that is relatively flat continuing along the path of well into the double-digit growth on a year-on-year basis is excellent performance. One of the big things that's depressing our margins right now from historical margins are really the incremental investments that we've been making in sales and marketing resources that are driving the success in bringing on new business, but also in some – also in creating and continuing to maintain some of the proprietary platforms that we have as well, which is also a competitive differentiator for us.

So as we continue to drive more volume and more scale in that business, the costs that we have in pursuing new business become a smaller part of that. And that's why I say that scale in the business is an important factor in enhancing the margins of the overall GBS business. But all that being said, Matt, the contribution that GBS makes to the company is greater today than it was

before, even though our historical margins may have been a little bit higher. It's a much bigger business than it was before. And so it's a very strong contributor.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. Thanks a lot.

<A – Kevin Murai – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Louis Miscioscia. Your line is open.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay. Thank you, CLSA. So question I had is that when you go back and look at the August quarter there was a lot of talk about pricing and I guess it sort of disappeared in November and now it's back. Can you maybe just give us what happened, I guess, we look back a couple of quarters ago as to – why was it bad, why did it get better and are some of the things repeating themselves, is it mostly demand or is it just a variety of whole bunch of different issues?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. So first of all, going back to the August quarter, we really didn't acknowledge that there was any notable difference in what historic competitive pricing had been, that may have been others. We saw it happen starting around the beginning of this calendar year. And as I said, you can make an educated guess on why that's happening, but when certain large segments start to slowdown that's typically when you see that reaction. But as I said, it tends to be a bit of a short-lived issue that we have to manage through as part of our industry, because as people manage to what the new reality is of overall demand then that's typically when pricing becomes a little bit more normalized.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Thanks. Can you maybe talk about the SG&A line, since we look back last year revenue was reasonably flat, but increasing, but SG&A was a bit up and down. And I guess, it was a little bit harder than I thought maybe this quarter and then obviously with the guidance next – this current quarter being made. What's making the shift around up to \$10 million in quarter-to-quarter from say August to November?

<A – Thomas Alsborg – SYNNEX Corp.>: So Lou, I think it's always constructive to look at SG&A on either sequential basis or year-over-year basis, because of the seasonality of our business, so just benchmarking for example, last – the first quarter of this year relative to the same quarter last year, our SG&A spend was actually down by about \$5 million. Now, part of that is FX. We've talked a lot about the yen on this call in our prepared remarks, and the translation effect of that was probably about \$1.5 million of that \$5 million.

In any given quarter though, you're also going to have puts and takes, things like what level of reserve you saw is adequate for your bad debt exposure and so forth and in this case in Q1, our bad debt reserves were about \$1.8 million lower than what we booked a year ago. Aside from that, a general trend of modest increases and overhead, some of that I commented on with regards to some of the investments we continue to make in the GBS business. We've also added some number, a couple of dozen or few dozen head count in the Distribution side of the business over the last year as well. But, I think as I shared in my prepared remarks, I think the company has done a very good job of overall managing our costs and we're going to manage the costs down, but we're going to continue to make investments where we think those investments are going to help drive and grow the business.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay. I guess maybe more specifically I was looking at May and August where the revenue was actually higher than this February, but you're anywhere from \$5 million to \$3 million lower on SG&A, maybe I was looking for that comparison if possible?

<A – Thomas Alsborg – SYNEX Corp.>: Sure, so I don't have the specific breakdown of the May and August quarters, but I would just tell you again that there're going to be puts and takes at the SG&A level. Another important one is what's happening in the stock market because our deferred comp plan that liability for that plan shows up in those – in that SG&A, but it's offset by our operating – excuse me, our other income in the P&L, so net-net, there is really not a bottom line to that, but that will show up on a line item basis within our operating expense. So you have those kind of costs that you're managing. You have, as I said before, the SG&A and FX. I think it's probably better to be thinking of it again in terms of a trend and in terms of year-over-year seasonal comparisons though.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay. Thank you.

Operator: Our next question comes from Osten Bernardez with Cross Research.

<Q – Osten Bernardez – Cross Research LLC>: Good afternoon and thanks for taking my questions. Quickly, Kevin, could you be able to describe for me what the linearity of demand for enterprise computing was during the quarter that just ended?

<A – Kevin Murai – SYNEX Corp.>: Yeah, I would say for the most part, it was about what we would have expected historically. I think the only change within the U.S. business where we did see the federal business actually become weaker in the early part of the calendar year, so that'd be mid to late quarter. A lot of that, I believe, driven by some of the uncertainty around sequestration. That being said, there is some, I guess, impact to the rest of the commercial and consumer business just in terms of overall sentiment, but for the most part, fairly linear. The only one I would pull out would be the federal.

<Q – Osten Bernardez – Cross Research LLC>: And with respect to the mix of some of your lower ASP products and some of the common trends that are taking place there, have you seen an offset with your tablet business in the U.S.?

<A – Kevin Murai – SYNEX Corp.>: Yeah, so I didn't say lower ASP. I think I said higher volume and have lower gross margin product. So, yeah, I mean, obviously there is a shift happening with mobile devices really selling at a much faster rate now than your traditional notebook product has been. We've seen that change happened much more quickly and more pronounced in the consumer side of the business than we have in the commercial side of the business.

<Q – Osten Bernardez – Cross Research LLC>: And then lastly, I just wanted to clarify on the comments regarding Infotech being up year-on-year. My question is, is that controlled for eliminated SKUs in that region or is that on a reported basis?

<A – Kevin Murai – SYNEX Corp.>: Sorry, I don't understand your question, Osten?

<Q – Osten Bernardez – Cross Research LLC>: So during the presentation, I believe Thomas noted that SYNEX Infotech grew on a year-over-year basis, revenue?

<A – Kevin Murai – SYNEX Corp.>: Yes.

<Q – Osten Bernardez – Cross Research LLC>: My question is, is that on a reported basis or does that exclude eliminated – is that controlled for SKUs that you've – or line cards that you...?

<A – Kevin Murai – SYNEX Corp.>: We understand now. That is a reported number, so that would be not setting aside any SKUs that we'd have eliminated.

<Q – Osten Bernardez – Cross Research LLC>: Thank you very much.

<A – Kevin Murai – SYNNEX Corp.>: Thank you, Osten.

Operator: Our next question comes from Rich Kugele from Needham & Company. Your line is open.

<Q – Rich Kugele – Needham & Co. LLC>: Thank you. Good afternoon. A couple of questions. First, I guess in terms of the guidance, Kevin, how much would you suspect the yen is playing a role, and then I have a couple of follow-ups?

<A – Kevin Murai – SYNNEX Corp.>: Sure. And let me just broaden that question just in terms of overall what's happening in the current quarter. So, I'd say the yen is playing a role, but you're going to see most of that impact on our top line because we conduct business in the yen both on the purchase and on the sale side. It's really just more translational when you get to other lines in the P&L, but really what's happening out there and referring back to some of the answers to the questions and what I talked about prior to that is, there's really a couple of things going on.

Overall in the markets that we operate in, there are some that are much softer than anticipated. And I would highlight Canada as one those markets. This is a tough quarter as well because not only is the underlying IT demand market very soft and it's down double digits, but in addition to that, there've been changes to the way the federal government is procuring and we're not seeing the peak in federal spending that we typically see late February and certainly through the month of March. And that's going to have an even deeper impact overall on top line for the business. So that one in particular though on Canada I would call out as when business is that soft, then that does have a dampening impact on overall profitability and margin. So that certainly is one of the factors that our profitability is expected to be down this quarter.

In addition to that, the competitive environment and pockets of soft market in the U.S. driving to a more competitive environment and that certainly is going to have an impact on our gross margins too. And so collectively, I'd kind of point to those two as the key areas in why you're seeing our guidance where it is.

<Q – Rich Kugele – Needham & Co. LLC>: Okay, so Canadian government, Canadian IT spending and U.S. competitive environment and pricing, but the U.S. thing is more of this quarter as opposed to the most recently reported quarter?

<A – Kevin Murai – SYNNEX Corp.>: That is correct.

<Q – Rich Kugele – Needham & Co. LLC>: Okay, all right.

<A – Kevin Murai – SYNNEX Corp.>: There was some impact of competitive pricing in the most recent quarter, but we see more of an impact current quarter.

<Q – Rich Kugele – Needham & Co. LLC>: Okay. And then in terms of the PC side specifically, are you seeing some of the weakness due to the fact that the OEMs are kind of holding back until Haswell comes out and they have a whole new line of products for the second half, is there an element there or is this broader than that?

<A – Kevin Murai – SYNNEX Corp.>: I believe it's a broader issue and I think it's something that – and that part of it is not really new. We've been seeing the softness in the PC segment for the past handful of quarters now. It's just that it's been slower to impact the commercial side of the business than it had been on the retail side.

<Q – Rich Kugele – Needham & Co. LLC>: Okay. And then just lastly, I know it's not of a scale to where it needs to be called out as a separate line item, but do you have any comments on Hyve, any interesting business wins or any new products that you'd like to highlight?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, Hyve certainly continues to be a success story for SYNNEX. That business continues to move on well, in the past quarter, we've been able to attract some net new clients and net new business, but again I think at the appropriate time, we'll have more to say on that.

<Q – Rich Kugele – Needham & Co. LLC>: Okay. Thank you.

<A – Kevin Murai – SYNNEX Corp.>: Great. Thank you, Rich.

Operator: Our next question comes from Shaw Wu with Stern Agee. Your line is open.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay, thanks. I just had a question on, in terms of the transition where you're going from gross revenue – for some of your client from gross revenue to fee-for-service logistics, just wondering where we are in terms of that transition, some color there? Thanks.

<A – Kevin Murai – SYNNEX Corp.>: Sure, so there really – for the reported quarter Q1 and moving forward, there really is no year-on-year impact anymore. So the contracts that had been transitioned have gone through the full year cycle, Shaw.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay, all right. Thanks. My other questions have been answered. Thanks.

<A – Kevin Murai – SYNNEX Corp.>: Thank you.

Operator: We have another question from Louis with CLSA.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Thank you. You mentioned everything cloud was actually doing well. Maybe if can you just give us a little bit more specifics for SYNNEX, what is specifically your cloud products, your cloud business and – so we understand a little bit more deeply?

<A – Kevin Murai – SYNNEX Corp.>: Sure. So traditional enterprise server and storage, as that architecture is now mostly transitioned over to more of a cloud architecture private and hybrid. We continue to see good momentum there in particular, and by the way cloud and mobility are not completely mutually exclusive either, because certainly connectivity into the cloud, into big network and also management of those devices are key elements of growth.

And as we've rolled out our new mobility strategy that does tie into the connectivity piece, key component of that is the management piece which is management of device, securing of those devices as well and then getting to the more obvious areas which is devices that connect into the cloud. So tablet devices, other mobile devices including the new Ultrabooks and many of which are on Windows 8 platforms. So, still good take up on a lot of those devices. So anything cloud related, also our software category did show some good growth last quarter. Not all of that is cloud, but certainly components of that are moving to the cloud.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay. Thank you.

<A – Kevin Murai – SYNNEX Corp.>: Thank you, Lou.

Operator: There are no further questions in the queue.

Deirdre Skolfield, Director-Investor Relations

Thank you, Joe. And thank you everyone for your participation. We look forward to speaking with you during the quarter. This concludes our call.

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