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**— PARTICIPANTS****Corporate Participants**

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**Lori Barker** – Senior Director-Investor Relations  
**Thomas C. Alsborg** – Chief Financial Officer  
**Kevin M. Murai** – President, Chief Executive Officer & Director  
**Dennis Polk** – Chief Operating Officer  
**Christopher Caldwell** – Senior VP & GM-Global Business Services

**Other Participants**

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**Scott D. Craig** – Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.  
**Craig M. Hettenbach** – Analyst, Goldman Sachs & Co.  
**Brian G. Alexander** – Analyst, Raymond James & Associates  
**Matt Sheerin** – Analyst, Stifel, Nicolaus & Co., Inc.  
**Osten H. Bernardez** – Analyst, Cross Research LLC  
**Richard E. Gardner** – Analyst, Citigroup Global Markets (United States)  
**Ananda Baruah** – Analyst, Brean, Murray, Carret & Co. LLC  
**Shaw Wu** – Analyst, Sterne, Agee & Leach, Inc.

**— MANAGEMENT DISCUSSION SECTION**

Operator: Good afternoon. My name is Brad and I will be the conference operator today. At this time, I would like to welcome everyone to the SYNNEX 2012 First Quarter Earnings Conference Call. [Operator Instructions] Thank you.

And at this time, I would like to pass the call over to Lori Barker, Investor Relations at SYNNEX Corporation. Ms. Lori Barker, you may begin your conference.

**Lori Barker, Senior Director-Investor Relations**

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Thank you, Brad. Good afternoon and welcome to the SYNNEX Corporation's fiscal 2012 first quarter conference call for the period ended February 29, 2012. 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, Senior Vice President and General Manager, Global Business Services.

Before we begin, I would 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, profitability and return; our leadership position, expectations of our revenues, net income and diluted earnings per share for the second quarter of fiscal 2012; our performance, general and economic recovery; benefits of our business model, our product mix, anticipated benefits of our CLOUDSolv and other platforms and performance in our GBS segment; the transition of certain customer revenue to fee for service; IT demand expectations, market conditions, operating expenses, revenue, gross margin and operating margins. 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's the property of SYNNEX Corporation and may not be recorded or rebroadcast without any specific information from the company.

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

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**Thomas C. Alsborg, Chief Financial Officer**

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Thank you, Lori. Good afternoon, everyone, and thank you for joining our call today. I'll begin with a 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 2012.

I'm pleased to report that our first quarter earnings grew an even better than expected 28% year-over-year to \$1.02 per diluted share. This marks SYNNEX 99th consecutive quarter of profitability. We drove exceptional margin expansion and achieved our 18th consecutive quarter of year-over-year growth in annualized return on invested capital.

Let me share some of the details behind our Q1 performance, starting with revenue. In our first quarter, total consolidated revenue was \$2.46 billion, down 1.6% over Q1 of 2011 and down 13.4% sequentially in this traditionally slower first quarter of the year. While our commercial lines performed very well during the quarter, our quarterly results included the continued transition of certain customers' gross revenue business to a fee-for-service logistics relationship, which resulted in a decline in our revenue run rate, expansion of gross margins and operating margins, and reduced working capital. The transition began in our fiscal 2011 fourth quarter and was completed in our fiscal 2012 first quarter, which was earlier than expected and contributed to the lower than forecast revenue. The expedition of this transition was driven by customer conversions of revenue flows and resulted in approximately \$30 million of additional revenue transitioning to fee-for-service than had been originally forecast. Going forward, this transition is now complete and future quarters will reflect the steady state changes.

At the segment level, in the first quarter, revenue from the Distribution segment was \$2.42 billion, a decrease of 1.8% year-over-year net of the aforementioned transition of certain customer revenues to a fee-for-service basis. Adjusting for approximately \$150 million in revenue due to this transition, year-over-year revenue growth would have been approximately 4.3%, which we believe is better than the overall IT channel growth. In our GBS segment, revenues were \$45.1 million, up 14.8% year-over-year and flat compared to the fiscal fourth quarter of 2011.

This quarter, SYNNEX achieved another exceptional consolidated gross margin of 6.88% compared to 5.75% in the first quarter of 2011 and 6.61% in Q4 2011. During the quarter, we also had some continued margin benefit from shortages as a result of global supply constraints and the fee-for-service transition. Our continued favorable mix shift towards margin-enhancing, value-added products and services also benefited our gross margin and helped us to deliver this record performance.

Fourth quarter total selling, general and administrative expenses were \$105.3 million or 4.28% of revenues; this compares with \$92.9 million or 3.72% of revenues in the first quarter of fiscal 2011 and 3.63% in Q4 2011. The largest single factor in the increased year-over-year SG&A spend was growth in our personnel-related costs of \$4.9 million to fuel our business growth, including our higher-margin, fast-growing value-add services and solutions. In addition, we had a year-over-year increase of approximately \$3.5 million related to our GBS segment SG&A for acquisitions.

Consolidated operating income from non-operating items, income taxes and non-controlling interest increased to \$64 million or 2.60% of revenues, yet another excellent quarter of margin performance and a long-standing trend of operating margin expansion; this compares to \$50.9 million or 2.03% in the prior-year first quarter. In fiscal Q1, on a segment basis, distribution income before non-operating items, income taxes and non-controlling interest grew to \$62.4 million or 2.57% of distribution revenue compared to \$47.2 million or 1.91% in the prior-year quarter. Further improvements in our operating margin in Japan helped contributed to the improved operating margin overall.

The GBS segment income from continuing operations before non-operating items, income taxes and non controlling interest was \$2.0 million or 4.42% of GBS revenues compared to \$3.6 million or 9.26% in the prior-year quarter. Our gross margins in GBS remained very good, even as we continue to make investments in SG&A for new businesses ramping in sales. Kevin will further describe the traction our new platforms have garnered, so I will just summarize by saying that we believe this segment continues to have significant margin upside which will only further enhance SYNNEX's consolidated operating margin trend and EPS in the coming quarters.

Net total interest expense and finance charges for the first quarter of 2012 were \$6.0 million and fairly consistent with the prior-year quarter. Other income was \$2.1 million and largely made up of FX gains and losses and changes in the market value deferred compensation investments.

The GAAP tax rate for the first quarter of fiscal 2012 was 34.8%. Our first quarter net income for SYNNEX was \$38.2 million or \$1.02 per diluted share; this compares to \$29.7 million or \$0.80 per diluted share in Q1 2011.

Turning to the balance sheet, our accounts receivable totaled \$1.2 billion at February 29, 2012 for a DSO of 44 days, which is up 1 day from the prior-year quarter. Inventory totaled \$953 million or 38 days at the end of the first quarter, which is up 1 day from the first quarter of 2011. Days payable outstanding was 37 days and up 1 day from the end of the prior-year fiscal quarter. Hence, our overall cash conversion cycle for the first quarter of 2012 was 45 days, up 1 day from the same quarter of the prior year. Our debt-to-capitalization ratio was 19.7%, at the historically low end of the range. At the end of Q1, the company had over \$600 million available between its cash and credit facilities.

Other financial data and metrics of note for the first quarter are as follows. Depreciation expense was \$4.0 million. Amortization expense was \$2.1 million. Hewlett-Packard, at approximately 34.7% of sales, was the only vendor accounting for more than 10% of sales. Preliminary first quarter cash flow provided by operations was approximately \$74 million. Q1 annualized ROI fee was 10.9%, up from 9% in the prior year and trailing fourth quarter ROI fee was 11.4%, up from 10.2% as of Q1 2011.

Now, moving to our second quarter 2012 expectations, we expect revenue to be in the range of \$2.45 billion to \$2.55 billion. This is consistent with our current seasonal expectations and also takes into consideration the aforementioned business – that transition to a fee-for-service. For net income, the forecast is expected to be in the range of \$33.3 million to \$34.5 million and corresponding diluted earnings per share is anticipated to be in the range of \$0.87 to \$0.91 per share. Our guidance reflects the transition of about \$80 million to \$100 million of gross revenue to a fee-for-service basis in the second quarter when compared to the second quarter of 2011. Also, it should be noted that our Q1 2011 (sic) [Q2 2011] (12:07) results included the benefit of approximately \$1.3 million in SG&A reduction, net of tax, associated with the accounting for an adjustment to our contingent M&A consideration. As a reminder, these statements of Q2 expectations are forward-looking and actual results may differ materially.

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

**Kevin M. Murai, President, Chief Executive Officer & Director**

Thank you, Thomas. Good afternoon, everyone, and thank you for joining our call today. Our year is off to a good start, with continued growth in our profitability and good performance in sales. Today, I'll share with you some of our first quarter highlights, including discussion of our key initiatives and our views on the demand environment.

Within our Distribution segment, we continue to grow at or above market rates in the geographies we do business. As Thomas mentioned, our Q1 revenue reflects the transition of certain customer contracts from gross revenue to a fee-for-service arrangement. So after factoring this in on an apples-to-apples basis, we saw good organic growth that was in line with industry trends. The most notable highlight in our Distribution business for the quarter was our margin expansion. Once again, we hit an all-time record in gross margin, helped in part by continued excellence in execution around certain supply-demand imbalances, vendor incentives, as well as continued margin expansion in our Japanese operation.

In the U.S., demand for commercial IT products was stable and we saw excellent growth in our Technical Services division, with many of our key focus areas, such as enterprise, server and storage, emerging networking vendors and wide format print, posting very strong year-on-year growth. Cloud-related products and services, including our Hyve division, continued to gain solid traction.

The consumer market started to show signs of increasing strength; however, sales of certain consumer peripheral products was less than anticipated. Although retail sales early in the quarter were strong, as the quarter progressed, they were slightly hampered by holiday inventory sell-through, as well as some product shortages caused by the flooding in Thailand.

In Canada, first quarter industry-wide channel sales declined year-over-year; however, SYNNEX performed well relative to the market, capturing strategic market share gains and delivering solid profit improvement. Japan was also a particular highlight for us this quarter, with continued operating margin growth. We feel good about the progress we are making and are on track with our plan.

Also, very importantly, we have successfully completed our ERP implementation with no interruption to the business. This now allows us to focus 100% of our attention on growing sales and profit.

Now, turning to our GBS segment. As I mentioned in prior quarters, the 2011 investments in our Services business provide us with a solid foundation for growth in sales and profitability, particularly in our platform BPO solution. However, as noted last quarter, in the short-term, our SG&A is negatively impacted by continued investments in growth, including further investments in our sales organization. In addition, we made a small acquisition and these related costs are included in our first-quarter SG&A. I'm pleased to report that these investments are paying off, as we had a record quarter of winning new contracts within our Concentrix business. As these new contracts ramp up, we expect to significantly grow our margins and revenues later this year.

Turning to our second quarter guidance, our forecast reflects normal seasonal trends, with flat to slightly positive growth sequentially. Year-over-year sales comparisons will continue to be affected for the next three quarters by the change to a fee-for-service arrangement; however, we are confident we are growing our core business. More importantly, we expect to deliver continued margin expansion, resulting in year-on-year EPS growth at a higher rate than our year-on-year sales growth. Note that our second-quarter 2011 included approximately \$0.04 of benefit related to the reversal of contingent earn-out payment for our GBS acquisition. We expect the commercial

and consumer IT markets to continue to be stable and we do not anticipate any further supply-demand imbalances to impact our gross margin.

Now, let me switch gears and talk about our views on 2012. In North America, the economy continues to be stable post-recession. We expect the North American IT and CE markets will grow in the low to mid single-digits in 2012 and that SYNNEX will continue to outgrow the overall market, as we have historically done. Key demand drivers, such as cloud computing and mobility, will continue to gain traction and we're in a good position to take advantage of these trends, with investments we have made in CLOUDSolv, Hyve Solutions and other platforms. Our core business continues to gain strength, as the demand for our differentiated services is strong. We have made excellent progress in expanding profitability and we continue to focus our strategies on margin growth.

In Japan, we're pleased with our consistent trend of improving our profitability and we expect that to continue, as our ERP conversion is now successfully behind us. Within our GBS segment, the services market opportunity is ripe for the expanded portfolio of capabilities we now have. Our pipeline of new sales opportunities is healthy and continues to grow and we expect to capitalize on the investments we've been making in our go-to-market strategy.

In closing, I'm very pleased with our first quarter performance, which demonstrated our ability to invest in the growth of our business, while at the same time continuing to deliver overall growth in our profitability and return. I'd like to thank our employees around the world for their hard work and dedication in delivering another successful quarter. And I'd also like to thank our customer and vendor partners for their continued support of our business.

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

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**Lori Barker, Senior Director-Investor Relations**

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Thank you. Brad, we're ready for questions.

**QUESTION AND ANSWER SECTION**

Operator: Certainly. [Operator Instructions] And our first question of the day will come from Scott Craig of Bank of America Merrill Lynch. Your line is open.

**<Q – Scott Craig – Merrill Lynch, Pierce, Fenner & Smith, Inc.>:** Hey, thanks. Good afternoon. Hey, Kevin and Thomas, can you talk a little bit about the outlook here at roughly the same revenue levels for next quarter? Your EPS is going down, so if you could maybe frame some of the margin discussion by group, that would be very helpful. And then just secondly with regards to the GBS margins, we've talked about north of 10% there, what's the timing for that? Because it was a little bit on the disappointing side this quarter, I think, and so I would like to get some flavor around that. Thanks.

**<A – Thomas Alsborg – SYNEX Corp.>:** Sure. This is Thomas; I'll start off and then invite Kevin to add his perspective. First of all, if you look at our Q2 guidance, that involves a nice, healthy year-over-year growth rate for overall business, so our top line looks very good. If you look at the two segments of our business, you would see that our Distribution segment continues to perform very well, with good margins, good demand, all the trends that we've been talking about in terms of margin expansion and ROIC still in place. Now, of course, Q1, as well as Q4, did benefit from some temporary market disruption, primarily related to supply-demand imbalances. We called that out in Q4 and Q1 as well. If you were to look at that, as well as some of the impact of the transition of our certain revenue going from a gross to a fee-for-service basis, between the two of those, there's close to a 85 to 95-basis point impact in our Q1 numbers.

Now, the larger part of that is related to the supply-demand imbalance, which will not continue on a go-forward basis. So when you start to look at Q2, you have to normalize, take away some of the impact from the imbalances there, which, again, is the larger part of the number I just gave you. We will continue to see some benefit going forward from a margin impact from the transition of our revenue, but the revenue that we're transitioning in Q2 is notably less than we did in Q1, so you'll see a smaller impact in the second quarter. So those are two key considerations for the Distribution side of the business.

On the GBS side of the business, indeed, we are in the mid single – without giving guidance here, but talking based on Q1 numbers, we're in the mid single-digit numbers for operating margins. And we have indicated that our expectations are for those numbers to grow into the low to mid double-digits as that business ramps and the investments that we've made, both in the acquisitions and subsequently to that, take place. We're making some very important investments; Kevin's going to cover off a little bit of that. But I would tell you that once that transition does take place in the future quarters, that will be impacting not only the overall margins for the company, but of course, EPS by upwards of \$0.05 a quarter based on the current run rate that we have, which is now coming up close to \$200 million for the segment.

**<A – Kevin Murai – SYNEX Corp.>:** And, Scott, I'll just add, in particular on the GBS side of the business, as you know, we've made a number of investments in that space, predominately over the past 14 months, through specific acquisitions and bringing on new capabilities. We've also been making significant investments in our sales organization and our go-to-market. As I mentioned in my prepared remarks, those investments are really starting to pay off now and we did have a record quarter in signing on new contracts this past quarter. We do expect to see the benefits of those new contract wins ramp both in terms of sales, as well as in terms of margin improvement and income within our GBS segment.

And keep in mind that although we may be a bit behind in terms of our original trajectory on seeing the benefit of the acquisitions that we made over a year ago, we're investing in this business for the long-term. It's a great, solid business with an excellent portfolio of services that we're taking to market and we're optimistic about the future growth of this business.

<Q – Scott Craig – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Thank you.

Operator: Our next question will come from Craig Hettenbach of Goldman Sachs. Your line is open.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Yes, thank you. Thanks, Kevin, for the color on the North American IT market. Can you touch on what you're seeing in Japan from a revenue or growth perspective? And then also, as it relates to MIT, from here, some of the margin improvement that you've seen as you go forward, can you talk about whether it's mix or scale that would allow you to further enhance margins there?

<A – Kevin Murai – SYNNEX Corp.>: Sure. I'll cover off the overall market; maybe, Dennis, you can add some color on some of the process improvements we're making as well. Japan, overall, over the past quarter, demand for IT, as well as consumer products, were slightly negative in the marketplace, down in the low single double-digit range. Our own performance, though, was much better than that. In fact, even with a pretty significant conversion of our IT system, we grew our business in local currency almost 4% in Q1. So I think it's a great statement in terms of our ability to continue to manage that business and, in particular, have a successful transition.

<A – Dennis Polk – SYNNEX Corp.>: And then looking forward, to continue to improve the business, because as Kevin said, we did quite well in Q1, we're going to focus on several things. Number one, focus on profitable market share growth. And the full system conversion that we did last quarter will help on this point, along with continued solid execution. Number two, we'll continue to add and ramp new vendors. We've done that over the past year and we expect to add many more in the coming years. Number three, we'll continue to refine the cost structure of the business. Again, the system conversion will help on this point as well. And then lastly, we'll add additional programs and services similar to our integration, technical support, PRINTSolv, RENEWSolv and others in North America. Ultimately, those services may not be exactly like North America, but the key point is that we will endeavor to add margin-enhancing services to that business.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Okay. And as a follow-up, Kevin, you mentioned some of the weakness in the consumer, retail and peripherals. Any update there in terms of the inventory situation that your comments are on, in terms of do you think it's in balance now or is there still some to be worked through?

<A – Kevin Murai – SYNNEX Corp.>: For the most part as we speak today, those inventories are a bit in balance. And the comment that you're referring to is just some inventory hangover from the holidays that had to sell through at the retailers. So as that happens and as that sells through, of course, our ability to sell a new product is not as great. In terms of the other softness that I spoke to on the retail side, it was really in the printer category. I think it's probably well understood through some public reports from some large OEMs that the printer market has been relatively soft, both on the hardware side, as well as on the consumable side, and that did have some level of impact on our Consumer business as well.

<Q – Craig Hettenbach – Goldman Sachs & Co.>: Got it. Thank you.

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

Operator: Our next question will come from Brian Alexander of Raymond James. Your line is open.

<Q – Brian Alexander – Raymond James & Associates>: Yes, so excluding the drive benefit in the February quarter, Tom, this is on margins, which it sounds like maybe 60 basis points or so, your May outlook would actually have operating margins up sequentially, kind of in line with you've seen historically. I'm just trying to understand the progression.

**<A – Thomas Alsborg – SYNEX Corp.>**: Yes, again, without giving specific margin guidance, Brian, what I would tell you, again, if you look on a year-over-year basis, if you take somewhere in the midpoint of our guidance, you're pretty close to 3.5% to 4.5% growth. And yet if you look at our earnings per share guidance and again factoring in also the fact that last year in Q2 – I might have said Q1 before – but in Q2 last year, we had the benefit of \$1.3 million in our SG&A that was not recurring this year, you would see comparing the EPS on a year-over-year basis, a double-digit growth rate. So I think the important takeaway from our guidance is that our margin expansion story relative to a healthy growth continues to be intact.

**<Q – Brian Alexander – Raymond James & Associates>**: Yeah, so following up on that, so would you expect to see kind of a normal margin expansion operating margins, obviously, in Q3 and Q4 of this year or should we see more leverage than we have historically, given the level of investments that you've been making seem to be a bit elevated?

**<A – Thomas Alsborg – SYNEX Corp.>**: Sure. So first of all, you're exactly right that you should expect SYNEX to continue on its overall trend of margin expansion that you've seen now for four-plus years and that will carry on throughout the year. As far as the investment that we made, this is true as well. We're making these investments for the very purpose of being able to expand our margin. I can't get specific into which quarters that they lay; we've tried to give some color in our prepared remarks with regard to that. And frankly, it's more important to be making investments that are going to drive the business over the long run. We're not thinking of this business as a \$200 million business; we're thinking of this business as potentially becoming twice that size and larger and we're making the appropriate investments in the meantime to get there.

So in some number of quarters, we'll be able to over, that is, some number of quarters, be able to leverage the investment that we've talked about here, both in sales and infrastructure and so forth, leverage the record wins that we are now chalking up in the GBS segment and realize the low to mid double-digit operating margin in the GBS segment that we have told you we expect to incur.

**<Q – Brian Alexander – Raymond James & Associates>**: So on that point, how much visibility do you guys have into the margin profile of GBS, given some of these are newer businesses to SYNEX, they're very head count intensive, perhaps they may be more complex to run than you anticipated? I'm just trying to get a sense for your confidence in that statement. And then on the new wins, can you share any metrics on new signings, wins, contract value, anything that you think's relevant to help us kind of track the progress of the GBS business? Thanks.

**<A – Christopher Caldwell – SYNEX Corp.>**: Hi, Brian. It's Chris. So a few things. To answer your first question, in regards to the visibility of the margin profile, the business that we run and the business that we started is very similar to the types of businesses that we're buying outside of some of the technology platforms, but we have experience with that and we understand not only some of the run rate margin, but also the margin expansion capability of it. And I think what we talked about last time is that one of the things we've been doing is sort of upgrading our business as we've been going and some of the customers that we've acquired at lower margins is moving them out and replacing them with higher-margin business. And we've been successful at that and seen our gross margin grow in line with what our expectations were and what our targets were and that's continued the focus.

In terms of the new customers that are coming on, I think some will be, frankly, public in the next coming little while as we announce the win. We had a very good quarter for the types of deals. It was significantly higher than what we've done in the past quarters in terms of signing new business. And the important part is that they're multiyear contracts; they're in the segment that we've wanted to grow, which is more margin-rich segment business; and they take advantage of our global footprint, which is also one of the key initiatives that we did. So we're very happy from that standpoint. And with that, we made additional investments in our sales and marketing to really



kind of drive the momentum that we're seeing right now in the marketplace, which was a little harder on the SG&A this quarter than we originally looked at, but we wanted to be opportunistic with the investment to get the rewards.

**<Q – Brian Alexander – Raymond James & Associates>:** Would you guys care to provide any quantification of bookings or anything that's maybe a little bit more forward-looking to help kind of quantify the momentum that you're seeing ?

**<A – Kevin Murai – SYNEX Corp.>:** Brian, at this time, we're not comfortable with doing that. But as Chris said, some of these new deals may well become public in the coming weeks or shortly thereafter, so at the appropriate time, we'll do so.

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

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

Operator: [Operator Instructions] Our next question will come from Matt Sheerin of Stifel Nicolaus. Your line is open.

**<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>:** Yes, thank you. Just a question or a follow-up regarding the revenue recognition shift in that business that you've been shifting over and you talked about the gross margin impact. It also sounds like that business is fairly lumpy. I'm trying to figure out, is there a kind of seasonality that we should think about because you've got gross margins – and forgetting the disk drive benefits over the last couple quarters, but you still have margins jumping around here. I know there's a lot of mix involved, but I'm trying to figure out, is there seasonality in this business where we should be modeling either a sequential decrease or increase on any specific quarters. And I'm also thinking that this is in the Government business, so is that tied to any kind of spending patterns, whether it be federal, fiscal year or things like that?

**<A – Thomas Alsborg – SYNEX Corp.>:** Matt, this is Thomas. The primary, largest customer within this discussion is tied to the federal government and so generally, you will see seasonal trends in line with that. Our experience with this line of business that we have a very strong Q4, which is why the adjustment was larger in Q4, and then it tapers off rather quickly in Q1 and throughout the year and again starting to ramp in the third quarter. So it follows, if you will, a trend closer to our traditional Consumer business than your typical IT business, again, because of federal budget spend and this is primarily a U.S. customer.

**<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>:** Okay. So your November quarter is a big quarter because of the September close and then there's some spillover into the next quarter; is that right, is that how to think about it?

**<A – Thomas Alsborg – SYNEX Corp.>:** That's right, that's the way to think about it. And again, the phenomenon that we described in Q1 was a little bit harder to predict, only because we were in the middle of the transition, going from certain revenue being traditionally on a gross basis to certain revenues going to a fee-for-service basis and it was hard to predict the rate at which that transition was going to occur. But as I shared in my prepared remarks, that transition occurred more rapidly than we thought. Consequently, we thought approximately \$30 million of revenue would still be on a gross basis, but it ended up being on a net basis in Q1. Now as we get into Q2 and beyond from now on, that entire transition has taken place; we know which revenue now is gross and which is net and so when we talk about our guidance for Q2, incorporating approximately \$80 million to \$100 million of that kind of revenue, we're more confident that we're actually going to be within that range.

**<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>:** Okay. All right, that's helpful. And then on the SG&A, you explained why that was up sequentially. Looking to the May quarter, were you going to

be in that sort of ballpark, that \$105 million ballpark or are there more investments that you're investing into the Global businesses and the value-added business in Distribution?

<A – Thomas Alsborg – SYNNEX Corp.>: There will be more investments, but directionally, our SG&A will be down, both in terms of dollars and in terms of percentage of revenue.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: And why is that? Because of seasonality or cost-cutting or...

<A – Thomas Alsborg – SYNNEX Corp.>: Yeah, we won't be making the same amounts of investments. Seasonally speaking, Q1 and Q2 are generally pretty similar, so it's just a matter of really the levels of investments we're making and then continuing to drive more efficiencies into our business.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And then just lastly, Thomas, on the share count, is that expected to be sort of flattish? Is that embedded into your guidance, the share count being flat or...

<A – Thomas Alsborg – SYNNEX Corp.>: Our share count is in part, of course, dictated in terms of the earnings per share calculation, that is the fully – I'm sorry, the diluted earnings per share calculation is dictated in part by what our stock does during the quarter, as you know. Given where our stock has been recently, we are expecting the share count to be up from a EPS perspective. Is that the nature of your question or were you actually just...

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Yeah, no, yeah. So I'm just, I mean are you expecting – I'm just trying to figure out what share count to model, that's all.

<A – Thomas Alsborg – SYNNEX Corp.>: Yeah, yeah. I think using a share count that's upwards of 38 million shares would be in line with what we're thinking.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. All right, that's helpful. Thanks a lot.

<A – Thomas Alsborg – SYNNEX Corp.>: Thank you.

Operator: Our next question will come from Osten Bernardez of Cross Research. Your line is open.

<Q – Osten Bernardez – Cross Research LLC>: Hey there, good afternoon and thank you for taking the questions. My first question pertains to Japan and your operating margins there. I just wanted to get a feel for whether – obviously, it was up on a quarter-to-quarter basis, but are we talking north of 1% or approaching 1% yet there, even though the target is to be closer to 2%?

<A – Dennis Polk – SYNNEX Corp.>: Hi, Osten, it's Dennis. Thanks for the question. While we're not specifically giving operating margin guidance in our Distribution segment, I can tell you that we were close to 1% in Japan for operating margins in Q1.

<Q – Osten Bernardez – Cross Research LLC>: Okay. And with respect to the comments made earlier regarding some product constraint that you had in the quarter within your overall Distribution business and I think you qualified it towards your Consumer business, on a go-forward basis, do you still anticipate any sort of shortage in products for the current quarter that we're in?

<A – Kevin Murai – SYNNEX Corp.>: So the product shortages I was referring to really is a result of hard drive shortages, so it would be PC. As of right now, we haven't seen any further shortages that way and we don't anticipate there will be.

<Q – **Osten Bernardez – Cross Research LLC**>: Thank you. And then lastly, just from a modeling perspective, could you explain sort of the difference in your – well, I was modeling something different – difference in your other income line and sort of that on a year-over-year basis. How should I be thinking about, A, what took place in the first quarter and how I should look at that from a full-year perspective?

<A – **Thomas Alsborg – SYNNEX Corp.**>: Sure. So our other income expense line includes a few key areas. The largest areas tend to be our foreign exchange, whether we have gains or losses there, as well as our deferred compensation program. Often, since you've picked up coverage more recently, we have a deferred comp program that applies to certain of our executives and the way that that program works is that the company takes the deferred compensation of those executives and invests it. And as those investments make money, our liability to those executives goes up. Therefore, within SG&A, you would see an increase in expense, but you'd see it offset in large part by an increase in other income, so typically, it does not have any impact on the bottom line.

<Q – **Osten Bernardez – Cross Research LLC**>: Got it. Thank you very much for taking my questions.

<A – **Thomas Alsborg – SYNNEX Corp.**>: You bet.

Operator: Our next question will come from Richard Gardner of Citigroup. Your line is open.

<Q – **Richard Gardner – Citigroup Global Markets (United States)**>: Okay. Thank you. I have a clarification and then a question. On the clarification, I just wanted to clarify, would it be fair to say that most of the revenue shortfall in the quarter was the \$30 million impact from transition to fee-for-service incremental that you talked about and then that the remainder was the retail channel inventory correction and the printer weakness that you've referred to; is that a fair statement?

<A – **Kevin Murai – SYNNEX Corp.**>: Yeah, Richard that's a fair characterization.

<Q – **Richard Gardner – Citigroup Global Markets (United States)**>: Okay. And then I guess I still don't quite understand the setback in GBS margins in the quarter. I understand your desire to invest in the business for the longer-term, but you did refer to it taking longer to realize the margin benefits of last year's acquisitions. And so I'd love to understand how much was that and then also understand the timing of the decision to ramp investments in the current quarter. Are you just seeing opportunities out there that you really want to pursue now or, I guess, why exactly did you decide to ramp up those investments now? And then maybe go back to, I know you said that there should be margin expansion going forward, but can we expect to be back at the double-digit range by the end of the fiscal year? Thank you.

<A – **Christopher Caldwell – SYNNEX Corp.**>: So, Rich, it's Chris. Let me break down your question into three parts. I think from the first part, in terms of the comment in regards to getting the synergies out of the acquisition from last year and, too, from an investment standpoint, we're seeing the benefits from acquisitions from last year, both in terms of customer coverage and getting new services into the customers that we are already servicing. And I think with the platforms, as we've talked about in the past, you generally will do a pilot, you'll invest in the pilot, you'll work along with the customer, these are taking over fairly significant pieces of infrastructure and then you'll start to see some growth from that. And we're starting to see that; as fast as we had originally had liked last year, no, but we're starting to see that and the benefits are coming through from that.

In terms from the investment, there's two types of investments that are categorized. One is in terms of the investment in our platforms and our development resources and that has been on a fairly steady state, higher than what you've historically seen in the GBS segment, but because of these platform acquisitions, certainly ongoing. And I think to the comment of seeing leverage off of that,

we're not at the critical scale that we need to see as much leverage as we know there is there in the business over the next coming quarters as you see the expansion.

In terms of the investment in the sales and marketing side, which we talk about specifically in Q1, to give you an indication, when we go after some of these larger opportunities, it is a significant sales expense in order to capture them. It's a lot of site visits, it's a lot of mockups, it's a lot of development, there's a lot of effort and cost that is not insignificant that go into winning some of these global deals. And during the quarter, we generally can see the pipeline of deals coming in and match our sales resources to that pipeline coming in. And during the quarter, what we saw was there was a number of opportunities that sped up into Q1 and Q2 that we'd really, frankly, seen further out in the close of the year. So it's a good news, bad news, is that good news is that the opportunities are speeding up; bad news is that we had to make the decision to make the investment now to gain those business wins and we made the investments and we won the business. So frankly, no apology there. We're happy with what we did and we're happy with the results that we got out of it.

I think going forward, you'll see that margin expansion we talk about in two parts. One is these new deals and subsequent deals that we've got in our pipeline close and we get to the critical mass. As we've talked about, it's not a \$200 million business we're after; we're after a significantly bigger business and we'll make those investments to make it happen. And the second part, you'll see the expansion as [ph] we obtain (44:59) the pilot programs and some of the smaller programs that are on our renewals platforms into much larger-scale programs, which are happening because we're seeing the benefits of those investments now.

**<Q – Richard Gardner – Citigroup Global Markets (United States)>:** Quick, if I could just follow-up, the investments that you're making currently in platforms, how much longer do you expect those to continue to be at an elevated rate and will they decline significantly at some point over the next several quarters?

**<A – Christopher Caldwell – SYNEX Corp.>:** So, Rich, we don't see the investment declining; we see it in more of a steady state. But what happens is as you layer on more and more revenue on the top, that spend becomes less significant as part of the SG&A. So frankly, we're at that tipping point and our expectation is not to cut back on our development, but keep it at the level it is right now and see the revenue go out to the top line.

**<Q – Richard Gardner – Citigroup Global Markets (United States)>:** Okay, great. All right, thanks. Very helpful.

**<A – Kevin Murai – SYNEX Corp.>:** Thanks, Richard.

Operator: Our next question will come from Ananda Baruah of Brean Murray. Your line is open.

**<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>:** Thanks, guys. Just a couple things, if I could. I guess just to sort of piggyback off of that last topic, are you far enough through, I guess, with the lessons learned of going after the bigger deals or winning bigger deals and standing them up, is really what I'm thinking about, that you feel like you have your arms more broadly enough around standing up larger deals to be able to get the visibility towards sort of margin ramp from this point forward or could there be other lessons learned as we move forward?

**<A – Christopher Caldwell – SYNEX Corp.>:** So I think Ananda – it's Chris again – we go into these deals with our eyes open, right? We've been in the business for awhile; we've done global deals, while it's been less in size in terms of what we're winning now. But with our larger footprint, these are the opportunities that we invested to be in front of and are subsequently making headway in. So from our perspective, there's not anything that we're being caught off guard or being surprised at. We're making investments to make it happen. As we continue to grow, obviously

these deals have less and less of an overall impact to our business because the business is growing and therefore, the startup expenses and investments needed to secure these deals become less noticeable within our SG&A. When you look at the sheer dollars of SG&A and sheer dollars of operating income we're talking about, these larger deals will have a bigger impact as we go forward.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: [ph] On this biz (47:34), I guess the implication is that you guys weren't really surprised by the operating margin dynamics in your internal planning; this was sort of what you guys were expecting.

<A – Christopher Caldwell – SYNNEX Corp.>: So I think, Ananda, to answer that, at the beginning of the quarter, as we talked about it, we didn't necessarily see some of these opportunities moving as fast as it did into Q1 and Q2 and, frankly, were expecting a higher operating income level if we didn't have to make these investments. But these are not investments to sort of solidify the business; these are investments that are bringing in new wins, which I think as some of the announcements go out, you'll see the benefits of these investments and why we've made them.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Got it, got it; that's clear. And then just I guess, Kevin or Thomas, just to follow up on the comments about PCs and sort of the removal of – I guess your expectation is now that you won't have shortages. Can you talk about, I guess, the mix of PCs that you've been getting; is it sort of optimal to what the customers want? And I guess what are the dynamics there and what implications might they have on your ability to upsell services or software or anything like that? Thanks.

<A – Kevin Murai – SYNNEX Corp.>: Yeah. I mean, Ananda, so just to clarify, though, because you made a comment that from a product perspective, we don't foresee any shortages. I should just make the comment that even though it does appear that most of that supply chain shortage issue, constraint issue has been resolved, there are still some level of constraints in the enterprise drive space, okay? That being said, though, and now taking it back down to more of a finished goods product and in particular on PCs, no, we feel good about the mix of inventory that we have in terms of the demand that we're seeing out there; we don't see any challenges that way.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Okay, got it. And is that something you saw normalize as you moved through the quarter?

<A – Kevin Murai – SYNNEX Corp.>: Yes, that's correct.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Okay, great. And then just a last one for me, Kevin. I think your comment earlier about market demand was low single-digits this year in North America and your expectation that you could outgrow the market again. So anecdotally, should we think of SYNNEX growth this year being low to mid single-digit?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, actually, my comment was that we expect the North American markets to be low to mid single-digits and that we would do better than that, Ananda.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Got it. Thanks a lot.

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

<A – Lori Barker – SYNNEX Corp.>: We have time for two more callers.

Operator: Our next question will come from Shaw Wu of Stern Agee. Your line is open.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay, thanks. Just a clarification on your Japan business. I think you said on the call it's around 1% and I just wanted to clarify you feel comfortable driving that closer to the corporate average. And then to get there, is it more about driving volume or is there more cost-cutting? Thanks.

<A – Thomas Alsborg – SYNNEX Corp.>: Yeah. So as Dennis noted, last quarter was around the 1% range. So, Shaw, on a like-for-like business – obviously even within the Distribution business itself, there's a good variety of different types of business that we do – on a like-for-like basis, we're optimistic that we'll get up to those North American operating profit levels in a given period of time. That being said and what Dennis commented on was as we continue to enrich the business, really along the three different levers that he talked about, that's how we're going to continue to improve operating margins. But they really have to do with investing in more services and service-rich components in that business, like we've done in the United States, continuing to enhance our product line card and what goes with that is leveraging some of the strong relationships that we have here back in North America.

And then the third piece is, just by continuing to focus on profitability, there's going to continue to be some level of rationalization of the business. There's some business that's part of the Japanese mix that we will likely shed, but in addition to that, we intend to grow the overall business, too, by replacing it with more profitable business. But cost-cutting is really not one of those three key drivers.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay, thanks.

<A – Thomas Alsborg – SYNNEX Corp.>: Thanks, Shaw.

Operator: Our final question will come from Brian Alexander of Raymond James. Your line is open.

<Q – Brian Alexander – Raymond James & Associates>: Yeah, a couple follow-ups. Kevin, did you see operating margin expansion year-over-year in your core North American Distribution business? So excluding Japan, excluding the change to net revenue, because there's a lot of moving parts here, and excluding the benefit from HDDs, if I factor all of those out, I come up with about 2.2%, which is still very good performance, but versus a year ago, it's about flat, if I take out Japan from last year. And it sounds different than what you're articulating, so I just wanted to check that.

<A – Kevin Murai – SYNNEX Corp.>: So Brian, and it's an excellent question, if you actually look at all of the different puts and takes and some of the things that are more exceptional, the answer is yes, we believe that we expanded our margins in our North American Distribution business.

<Q – Brian Alexander – Raymond James & Associates>: Okay. And you expect that to continue going forward?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. And again, driven by what we had talked about over the past number of quarters, which is we're driving a much richer mix of products that are in the higher-margin categories, as well as more and more services as well.

<Q – Brian Alexander – Raymond James & Associates>: Okay. And then the final one, any thoughts on your largest vendor, HP, combining the PC and printing divisions? How do you think that will affect your business near-term, long-term? Do you expect any change in channel strategy or structure, terms, conditions or just anything you can tell us in your conversations with them?

<A – Kevin Murai – SYNNEX Corp.>: Sure. Well I mean overall, I think it's a positive move for HP. Inherent in the combination there should be some efficiencies that they're able to drive in their business. I think what it will do is it will start to drive efficiencies and also consistency in channel

partner relationships, in particular with distributors as well. Just in terms of some of the individuals, Todd Bradley, obviously, a very strong leader of the organization and I think very well equipped, with his experience and knowledge, to drive the total organization. And we've had an excellent relationship with HP historically; we certainly expect that to continue. So, if anything, we do expect HP to continue to embrace channel partners and, if anything, drive more efficiency and enhancement in the go-to-market with them.

<Q – Brian Alexander – Raymond James & Associates>: Great. Thank you so much.

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

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**Lori Barker, Senior Director-Investor Relations**

Okay, that was our last caller.

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**Kevin M. Murai, President, Chief Executive Officer & Director**

All right. Thank you, Lori. I'm pleased with our first quarter growth and profit and continued expansion in margin. And we're looking forward to further speaking with you in upcoming investor conferences. Thank you for your time.

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**Lori Barker, Senior Director-Investor Relations**

Thank you.

Operator: Thank you for your participation on the conference call today. At this time, all parties may disconnect.

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