PARTICIPANTS

Corporate Participants

Deirdre Skolfield – Director-Investor Relations, SYNNEX Corp.
Marshall W. Witt – Chief Financial Officer, SYNNEX Corp.
Kevin M. Murai – President, Chief Executive Officer & Director, SYNNEX Corp.
Christopher Caldwell – President, Concentrix Corporation, SYNNEX Corp.

Other Participants

Matt J. Sheerin – Analyst, Stifel, Nicolaus & Co., Inc.
Bill C. Shope – Analyst, Goldman Sachs & Co.
Justin T. Patterson – Analyst, Raymond James & Associates, Inc.
Osten H. Bernardez – Analyst, Cross Research LLC
Louis R. Miscioscia – Analyst, CLSA Americas LLC
Jim Suva – Analyst, Citigroup Global Markets Inc. (Broker)
Rich J. Kugele – Analyst, Needham & Co. LLC
Ananda P. Baruah – Analyst, Brean Capital LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Joe and I will be your conference operator today. At this time, I would like to welcome everyone to the SYNNEX 2013 Third Quarter Earnings Conference Call. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect. Thank you.

At this time, I would like to pass the call over to 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 Fiscal 2013 Third Quarter Conference Call for the period ended August 31, 2013. Joining us on today's call are Kevin Murai, President and CEO; Dennis Polk, COO; Marshall Witt, 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 business, sales and profitability growth, market share, investments in and growth of our GBS business, business trends, our liquidity, growth in shareholder value, expectations of our revenues, net income and diluted earnings per share for the fourth quarter of fiscal 2013, our expectations of our tax rate, anticipated benefits of and funding for the IBM's CRM business acquisition, our performance, benefits of our business model, demand and pricing expectations, economy and market conditions and interest in operating expenses and 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-Q for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements. Also during this call, we will reference certain non-GAAP financial information. Today's earnings release and related current report on Form 8-K describe the differences between our non-GAAP and GAAP reporting and present the reconciliation between the two for the periods reported in the release. 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 Marshall for an update on our financial performance. Marshall?

Marshall W. Witt, Chief Financial Officer

Thank you, Deirdre. Good afternoon, everyone, and thank you for joining our call today. I'll begin with a few highlights and the summary of our results of operations and key financial metrics for the third quarter. I'll add some color on the one-time items mentioned in our release and conclude with guidance for the fourth quarter before turning the call over to Kevin.

As we shared in our September 10 announcement regarding revenue coming in towards the higher end of our guidance, our third quarter total consolidated revenue was $2.73 billion, up 6.1% year-over-year. On a constant dollar basis, our consolidated revenue grew 8.9%. Our third quarter revenue from the Distribution segment was $2.69 billion, up 6.0% year-over-year despite foreign exchange headwinds and up 5.6% sequentially. Share gains coupled with the strengthening U.S. market led to a solid improvement year-over-year. On a local currency basis, Japan revenue growth was strong, but when adjusting for the weakening yen, revenue was negatively impacted. Canada revenue improved due to the Supercom acquisition in April of 2013, but was partially offset by a soft Canadian economy and the weakening Canadian dollar.

In our GBS segment, revenue was $55.1 million or 10.7% year-over-year. The GBS business continues to grow well ahead of the market with ongoing success in finding new and expanded business as a result of continued investment in sales and marketing efforts. Consolidated gross margin was 6.01% compared to 5.90% in the third quarter of 2012 and 5.97% in Q2 of 2013. As we outlined in our last call, the third quarter gross margin was positively impacted by an improving demand environment. As typical in our business, we from time to time have puts and takes and in Q3, we experienced a few more puts than takes as certain program-related reserve adjustments positively impacted the quarter.

Third quarter SG&A expenses were $101 million or 3.69% of revenue compared to $95 million or 3.68% of revenues in the third quarter of fiscal 2012. The $6 million increase year-over-year was due to the acquisition of Supercom, higher variable pay, and acquisition-related expenses. We are pleased with our SG&A results and believe that our proprietary systems and efficient support structure continues to represent one of our unique differentiators in the industry. Consolidated operating income before non-operating items, income taxes and non-controlling interest was $63.5 million or 2.32% of revenues compared to $57.1 million or 2.21% in the prior-year third quarter and $52.0 million or 2.01% in Q2 of 2013. At the segment level, in fiscal Q3, Distribution income before non-operating items, income taxes and non-controlling interest was $61.8 million or 2.30% of Distribution revenues compared to $52.6 million or 2.08% in the prior-year third quarter and $47.7 million or 1.88% sequentially.

In the GBS segment, income before non-operating items, income taxes and non-controlling interest was $1.8 million or 3.22% of GBS revenues compared to $4.6 million or 9.21% in the prior-year third quarter. GBS results in the third quarter of fiscal 2013 includes $2.3 million in pre-tax charges or about 4.2% of GBS revenues, primarily related to costs associated with our recently announced IBM's CRM acquisition. We also experienced cost headwinds due to recent business wins that caused us to add more than 1,000 employees during the third quarter. As there are training and ramp-up periods associated with new programs, we did not receive commensurate revenue with the increased head count.

Net total interest expense and finance charges for the third quarter of 2013 were $3 million compared to $5.8 million. These charges were lower, primarily due to the settlement of the convertible senior notes in the third quarter of 2013. Other income net for the third quarter of 2013 was $12.2 million, which includes approximately $12.3 million benefit from a class-action legal settlement which compared to $0.9 million in the prior quarter of prior year. The tax rate for the third quarter of fiscal 2013 was 35.8%. For fiscal 2013, we anticipate the annual tax rate to be in the 35% to 36% range. Our third quarter net income attributable to SYNNEX was $46.6 million and adjusted EPS was $1.24 per diluted share compared to $35.1 million or $0.93 per diluted share in Q3 of 2012. A little bit later, I will walk you through the reconciliation of non-GAAP adjusted diluted EPS to GAAP diluted earnings per share impact.

Turning to the balance sheet, accounts receivable totaled $1.3 billion as of August 31, 2013 for a DSO of 44 days, an increase of three days from the prior year quarter. Inventory totaled $1.0 billion or 36 days at the end of the third quarter, up two days from the third quarter of 2012. Accounts payable totaled $1.1 billion or 39 days at the end of the third quarter, up five days from the end of the prior year third quarter. Hence, our overall cash conversion cycle for the third quarter of 2013 was 41 days, unchanged from the same quarter of last year and down one day from Q2 of 2013. Our debt-to-capitalization ratio was 15%, down from 19% in the prior year third quarter.

At the end of Q3, between our cash and credit facilities, the company had over $650 million available to fund future growth and other potential financing needs. Our relationship with our banks is strong, as evidenced by the amendment to our accounts receivable securitization program that we described on our Form 8-K that we filed today. With cash and credit on hand, combined with our expanded borrowing capacity, we now have over $850 million of available liquidity to grow our business. As a result, we are well-positioned to cover the purchase price associated with the acquisition of IBM's CRM business.

Other financial data and metrics of note for the third quarter are as follows. Depreciation expense was $4.1 million. Amortization expense was $2.0 million. HP at 30.4% of sales was the only vendor accounting for over 10% of sales. Cash capital expenditure for the quarter was approximately [ph] $7.2 million (9.59). Preliminary year-to-date cash flow from operations was approximately $118 million. Trailing four quarter ROIC was 9.7% and Q3 annualized ROIC was 10.0%. Moving on to the one-time diluted EPS impact in Q3 related to payment of the convertible senior note premium, as you know, the company called this $144 million 4% convertible debt and made a decision in the second quarter to pay the conversion premium in cash. The final $219 million of both principle and conversion premium was paid in cash in the third quarter in accordance with the settlement provisions of the indenture.

Due to the company's decision to settle the convertible senior notes in cash rather than in shares, the difference in the estimated value of the conversion premium from the fiscal second quarter to the date of settlement, represented an adjustment to equity, an numerator adjustment for diluted EPS. The bottom line is that it's an unusual accounting treatment resulting in an one-time adjustment of $1.05 or $1.05 to diluted EPS with no impact to net income and no future impact past Q3 on EPS on a quarterly basis. The numerator impact excludes taxes because it does not provide any tax benefit.

Now, moving to our fourth quarter of 2013 expectations, we expect the overall economic situation to continue to improve. In the U.S., we believe the strengthening of the IT market we saw in Q2 and Q3 will continue into Q4. In Japan, we believe the positive momentum on the economy and IT demand will continue. And in Canada, we expect a slower but improving market. Revenue is expected to be in the range of $2.925 billion to $3.025 billion. Net income is expected to be in the range of $43.0 million to $44.4 million and diluted EPS is expected to be in the range of $1.14 to $1.18. This outlook excludes one-time charges and integration costs.

I will 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, Chief Executive Officer & Director

Thank you, Marshall. Good afternoon, everyone, and thank you for joining our call today. I'm proud of our third quarter results in which all of our business units contributed to strong year-over-year sales growth of over 6%. At the same time we improved our operating margins to 2.32% and achieved trailing four quarter ROIC of almost 10%.

Within our Distribution segment, all of our geographies performed well. Sales in the U.S. were strong, growing in the high single-digits as overall IT spend continued to improve. Our Japanese business continued to make progress with revenues up solidly from last year in local currency. Our Canadian sales were aided by our Supercom acquisition, while the market remained challenged in both the Commercial and Retail segments.

As Marshall mentioned, our reported revenues for the quarter in U.S. dollars were affected by the weakening Canadian dollar and the yen. However, the anticipated translation impact for the most part was included in our guidance on our last call.

From a profitability perspective, the U.S. delivered solid margin performance as we continued to make good progress in restoring our back end margins. Canada's operating margins were healthy and in line with our expectations, but we remain focused on continued productivity improvements now that we've completed our first full quarter post the Supercom acquisition which closed in April.

In our Japanese business we delivered solid year-on-year improvement in operating margins in the seasonally softer quarter. Solid gains in market share and key customer and vendor segments were key drivers in our ongoing success.

From a market perspective, we saw strength in both Commercial and Consumer. The federal market was predictably soft with state, local and education showing good strength. Small and mid-sized business continued to show stable growth and we achieved solid growth in our Consumer business highlighted by strong growth in mobility and entertainment products.

Our outstanding performance in our Distribution business reflects our keen understanding of the IT market, our can-do culture and the quality of our diversified Line Card. We've made significant organic investments in our business in areas such as our Technical Solutions division, Hyve Solutions, CLOUDSolv, and MOBILITYSolv to name a few, which are all contributing to our sales growth and our improved margin profile. We believe it is these competitive advantages that have helped our vendor and reseller partners be successful and as a result have enabled us to consistently grow faster than market with healthy profitability.

Now turning to our GBS segment, we continued our trend of strong organic sales growth delivering 11% more sales than the prior year quarter. And during the quarter, we on-boarded more than 1,000 new agents in preparation for previously won new business that will start producing revenue in the coming months.

In addition, we had a record quarter for signing new business. As I've mentioned before, the investments we've made in our sales and marketing processes continue to pay dividends as we consistently grow much faster than the overall market.

We're excited about our positive trends in the BPO business and we're especially excited about the pending acquisition of the IBM's CRM business we announced on September 10. Immediately following our announcement, both the Concentrix and IBM teams have been meeting with associates and clients to discuss the transaction and partnership, and so far, the feedback has been positive. In particular, associates are enthusiastic about coming to work for a company that is passionate about the CRM market is investing in, and is focused on growth.

For clients, the combination of working with a partner with a core competency in CRM and continuing to enjoy the entire stack of IBM services is a benefit. This reinforces the value thesis we have for this investment, and believe this is a win for everyone. We view this as transformational for our company and look forward to sharing more information in the coming months once the deal is closed.

Now looking at our fourth quarter guidance, we are expecting the underlying economies in the U.S., Canada and Japan to be stable. We expect that the growth we have been experiencing in IT demand in the U.S. and Japan will continue and that IT demand in Canada will slowly improve. Our fourth quarter is more weighted to U.S. Federal Government and holiday sale and we are anticipating that U.S. Federal Government sales will be somewhat soft but stable, and that demand during the holiday season will be similar to last year's levels.

For our GBS segment, we expect to continue to benefit from our recent sales wins and deliver another quarter of strong growth. Overall, we are positive on the markets across all our business units and are looking forward to our flagship IT event next week, the SYNNEX National Conference, for which we are anticipating record attendance.

And finally, I would like to acknowledge the hard work and dedication of all of our 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: [Operator Instructions] Our first question comes from Matt Sheerin with Stifel, Nicolaus.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Hi, yes, thanks. Good afternoon, guys. So, just on the demand commentary, Kevin, you talked about government being a little bit softer, and that makes sense, but you said stable. Does that mean, sort of, year-over-year stable, which means that there should be some sequential budget flush, but maybe softer than normal?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. That's a good way of putting it, Matt. It is softer, as I think most people anticipate, but it is relatively stable and we still expect to be – expect to have a good finish to the Federal Government yearend. I should point out though that our government business is more than just the federal space. In fact, the state, local and education sectors are all actually showing very strong growth.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. Great. And on the gross margin, it was up a little bit sequentially and certainly improved year-over-year, and what are the inputs, is that the mix of the business? And could you talk about the pricing environment, because I know there's been competitive pricing for a few quarters here in North America, particularly on the commodity products.

<A – Kevin Murai – SYNNEX Corp.>: Yeah. As we posted earlier in the year what we're faced within the environment was really two things happening. Number one is we were, we're facing a more competitive pricing environment and at the same time, we saw with changes or more rapid changes in demand for certain IT product segments that the vendor based back-end programs were not adjusting as quickly as the market was. And so, from that point though what we had predicted was that we would continue to improve our back-end margin programs as we continue to work with vendors to adjust those programs to market reality.

And then in addition to that we did expect the more aggressive pricing environment to somewhat subside. And I think what we're showing is that we've seen both of those things happen. I'd always say there's still room for continued improvement in overall margin, back-end programs. But we've seen substantial improvement in both areas, Matt.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. Great. And on the GBS business, backing out those M&A costs, it looks like margins, operating margins are sort of flattish and up a little bit and you're seeing some volumes. Is that really just a question of the investments that you're making and that at some point those margins are going to kick in and you're going to get to that double-digit target that you're talking about?

<A – Chris Caldwell – SYNNEX Corp.>: So, Matt, it's Chris. Yes. As you rightly said, I mean we're making the investments. And as we pointed out, we on-boarded more than 1,000 new staff within the quarter, primarily focused on supplying for the wins that we've won in prior quarters. And that dampened the margin, but you'll start to see both in revenue and margin expansion over the next proceeding quarters.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And just last one from me if I can, Kevin, since your announcement of the IBM transaction, have you spoken or had any meetings with any of the IBM customers? And what kind of feedback are you getting from them?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. I mean we've had a number of those. Obviously, IBM is certainly leading the communications with clients on their side of the business and employees. But we've had an opportunity to participate in some of those as well. In fact, Chris just came back from some other meetings around the world. Overall, the sentiment has been positive. And I think I referred to in some of my prepared remarks that for the most part clients are getting and are, I guess, realizing the benefit that they could experience of having a company that is not only focused, but very enthusiastic about the CRM space that's made investments, will continue to, that will also continue to enjoy the broader benefits that they'll get from the overall IBM relationship. And in particular, as we've heard feedback from associates that we've talked to, they're very keen on joining a company that is very much focused on growth, a company that is very nimble as well.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay, great. Thanks so much.

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

Operator: Our next question comes from Bill Shope with Goldman Sachs.

<Q – Bill Shope – Goldman Sachs & Co.>: Okay. Great. Thanks. First of all, just an extension of the gross margin question that was just asked. Can you give us a little bit more color on that reserve adjustment you mentioned? I didn't catch all of that, if you could just give us a little more clarity there?

<A – Marshall Witt – SYNNEX Corp.>: Hey, Bill, this is Marshall. Just to clarify the question, what specific...

<A – Kevin Murai – SYNNEX Corp.>: Well, I – so what Marshall had referred to in his prepared remarks, Bill, really it's just as simple as, for any given quarter there's always going to be puts and takes to our overall gross margin profile. The point that we're trying to make is, in this past quarter, we benefit more than we normally would from some of these adjustments.

<Q – Bill Shope – Goldman Sachs & Co.>: Okay, okay. And then looking at the demand environment, I guess, first is, your original expectations coming into the quarter. Where would you say specifically revenue upside was most pronounced and I'm looking at it from a product and a vertical perspective?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, and obviously, every market is going to be somewhat different. We saw strong demand in both the U.S. and in Japan. And in Japan in local currency, we categorically – all of our different business segments and markets were up, but we are very, very strong in our Commercial segment. From a product category perspective, tablets and mobile devices continue to be very strong in the Japanese market. We also have some other consumer electronics products that are very hot.

Moving to the U.S. market, there was actually strength across the board. I think the only one that I would call out being a little bit softer than what we would normally expect is the Federal Government business. But SMB in particular was very, very strong, and also our overall retail business was strong. I think retail was strong for us because we had the right products, both in entertainment/gaming as well as in mobile devices. But then on the commercial side of the business, I think some of the highlights there were really around networking, and networking was strong. Peripherals in general were strong. And we also saw some strength in some of our client devices as well.

<Q – Bill Shope – Goldman Sachs & Co.>: Okay. That's it from me. Thank you.

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

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

<Q – Justin Patterson – Raymond James & Associates, Inc.>: Thank you very much. This is Justin Patterson in for Brian. I wanted to dive into the GBS head count additions a little bit more. 1,000 sounds like a pretty significant increase in terms of overall head count. So could you maybe talk about when hiring for new program wins like this one, how quickly revenue tends to manifest from that?

<A – Chris Caldwell – SYNNEX Corp.>: So, Justin, it's Chris. It's a good question. The 1,000 were across a number of different programs where we saw additions and across a number of different geographies. And generally there can be as short as three weeks to as long as four months of where they're in training and preparing and we're building out the processes and technologies for them to take over. So really a good chunk of these staff were in the quarter, sort of mid-quarter to obviously all on board by the end of quarter. So you'll start to see that revenue start to kick up in Q4 and then extend into Q1 until they're all fully deployed.

<Q – Justin Patterson – Raymond James & Associates, Inc.>: Got it. And then just extending that question somewhat, have there been instances where you've had that dramatic of an increase in terms of overall head count within that business?

<A – Chris Caldwell – SYNNEX Corp.>: Not – as we've been growing our business we haven't had that dramatic across as a percentage of head count. But as we've been sort of messaging for the last number of quarters, we've had some significant deal wins, not only in new logos, but also in existing organic growth as we've grown our geo-footprint and sort of grown our expertise of verticals that we're in. And so we've been pleased with our success.

<Q – Justin Patterson – Raymond James & Associates, Inc.>: Got it. And then just a quick housekeeping question to close with. I wasn't able to catch capital expenditures for the quarter. So could you please provide that?

<A – Marshall Witt – SYNNEX Corp.>: Justin, this is Marshall. It was $7.2 million.

<Q – Justin Patterson – Raymond James & Associates, Inc.>: Perfect. Thank you very much.

<A – Marshall Witt – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Osten Bernardez. Your line is open.

<Q – Osten Bernardez – Cross Research LLC>: Good afternoon. Thanks for taking my questions. To begin, would you be able to provide some color on the types of products where you were able to benefit from sort of the increased back-end participation with your vendors?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. That's getting pretty specific, Osten. And in general, when I take a look at where we've come from over the past, say, two, two-and-a-half quarters anyway, it was much broader than category specific anyway. But again, I think it's a little bit too specific to say.

<Q – Osten Bernardez – Cross Research LLC>: Okay. And on the commentary with respect to U.S. demand, would you be able to, I guess, parse for me, the difference between the budgets you're seeing from the consumer side versus the, say, the SMB side, in terms of whether there's an increase in budgets? Or is it a matter of SYNNEX driving particular product groups in addition to some of the newer line cards that you added in recent months, that's driving that performance?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. Sure. And of course, market-by-market it's really going to be a combination of both. But in terms of just good growth by product segment – sorry, not product segment, but by market segment itself, SMB has not only been stable, but over the past couple of quarters has been one of our strongest growth segments.

On the government side, as I have mentioned before, the Federal Government notably – not notably, but predictably soft, but the state, local, education has been much more robust. And then on the consumer side, it's kind of been okay. But in particular there, I think because we have the right products on our line card, both from a mobility and entertainment perspective, we've been able to capture what I believe to be incremental growth over where the market had been.

<Q – Osten Bernardez – Cross Research LLC>: Okay. And then, would you be able to comment on where you stand in Japan to the – as far as you can with respect to improving profitability on a quarter-to-quarter basis?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. We're actually quite pleased with our progress in Japan. From time-to-time, we do point out what our profitability is, just to give you a sense of the progress that we are making, but we don't do that every quarter. Q3 is a seasonally soft quarter for Japan, but I can tell you that our third quarter 2013 profitability in Japan was up over Q3 of last year, so again we're making good progress there.

<Q – Osten Bernardez – Cross Research LLC>: And lastly from me, do you foresee any particular, I guess, challenges in terms of being able to pick up certain products, certain items in the quarter to come from a demand and availability standpoint?

<A – Kevin Murai – SYNNEX Corp.>: In terms of industry-wide product shortages?

<Q – Osten Bernardez – Cross Research LLC>: Yeah.

<A – Kevin Murai – SYNNEX Corp.>: Yeah. Nothing to report there, Osten.

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

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

Operator: Our next question comes from Louis, I apologize if I mispronounce this, Miscioscia from CLSA.

<Q – Lou Miscioscia – CLSA Americas LLC>: Okay. Thank you. You added 1,000 people. Could you mention how many people you actually have in GBS?

<A – Chris Caldwell – SYNNEX Corp.>: So, Louis, it's Chris. We had about 9,000 people at the beginning of the quarter.

<Q – Lou Miscioscia – CLSA Americas LLC>: Okay. So I'm sorry, is that 9,000 after you added [indiscernible] (31:00) then you added another 1,000?

<A – Chris Caldwell – SYNNEX Corp.>: That's correct.

<Q – Lou Miscioscia – CLSA Americas LLC>: And with the IBM business, did you actually mention in the last call when you expected that to close?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. There's, Lou, obviously there's certainly regulatory approvals we have to get that are somewhat out of our control. We are expecting to close within the next – within the coming month.

<Q – Lou Miscioscia – CLSA Americas LLC>: Okay. I'm just trying to think about it from a modeling standpoint. When you think of – the U.S. Federal business you mentioned was soft. Any visibility about what might happen in October? I guess one of the fears is, is that the budget flush is not that bad [ph] what (31:47) is happening in that business? But then again, when we step into the new fiscal year it might actually be very different?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. We're expecting somewhat of a budget flush this year just probably compared to years past, probably just a little bit softer.

<Q – Lou Miscioscia – CLSA Americas LLC>: And then how about October? Do you expect to see a big change once the fiscal year changes?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. I guess as we look at Federal Government yearend, it does spill over into October as well. So I don't really distinguish that much between September, October. I'm really looking more at the end of the Federal Government season as it is reflected in our fiscal quarter.

<Q – Lou Miscioscia – CLSA Americas LLC>: Okay. Great. And then the last question is on Japan. I'm glad that things are improving over there. Would you say that's been the best operating margin quarter that you've had since you closed that business? Or getting close to that? Or, I know you already said it was an improvement year-over-year, but just trying to get a comparison to prior quarters too?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. So, Lou, first of all like any business we operate, there is a lot of seasonality to the quarters that we have and Japan is no different than that. Q3 is actually seasonally soft. And so – but I think the important point is when you look at the overall trend lines, as we continue to improve that margin, Q3 was yet another improvement over the prior-year quarter.

<Q – Lou Miscioscia – CLSA Americas LLC>: Okay. Great. Thank you.

<A – Marshall Witt – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Jim Suva with Citi Research.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Thank you and congratulations to you and your team. I have two questions and you guys can decide how you want to divide them up. But the first one is it seems like from the results and the outlook that pricing's getting a little better. Maybe that has to do with some back-end rebates or something. But should we be looking forward to the next years potentially just being a potential benefit or tailwind to gross margins as a result of this? Or is it more of a suggestion from you that you just don't see the risk to gross margins dipping lower going ahead? Then the second question is when you look at integrating the IBM business, are you launching in many of the key employees there into longer-term contracts or something, because many of them are lifetime IBM-ers with very different pensions, benefits, and things like that, and I just kind of really wondered if they go from a big blue IBM company to SYNNEX, if there's a way to keep them around as opposed to if they start wondering about should they get employed elsewhere?

<A – Kevin Murai – SYNNEX Corp.>: Yes. So on the – just to take your first question first, Jim, on pricing and kind of looking at gross margin overall, I think what we've seen over the past two, two-and-a-half quarters is much more of a stabilization of the overall environment, both in terms of pricing and the pricing environment as well as our ability to earn incremental margin benefit through growth. Now, as I noted before, we still believe there is room for improvement going forward. It's hard for me to forecast what happens through, say, 2104, but where we are right now, we do believe there is continued room for improvement, but I think we've made good progress since the beginning of this year.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Okay. And then on the IBM employees?

<A – Chris Caldwell – SYNNEX Corp.>: So, Jim, it's Chris. So on the IBM employees, I mean we've talked to a number obviously as we've gone through this process and in this business it really comes down to a few key things; one is providing an environment for growth and opportunities for the staff; two, it's providing sort of unique ability to grow your career, and we've got an environment that frankly is very, very strong and well known in the environment for providing those opportunities for the staff to grow, both from career opportunities, and we see that as being a compelling reason for our staff to stay with us. And the culture that we have is also very, very well known. The BPO business has been a culture that is great to work in. We've been recognized as being one of the best employers in a number of our markets that we operate in, so we suspect that that will continue to keep the staff engaged with us as we grow our business.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Okay. Then finally if the IBM deal closes before this quarter closes, which it sounds like you're hoping it will, but of course the regulators have to go at their pace that they see fit. If I'm correct, that would provide upside to your guidance because nothing is included in the guidance. Is that correct?

<A – Marshall Witt – SYNNEX Corp.>: Sorry, can you repeat the last part of that question, Jim?

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: If IBM closes this quarter, which you hope it will, does that mean that there's upside to your guidance because you're not putting anything into your guidance for the IBM?

<A – Marshall Witt – SYNNEX Corp.>: Yes. It's correct to say that our guidance does not assume we're closing during this quarter.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Great. Thanks very much, everyone.

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

Operator: Our next question comes from Rich Kugele with Needham & Company.

<Q – Rich Kugele – Needham & Co. LLC>: Thank you. Good afternoon. A few questions. I want to dive a little bit deeper into both overall growth rates as well as the BPO business. Just in terms of IBM specifically, is there anything you can say about how that business has been growing for them in recent years, whether they need – they've needed to do any restructuring? Are you getting a clean operation on day one? And then I have some follow-ups.

<A – Chris Caldwell – SYNNEX Corp.>: So, Rich, it's Chris. So I think we talked about it in our call after the deal was announced that the business for the last few years has been relatively flat. There hasn't been any major restructurings and there hasn't been a need for any of the major restructuring, so I guess we are getting a clean business from that perspective. And then obviously, our goal is based on what we see in the market and focusing on the CRM business is to get it back into the growth rates that we see as reasonable within the marketplace.

<Q – Rich Kugele – Needham & Co. LLC>: Okay. And actually within that vein, given the target pieces of the BPO world that you have, what do you think that the market growth rate is? And, what strategy do you have to go and grow faster than that?

<A – Chris Caldwell – SYNNEX Corp.>: So, I'd point to the sort of external experts who look at the market space. And I think when you go out and do the research you'll see growth rates anywhere between 4.5% and 5.5% within the market space that we're competing in. And in terms of strategies, I mean really, there's a few that we have implied. One is the customer base that's coming across as we've already talked to them, have a lot more share of wallet that we feel that we'll be able to grow into, and that's primarily driven by the trends in the industry where the larger customers are looking at consolidating their suppliers to global best-of-breed suppliers, which we feel we are one after the acquisition is complete. And the second is, they've been primarily focused on blue-chip customers where we have obviously grown very rapidly in sort of the mid-tier market and feel that there is additional significant growth opportunities in that mid-tier market for us to go after.

<Q – Rich Kugele – Needham & Co. LLC>: Is there a difference in growth rates between how the high-end has been doing versus the SMB?

<A – Chris Caldwell – SYNNEX Corp.>: Not particularly. Growth rates generally tend to be more geo-based than anything else than segment-based. But what we've seen across sort of the portfolio is market rates that are shown by those external organizations.

<Q – Rich Kugele – Needham & Co. LLC>: Okay. Then just lastly, and this is probably I guess best for Kevin. Post-deal, what do you think are the three most promising growth areas for SYNNEX in terms of business lines?

<A – Kevin Murai – SYNNEX Corp.>: Business lines, you're talking overall across our technology, supply chain business, as well as our services business?

<Q – Rich Kugele – Needham & Co. LLC>: Yes.

<A – Kevin Murai – SYNNEX Corp.>: Okay. I mean overall I'd say number one is within services what we've highlighted is looking at the next market segment down, kind of that mid-market segment of growth. That's been somewhat of an untapped opportunity within the traditional IBM's CRM business. And in particular as we've talked to a number of managers in that business, they all highlight that market as probably one of the more robust growth opportunities that we have in front of us.

On the distribution side of the business it's all about cloud and mobility. And we're already seeing a lot of the benefit of the devices that we sell, whether they be tablets or other types of mobile devices. I do expect in the coming two to three years we're going to see even more categories of, whether you call it mobility or just technology, wearable IT I think is going to be a big, big part of it. I think one of the inherent advantages that we have there is we've always had a very strong focus not only on the commercial IT side, but also on the retail side. And as we see the whole integration of IT take over, the consumerization of IT I think is becoming much more real now. And I think we're very well positioned to be able to take advantage of that. But then also moving towards the whole cloud growth area, we have some unique capabilities in our business. So it's not just traditional enterprise data center and kind of that moving to cloud architecture. With the Hyve Solutions business we have, we're able to capture that growth opportunity for those that are hosting more and more of the infrastructure. So overall the industry continues to change. It presents significant growth opportunities for SYNNEX. And as I look at the capabilities that we have both on our distribution and services side, I believe we're very well positioned to take advantage of that growth.

<Q – Rich Kugele – Needham & Co. LLC>: Great. Thank you very much. Well done.

<A – Kevin Murai – SYNNEX Corp.>: Thanks Rich.

Operator: Our last question comes from Ananda Baruah from Brean Capital.

<A – Deirdre Skolfield – SYNNEX Corp.>: Hi,, Ananda.

<Q – Ananda Baruah – Brean Capital LLC>: Hey guys. Sorry about that. Hey. Thanks for taking the questions. I guess this one is for probably both Chris and Kevin. When we think about the initiatives or the drivers, the levers that will get the acquired – sort of IBM's acquired business, the margins of that business up to where you want them to be, I think you've said initially to start up to where legacy SYNNEX BPO margins are right now. What are the things that you guys need to do to get the margins up to where you want them to be? And what are the initiatives that you'll kind of put in place once the deal closes to begin to enact these things?

<A – Chris Caldwell – SYNNEX Corp.>: So Ananda, it's Chris. I think the important thing to think about first off is that this a business that's a very small part of a very, very large organization. And so this business is saddled with a lot of costs and overhead that might not necessarily contribute to its growth or running of the business but are just part of just being part of the much larger organization. So as we extract this business, there will be some costs that disappear just by putting it into our infrastructure and our overhead model and our corporate governance style. So you'll start to see some benefit of that. There will be some leverage in the business.

I think the second thing that we have is clearly there's a lot of infrastructure and as you layer scale on top of this organization, you continue to see margin improvement. And so our goal is to get it from that flat growth rate that it has been for the last couple of years and start to put some additional top line revenue, while we manage our expenses as we have historically done in our business. So that'll be some additional margin expansion opportunities. And then the last thing, as you've noticed on the Concentrix historical side, we've invested very heavily in technology and haven't necessarily had the scale to see the benefit of that. Now you put that on a much larger revenue number and you start to see that benefit sort of across the organization. So those are really the three methods that we see as providing levers to get to where we want to in a margin profile of this business.

<Q – Ananda Baruah – Brean Capital LLC>: Okay. That's useful, Chris. Thanks. That makes a lot of sense conceptually. And I guess the next question, and that kind of has two parts to it. Number one, if you were able to do all those things, why wouldn't the margins of the BPO business collectively, classic SYNNEX and sort of with the IBM business add onto it? Why wouldn't the margins actually go higher over time, the collective margins, from where your reported margins are today? And then the second question is just sort of commensurate with your answer, I guess to sort of – well, speaking to the explanation of Rick's question around market growth, why wouldn't you guys be able to grow the IBM business in excess of what sort of "market rates" are today, if you're actually going to be penetrating these segments as well, in addition to getting their base business back up to where it should be?

<A – Chris Caldwell – SYNNEX Corp.>: So Ananda, in terms of the higher margins, one thing you've got to understand as well is that larger deals that tend to have much longer contracts and much larger scale have a different margin profile than what historically we've seen within the Concentrix business, and so you'll see some muting of that when you look at sort of that comment about growing larger. Obviously, our goal is always to continue to increase our margins. But just to put some parameters around it that we deal with as we go after these larger deals and are absorbing some of the larger deals that are coming across from IBM.

In terms of growth rates, clearly it's to give us time as we put it in. We've grown our Concentrix business considerably faster than the market. That's always our goal. But as we've sort of indicated in our announcement after the initial deal, was that our goal at the moment is to bring the IBM business up to market rates and that's really where our primary focus is right at this time.

<Q – Ananda Baruah – Brean Capital LLC>: Okay, got it. I guess if you look past that – I guess conceptually it sounds – if you could get those IBM business up to market rate and if you could actually penetrate in new segments, I think that would – you could basically call it's in fact a share gain. That would add some dollars that would – maybe they're at market rates, but it seems like there's share gain there that would drive the growth of the reported IBM BPO business higher than what market would be. And then it just seems like collectively there would be some leverage across sort of the entire platform once it gets integrated [indiscernible] (47:03) margins...

<A – Kevin Murai – SYNNEX Corp.>: Ananda, you've known us for a long time. We don't set long-term targets externally, but you know that our MO is to always perform better than the overall market. And I think what Chris alluded to is our initial focus, of course, is in bringing that business over, and – but in addition to some of the different growth areas that we have spoken to. The other one longer-term we see as more of a market trend is consolidation within that industry, both in terms of number of suppliers, but also in terms of the number of outsourced partners that enterprise deal with. And being a top 10 global player really provides us with a competitive advantage as consolidation occurs.

<Q – Ananda Baruah – Brean Capital LLC>: Absolutely, absolutely. Okay, thanks a lot. I appreciate it.

<A – Kevin Murai – SYNNEX Corp.>: All right. Thank you, Ananda.

Deirdre Skolfield, Director-Investor Relations

All right. Thank you, everyone, for your participation. We look forward to speaking with you further during the quarter. Thank you.

Operator: That concludes today's conference call. Thank you for participating. You may disconnect your phone lines at this time.