

SYNNEX Corporation (SNX)

\$85.40 (As of 04/10/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

SYNNEX's first-quarter top-line performance was negatively impacted by business disruptions in China due to coronavirus outbreak. The company's near-term prospect looks gloomy as coronavirus continues to disrupt global economic and business activities. Organizations are pushing back their big and expensive technology purchases to preserve cash in an effort to stay afloat during this turbulent macroeconomic environment. Adverse foreign exchange volatility and high-debt level are other major concerns for SYNNEX. Nonetheless, SYNNEX is benefiting from growth in Concentrix business. Moreover, acquisitions and partnerships are helping it expand its product portfolio. Additionally, split of its Technology Solutions and Concentrix businesses into two publicly traded entities would add shareholder value and enhance its competitive position.

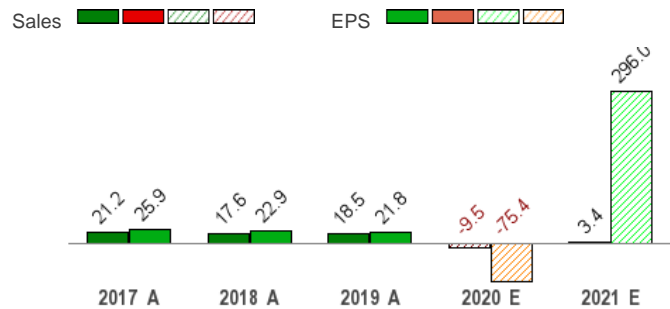
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$153.07 - \$52.06
20 Day Average Volume (sh)	597,602
Market Cap	\$4.4 B
YTD Price Change	-33.7%
Beta	1.47
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Business - Software Services
Zacks Industry Rank	Bottom 36% (163 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.8%
Last Sales Surprise	-2.4%
EPS F1 Est- 4 week change	-76.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	6.2
P/E F1	26.2
PEG F1	2.5
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,796 E	5,075 E	5,306 E	5,917 E	22,234 E
2020	5,264 A	4,953 E	5,400 E	5,886 E	21,503 E
2019	5,249 A	5,723 A	6,204 A	6,581 A	23,757 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.57 E	\$2.45 E	\$3.01 E	\$4.02 E	\$12.91 E
2020	\$3.26 A	-\$3.87 E	\$0.42 E	\$3.47 E	\$3.26 E
2019	\$2.84 A	\$2.86 A	\$3.30 A	\$4.26 A	\$13.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

Overview

Fremont, CA-based SYNnex, founded in 1980, is a leading business process services company.

The company provides a comprehensive range of distribution, logistics and integration services for the technology industry and outsourced services focused on customer engagement to a broad range of enterprises.

SYNNEX reported revenues of \$23.76 billion in fiscal 2019.

The company has two reportable business segments: Technology Solutions and Concentrix.

The Technology Solutions segment distributes peripherals, IT systems including data center server and storage solutions, system components, software, networking, communications, security equipment, consumer electronics or CE and complementary products.

Systems design and integration solutions are also part of Technology Solutions segment. Technology Solutions revenues were \$19.1 billion. It generated 80% of revenues in fiscal 2019.

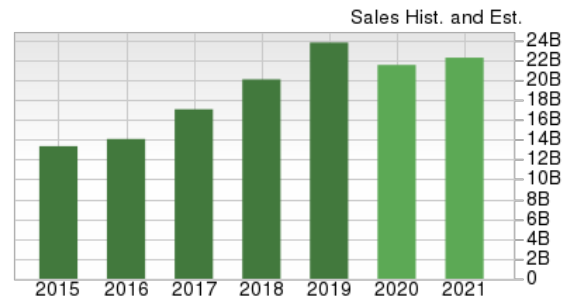
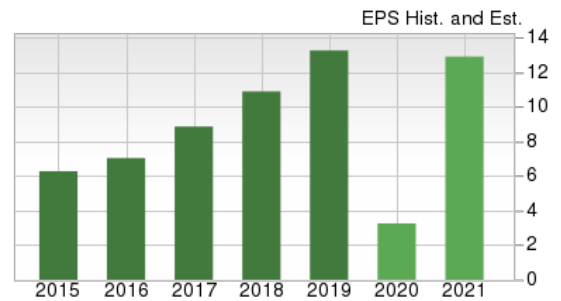
The Concentrix segment offers a portfolio of technology-enabled strategic solutions and end-to-end business services focused on customer engagement, process optimization, technology innovation, front and back-office automation and business transformation to clients in 10 identified industry verticals. Revenues from the Concentrix segment were \$4.7 billion, representing 20% of the total revenue base in fiscal 2019.

The company has significant operations in North and South America, Asia-Pacific and Europe. It recognized 28% of revenues from international operations.

As of November 30, 2018, SYNnex had approximately 229,000 full-time employees.

SYNNEX faces competition in Technology Solutions segment from Arrow Electronics, Ingram Micro, ScanSource and Tech Data.

In Concentrix segment, competitors include Accenture, Conduent, Genpact, Globant and SITEL Worldwide Corporation among others.



Reasons To Sell:

- ▼ SYNEX's near-term business prospect looks gloomy as coronavirus continues to disrupt global economic and business activities. Organizations are pushing back their big and expensive technology purchases to preserve cash in an effort to stay afloat during this turbulent macroeconomic environment. Due to the current unpredictable market situation, the company hasn't provided guidance for the second quarter, which makes us slightly cautious about its near-term growth prospect.
- ▼ SYNEX's acquisition strategy exposes it to integration risks. Notably, buyouts negatively impacted the company's balance sheet by denting its high level of goodwill and net intangible assets, which comprised almost 30% of the total assets as of Nov 30, 2019. The takeover moves also affected SYNEX's capital position as high indebtedness raises its investment risk in the to-be-acquired company. At the end of the fiscal fourth-quarter, net debt amounted to \$4.6 billion. Such high-debt levels worsen leverage risks and interest costs, which might erode the company's profits.
- ▼ SYNEX conducts substantial operations in China. The economic, political and social events in the country poses potential risk to the company as it can hamper its business and operating results. In this regard, the US-China trade war is a major woe.
- ▼ SYNEX generates significant amount of revenues from international operations and expects this trend to continue. Consequently, adverse fluctuations in foreign currency exchange rates are likely to remain a major overhang on revenue growth.

Adverse impact from business disruptions due to coronavirus-led global lockdown, high-debt level and rising competition are major concerns for SYNEX.

Risks

- SYNEX is riding high on strong growth in product areas, such as PCs, networking and cloud plus software-related solutions, which is contributing to revenue acceleration of Technology Solutions business. From a customer standpoint, strength in SMB vertical is a tailwind.
 - The company is looking to boost organic growth with strategic acquisitions that complements and expands its existing capabilities. The integration of Convergys in 2018 is helping it add scale, diversify its revenue base and widen its service delivery footprint. Convergys contributed nearly \$439.4 million in revenues during fiscal 2018. The takeover of Westcon-Comstor Americas business in 2017 strengthened the company's presence in the security, UCC and networking markets, solidified position in North America by adding complementary OEM vendors and reseller customers and broadened base into Latin America as well.
 - SYNEX boasts a sturdy cash-flow generating ability. At the end of fiscal 2019, it had cash and cash equivalents of nearly \$225 million. The company had generated cash flow of \$349.3 million during fiscal 2019 compared with \$250 million in fiscal 2018. Although the company has a significant amount of debt on its balance sheet, the robust cash flow enabled it to service its debt efficiently.
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Last Earnings Report

SYNNEX Reports Solid Q4 Results

SYNNEX delivered non-GAAP earnings of \$4.26 per share for fourth-quarter fiscal 2019, which improved 15.4% from the year-ago quarter and also beat the Zacks Consensus Estimate of \$3.61.

Moreover, revenues of \$6.58 billion surpassed the Zacks Consensus Estimate of \$5.999 billion and increased 18.7% year over year as well.

Robust organic growth and the successful integration of the Convergys business are key drivers. Moreover, management noted that forex did not negatively impact the company's top and the bottom line.

Further, the company announced its intention to split SYNNEX Technology Solutions and Concentrix into two publicly traded companies. Management believes that this strategic action would help add shareholder value and enhance the company's competitive edge. The transaction is expected to be completed in the second half of 2020.

Quarterly Details

SYNNEX's Technology Solutions revenues were up 17.4% year over year to \$5.4 billion.

Management mentioned that the major project areas contributing to the company's growth were PCs, networking and cloud plus software related solutions. US remained the key catalyst. Other geographies performed per expectation as well. The company also benefited from the large project and integration business, which was an upside in the sequential quarter too.

Concentrix revenues rose 24.7% from the prior-year quarter to \$1.2 billion, driven by the Convergys acquisition. Further, new business wins are a positive. Moreover, the company's strategy to rebalance its portfolio is encouraging.

In the reported quarter, non-GAAP operating income was up 26.4% to \$338.5.5 million. Also, non-GAAP operating margin expanded 31 basis points (bps) on a year-over-year basis to 5.14%.

Non-GAAP operating income for the Technology Solutions was \$178 million, up 28% from the year-ago quarter, driven by favorable product mix. Additionally, non-GAAP operating margin surged 30 bps to 3.3%.

For the Concentrix segment, non-GAAP operating income was \$161 million, rising 25% year over year, buoyed by the Convergys consolidation. Non-GAAP operating margin grew 10 bps to 13.3%.

Balance Sheet and Other Details

SYNNEX ended the fiscal fourth quarter with cash and cash equivalents of nearly \$225.53 million compared with \$262.3 million as of the previous quarter.

During the quarter, cash flow from operations totaled approximately \$349.3 million compared with \$250 million sequentially.

Guidance

For first-quarter fiscal 2020, SYNNEX expects revenues in the range of \$5.24-\$5.54 billion. On a non-GAAP basis, earnings per share are envisioned in the band of \$3.03-\$3.22.

The company expected the market for Technology Solutions business to remain competitive. Its line card and cross-selling efforts are likely to sustain the sales momentum. The core TS business is projected to grow better than the markets. The company's project and integration business is expected to be at a more normalized level in the period.

In the fiscal first quarter, the company expects Concentrix business to be within normal seasonal ranges with solid revenue growth and margin expansion.

Management mentioned that in the second half of fiscal 2020, for its largest Hyve customer, there is likely to be a shift in the consignment service model for a large portion of products that the company procures and integrates compared with the current purchase and resell model. This is likely to lower its revenues in the third and fourth quarters by nearly \$600 million in each period.

Quarter Ending **02/2020**

Report Date	Mar 24, 2020
Sales Surprise	-2.37%
EPS Surprise	3.82%
Quarterly EPS	3.26
Annual EPS (TTM)	13.68

Recent News

On Feb 5, 2020, SYNEX announced the launch of SYNEX Stellr in the Canadian IT channel.

On Dec 16, 2019, SYNEX was selected by Avaya as a master agent for delivering new Avaya Cloud Office UCaaS solution.

On Dec 6, 2019, SYNEX announced that it has been selected as 2019 North American Distributor of the Year by Infoblox Inc., a leader in Secure Cloud-Managed Network Services.

Valuation

Shares of SYNEX have plunged 33.7% in the year so far and 20.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have fallen 7.1% and 9.9%, respectively, in the year-to-date (YTD) period. Over the past year, the Zacks sub-industry has decreased 9.9% and the sector declined 0.9%.

The S&P 500 Index has lost 13.4% YTD and 4.3% in the past year.

The stock is currently trading at 6.02X forward 12-month earnings, which compares to 22.19X for the Zacks sub-industry, 20.25X for the Zacks sector and 18.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.84X and as low as 4.67X with a 5-year median of 11.7X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$73 price target reflects 5.12X forward 12-month earnings.

The table below shows summary valuation data for SNX

Valuation Multiples - SNX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.02	22.19	20.25	18.16
	5-Year High	17.84	24.54	21.92	19.34
	5-Year Low	4.67	7.29	16.71	15.19
	5-Year Median	11.70	21.77	19.21	17.45
P/S F12M	Current	0.19	3.08	3.18	3.08
	5-Year High	0.34	3.44	3.58	3.44
	5-Year Low	0.15	2.54	2.32	2.54
	5-Year Median	0.25	3.01	3.09	3.01
EV/EBITDA TTM	Current	5.26	42.11	10.48	10.23
	5-Year High	10.56	51.42	12.83	12.87
	5-Year Low	4.53	33.41	7.55	8.27
	5-Year Median	7.82	41.98	10.58	10.78

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (163 out of 253)



Top Peers

Accenture PLC (ACN)	Neutral
Cognizant Technology Solutions Corporation (CTSH)	Neutral
Genpact Limited (G)	Neutral
International Business Machines Corporation (IBM)	Neutral
KLA Corporation (KLAC)	Neutral
Tech Data Corporation (TECD)	Neutral
Arrow Electronics, Inc. (ARW)	Underperform
Avnet, Inc. (AVT)	Underperform

Industry Comparison Industry: Business - Software Services				Industry Peers		
	SNX Underperform	X Industry	S&P 500	ACN Neutral	ARW Underperform	TECD Neutral
VGM Score	B	-	-	A	A	B
Market Cap	4.40 B	6.12 B	19.66 B	113.10 B	4.66 B	4.89 B
# of Analysts	4	4	13	11	4	3
Dividend Yield	0.00%	0.00%	2.18%	1.80%	0.00%	0.00%
Value Score	C	-	-	C	B	B
Cash/Price	0.09	0.09	0.06	0.06	0.07	0.18
EV/EBITDA	5.58	11.95	11.72	15.39	21.68	7.44
PEG Ratio	2.39	2.80	2.04	2.35	1.92	NA
Price/Book (P/B)	1.14	4.34	2.66	7.10	0.99	1.56
Price/Cash Flow (P/CF)	4.14	20.56	10.44	19.96	5.56	7.97
P/E (F1)	24.83	28.91	17.51	23.46	9.14	11.82
Price/Sales (P/S)	0.18	2.78	2.12	2.53	0.16	0.13
Earnings Yield	3.82%	3.46%	5.65%	4.26%	10.95%	8.46%
Debt/Equity	0.70	0.24	0.70	0.17	0.54	0.43
Cash Flow (\$/share)	20.63	2.23	7.01	8.91	10.65	17.27
Growth Score	A	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	20.43%	17.95%	10.92%	11.33%	8.39%	23.42%
Proj. EPS Growth (F1/F0)	-75.41%	-1.10%	-1.14%	3.04%	-14.21%	-7.42%
Curr. Cash Flow Growth	54.78%	10.44%	5.93%	8.06%	-14.43%	-4.74%
Hist. Cash Flow Growth (3-5 yrs)	25.83%	14.18%	8.55%	9.75%	1.86%	18.72%
Current Ratio	1.64	1.56	1.24	1.38	1.52	1.23
Debt/Capital	41.03%	21.09%	42.36%	14.34%	35.17%	30.02%
Net Margin	2.26%	4.58%	11.64%	11.13%	-0.71%	1.01%
Return on Equity	19.04%	10.14%	16.74%	32.87%	12.67%	15.43%
Sales/Assets	2.06	0.73	0.54	1.43	1.78	2.94
Proj. Sales Growth (F1/F0)	-9.49%	2.00%	0.45%	3.03%	-10.58%	-2.75%
Momentum Score	F	-	-	B	A	A
Daily Price Chg	3.72%	3.27%	2.48%	3.60%	2.83%	0.97%
1 Week Price Chg	-5.86%	-5.64%	-4.40%	-6.59%	0.90%	1.64%
4 Week Price Chg	-0.81%	7.64%	11.26%	16.65%	11.91%	4.92%
12 Week Price Chg	-42.98%	-19.70%	-20.02%	-14.86%	-29.65%	-4.54%
52 Week Price Chg	-18.43%	-16.79%	-11.31%	-0.25%	-29.00%	26.63%
20 Day Average Volume	597,602	723,393	3,931,994	4,410,801	850,644	929,078
(F1) EPS Est 1 week change	0.00%	0.00%	-0.12%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-76.67%	-7.22%	-5.78%	-2.97%	-12.97%	-12.17%
(F1) EPS Est 12 week change	-76.73%	-9.00%	-7.64%	-3.08%	-18.83%	-11.63%
(Q1) EPS Est Mthly Chg	-221.03%	-1.14%	-10.13%	-12.09%	-27.69%	-29.29%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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