

SYNNEX Corporation (SNX)

\$149.84 (As of 01/13/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

SYNNEX reported strong fourth-quarter fiscal 2019 results, wherein both top and bottom line exceeded estimates and improved on a year-over-year basis. The company is benefiting from growth in both Technology Solutions and Concentrix business. Solid demand for its portfolio of products and services is a tailwind. Moreover, acquisitions and partnerships are helping it expand its product portfolio. The company's buyout of Covergys is likely to be a key consistent driver. The company announced its intention to split Technology Solutions and Concentrix segment into two publicly traded entities. 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.

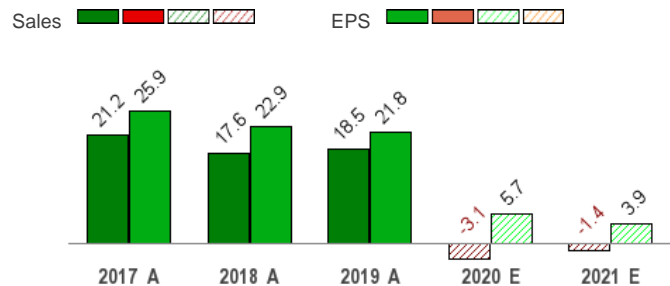
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$150.87 - \$78.55
20 Day Average Volume (sh)	371,676
Market Cap	\$7.7 B
YTD Price Change	16.3%
Beta	1.03
Dividend / Div Yld	\$1.50 / 1.0%
Industry	Business - Software Services
Zacks Industry Rank	Top 43% (110 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.0%
Last Sales Surprise	9.7%
EPS F1 Est- 4 week change	6.2%
Expected Report Date	03/25/2020
Earnings ESP	0.0%
P/E TTM	11.3
P/E F1	10.7
PEG F1	1.0
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,908 E	5,253 E	5,362 E	5,765 E	22,697 E
2020	5,392 E	5,844 E	5,706 E	6,069 E	23,011 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	\$3.15 E	\$3.14 E	\$3.44 E	\$4.42 E	\$14.56 E
2020	\$3.14 E	\$3.19 E	\$3.45 E	\$4.23 E	\$14.01 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, except sales and EPS estimates, is as of 01/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/14/2020.

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.

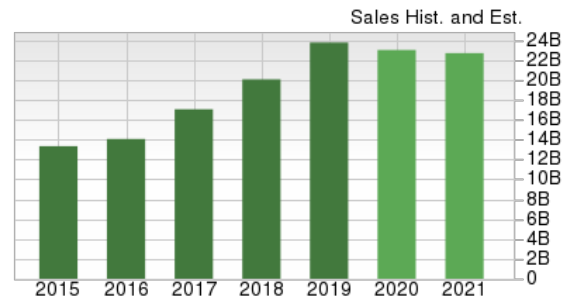
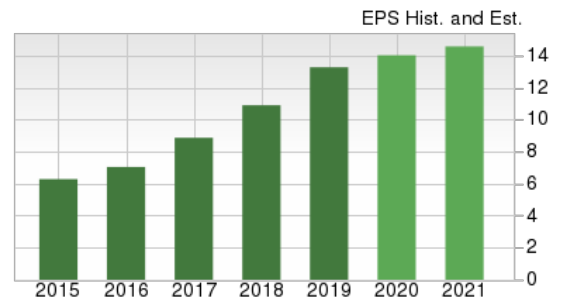
The Concentrix segment offers a portfolio of technology-enabled strategic solutions and end-to-end business services focused on customer engagement, process optimization, technology innovation, front and back-office automation and business transformation to clients in 10 identified industry verticals. 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 Buy:

- ▲ 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's focus on enriching its IT products and services suite through partnerships is a key positive. Per Gartner, spending on IT services is expected to rise 5.5% in 2020. These estimates encourage us about the company's growth prospects.
- ▲ SYNEX boasts a sturdy cash-flow generating ability. It ended the fourth quarter with cash and cash equivalents of nearly \$225 million. During the period, cash flow from operations totaled approximately \$349.3 million compared with \$250 million sequentially. Although the company has a significant amount of debt on its balance sheet, the robust cash flow enabled it to service its debt efficiently.

SYNEX is gaining traction from new business wins and its inorganic growth strategy.

Risks

- 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.
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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 **11/2019**

Report Date	Jan 09, 2020
Sales Surprise	9.70%
EPS Surprise	18.01%
Quarterly EPS	4.26
Annual EPS (TTM)	13.26

Recent News

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 gained 56.1% in the past six months and 64.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have risen 3.2% and 13% in the past six months, respectively. Over the past year, while the Zacks sub-industry has increased 16.5%, the sector gained 32%.

The S&P 500 Index has gained 9% in the past six months and 24.1% in the past year.

The stock is currently trading at 10.87X forward 12-month earnings, which compares to 21.94X for the Zacks sub-industry, 22.67X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.84X and as low as 6.31X with a 5-year median of 11.67X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$172 price target reflects 12.5X 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	10.87	21.94	22.67	18.88
	5-Year High	17.84	24.54	22.67	19.34
	5-Year Low	6.31	7.29	16.87	15.17
	5-Year Median	11.67	21.86	19.24	17.44
P/S F12M	Current	0.33	9.84	3.59	3.5
	5-Year High	0.34	9.84	3.59	3.5
	5-Year Low	0.17	6.88	2.3	2.54
	5-Year Median	0.25	8.38	3.01	3
EV/EBITDA TTM	Current	7.55	46.18	12.12	11.99
	5-Year High	10.56	48.89	12.6	12.86
	5-Year Low	5.47	33.64	7.67	8.48
	5-Year Median	7.94	40.75	10.52	10.67

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 43% (110 out of 254)



Top Peers

Accenture PLC (ACN)	Neutral
Arrow Electronics, Inc. (ARW)	Neutral
Avnet, Inc. (AVT)	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

Industry Comparison Industry: Business - Software Services				Industry Peers		
	SNX Outperform	X Industry	S&P 500	ACN Neutral	ARW Neutral	TECD Neutral
VGM Score	A	-	-	D	A	A
Market Cap	7.65 B	8.51 B	24.31 B	133.23 B	6.91 B	5.11 B
# of Analysts	3	3.5	13	11	4	3
Dividend Yield	1.00%	0.00%	1.76%	1.53%	0.00%	0.00%
Value Score	B	-	-	D	B	A
Cash/Price	0.03	0.09	0.04	0.04	0.04	0.19
EV/EBITDA	13.22	23.96	14.12	18.15	7.07	7.92
PEG Ratio	1.03	2.67	2.05	2.59	10.64	NA
Price/Book (P/B)	2.02	4.72	3.34	8.54	1.49	1.72
Price/Cash Flow (P/CF)	11.26	24.00	13.66	23.52	7.30	8.37
P/E (F1)	10.70	29.13	18.82	26.79	10.64	11.51
Price/Sales (P/S)	0.32	3.32	2.64	3.03	0.23	0.14
Earnings Yield	9.35%	3.43%	5.29%	3.73%	9.40%	8.69%
Debt/Equity	0.72	0.24	0.72	0.17	0.62	0.44
Cash Flow (\$/share)	13.31	1.99	6.94	8.91	11.63	17.21
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	19.05%	19.05%	10.56%	11.25%	9.29%	23.16%
Proj. EPS Growth (F1/F0)	5.66%	6.90%	7.49%	6.31%	7.08%	10.08%
Curr. Cash Flow Growth	32.06%	22.81%	14.83%	8.06%	16.28%	28.90%
Hist. Cash Flow Growth (3-5 yrs)	29.77%	21.71%	9.00%	9.75%	8.09%	21.17%
Current Ratio	1.62	1.59	1.23	1.39	1.61	1.26
Debt/Capital	41.78%	21.18%	42.99%	14.60%	38.28%	30.36%
Net Margin	2.11%	4.52%	11.08%	11.06%	-0.29%	0.92%
Return on Equity	18.84%	9.76%	17.16%	33.35%	13.21%	15.52%
Sales/Assets	2.10	0.73	0.55	1.48	1.78	2.96
Proj. Sales Growth (F1/F0)	-3.14%	6.45%	4.23%	6.66%	-2.93%	-0.74%
Momentum Score	A	-	-	C	C	F
Daily Price Chg	2.94%	0.77%	0.73%	0.93%	0.49%	0.03%
1 Week Price Chg	12.27%	0.20%	0.39%	-1.02%	-0.21%	0.32%
4 Week Price Chg	16.76%	4.13%	1.84%	2.24%	-0.13%	0.47%
12 Week Price Chg	27.42%	10.72%	6.48%	11.88%	11.51%	14.25%
52 Week Price Chg	64.05%	25.28%	23.15%	44.62%	15.64%	58.48%
20 Day Average Volume	371,676	283,896	1,578,594	2,026,697	429,188	452,802
(F1) EPS Est 1 week change	6.18%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	6.18%	0.00%	0.00%	0.54%	0.00%	0.00%
(F1) EPS Est 12 week change	6.18%	-2.41%	-0.48%	0.56%	0.48%	0.56%
(Q1) EPS Est Mthly Chg	7.79%	0.00%	0.00%	-0.66%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Growth Score	A
Momentum Score	A
VGM Score	A

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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