

## SYNNEX Corporation (SNX)

**\$105.61** (As of 05/26/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

### Summary

SYNNEX's Concentrix business is benefiting from the coronavirus-led work-and-learn-from-home wave which is driving demand for offsite-working and learning hardware and software. Moreover, acquisitions and partnerships are helping expand its product portfolio. Additionally, the split of its Technology Solutions and Concentrix businesses into two publicly-traded entities will add shareholder value and enhance the company's competitive position. Nonetheless, supply-chain and logistics services disruptions due to the coronavirus crisis might hurt SYNNEX's near-term performance. Moreover, organizations are pushing back their big and expensive technology purchases to preserve cash in an effort to stay afloat amid this turbulent macroeconomic environment. Adverse foreign-exchange volatility and high-debt level are other major concerns.

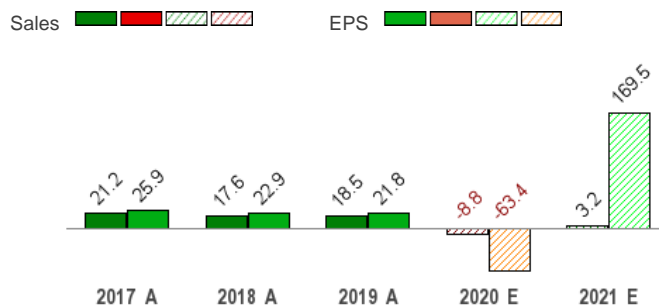
### Price, Consensus & Surprise



### Data Overview

|                            |  |
|----------------------------|--|
| 52 Week High-Low           | <b>\$153.07 - \$52.06</b>                  |
| 20 Day Average Volume (sh) | <b>393,216</b>                             |
| Market Cap                 | <b>\$5.4 B</b>                             |
| YTD Price Change           | <b>-18.0%</b>                              |
| Beta                       | <b>1.48</b>                                |
| Dividend / Div Yld         | <b>\$0.00 / 0.0%</b>                       |
| Industry                   | <b><u>Business - Software Services</u></b> |
| Zacks Industry Rank        | <b>Top 30% (75 out of 253)</b>             |

### Sales and EPS Growth Rates (Y/Y %)



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>3.8%</b>       |
| Last Sales Surprise       | <b>-2.4%</b>      |
| EPS F1 Est- 4 week change | <b>48.8%</b>      |
| Expected Report Date      | <b>06/23/2020</b> |
| Earnings ESP              | <b>117.2%</b>     |
| P/E TTM                   | <b>7.7</b>        |
| P/E F1                    | <b>21.8</b>       |
| PEG F1                    | <b>2.1</b>        |
| P/S TTM                   | <b>0.2</b>        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 4,796 E | 5,075 E | 5,306 E | 5,917 E | 22,359 E |
| 2020 | 5,264 A | 5,031 E | 5,386 E | 5,991 E | 21,672 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 | \$13.07 E |
| 2020 | \$3.26 A | -\$2.74 E | \$0.86 E | \$3.64 E | \$4.85 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 05/26/2020. The reports text is as of 05/27/2020.

## Overview

Fremont, CA-based SYNEX, 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.

SYNEX 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.

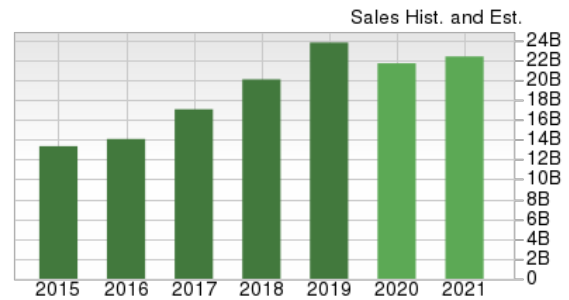
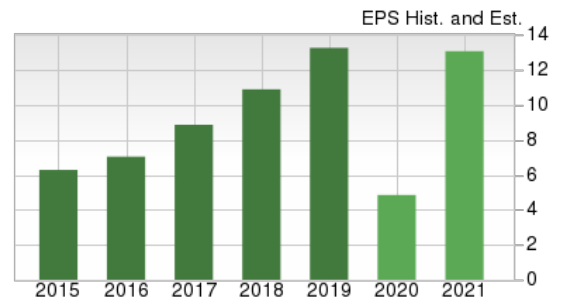
The Concentrix segment offers a portfolio of technology-enabled strategic solutions and end-to-end business services focused on customer engagement, process optimization, technology innovation, front and back-office automation and business transformation to clients in 10 identified industry verticals. 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, SYNEX had approximately 229,000 full-time employees.

SYNEX 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.



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## 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.
- ▲ SYNEX is benefiting from the coronavirus-led work-and-learn-from-home wave which is driving demand for offsite-working and learning hardware and software. In a May 12 business update, SYNEX stated that enhanced capabilities of its Concentrix division are facilitating its clients to transition to remote-working facilities is boosting the company's revenues and earnings.
- ▲ 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. The company had generated cash flow of \$349.3 million during fiscal 2019 compared with \$250 million in fiscal 2018. In the first quarter of fiscal 2020, the company had generated \$58 million of cash flow from operational activities. Although the company has a significant amount of debt on its balance sheet, the robust cash flow enabled it to service its debt efficiently. Furthermore, to preserve cash amid the current coronavirus-led business uncertainties, SYNEX has suspended quarterly cash dividend from the second quarter of fiscal 2020.

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

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## 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.
- ▼ SYNEX also has a leveraged balance sheet. The company's total debt (long-term including current maturities) has increased significantly in the last five years to \$3.1 billion as of Feb 29, 2020 from \$704 million as of Feb 29, 2016. Also, SYNEX's current total debt to total capital ratio of 0.45 is significantly higher than the industry average of 0.15. Moreover, the times interest earned ratio of 5.4 is way lower than the industry average of 17.5. Additionally, the total debt level of \$3.1 billion as of Feb 29, 2020 is much more than cash and cash equivalents of \$296 million. This makes us increasingly cautious about the company's liquidity position and debt serving capabilities.

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

## Last Earnings Report

### SYNNEX First-Quarter Results

SYNNEX delivered non-GAAP earnings of \$3.26 per share for first-quarter fiscal 2020, which improved 14.8% from the year-ago quarter and also beat the Zacks Consensus Estimate of \$3.14.

Revenues marginally inched up to \$5.26 billion from \$5.25 billion in the year-ago quarter. However, quarterly revenues missed the Zacks Consensus Estimate of \$5.349 billion and came at the lower-end of the company's previous guidance range of \$5.24-\$5.54 billion.

Lower-than-expected top-line performance was mainly due to coronavirus outbreak in China which disrupted its operation in the country. However, successful integration of the Convergys business and continued growth in Concentrix business partially offset the coronavirus impact.

Further, the company is moving forward towards its previous announcement of splitting 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 flat year-over-year at \$4.08 billion.

Management mentioned that the Technology Solutions business had a great start at the beginning of the quarter. However, weakness towards the end of quarter due to coronavirus-led supply-chain disruptions offsets the initial growth.

Concentrix business continues to witness uptrend with revenues rising 1.3% year-over-year to \$1.19 billion.

In the reported quarter, non-GAAP operating income was up 3.4% to \$250.9 million. Also, non-GAAP operating margin expanded 15 basis points (bps) on a year-over-year basis to 4.77%.

Non-GAAP operating income for the Technology Solutions was \$100.5 million, down marginally from \$101.4 million in the year-ago quarter. For the Concentrix segment, non-GAAP operating income was \$88.2 million, rising 45.6% year over year, buoyed by the Convergys consolidation.

SYNNEX ended the fiscal first quarter with cash and cash equivalents of nearly \$296.2 million compared with \$225.5 million at the end of fourth-quarter fiscal 2019.

Citing current uncertain economic and business environment, SYNNEX's board of directors have suspended quarterly cash dividend with immediate effect.

Furthermore, citing the current unpredictable environment, SYNNEX has decided to not provide financial guidance for fiscal second quarter.

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 May 12, SYNEX provided second-quarter fiscal 2020 non-GAAP earnings guidance range of \$0.00-\$1.00 per share.

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 23.7% in the year so far, while have gained 1.3% over the trailing 12-month period. Stocks in the Zacks sub-industry have fallen 2.1%, while the Zacks Computer & Technology sector is up 1.2% in the year-to-date (YTD) period. Over the past year, the Zacks sub-industry and the sector have gained 0.9% and 15.2%, respectively.

The S&P 500 Index has lost 8.2% YTD while has gained 3% in the past year.

The stock is currently trading at 11.92X forward 12-month earnings, which compares to 24.48X for the Zacks sub-industry, 24.08X for the Zacks sector and 21.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.74X and as low as 4.67X with a 5-year median of 9.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$111 price target reflects 12.6X 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       | 11.92 | 24.48        | 24.08  | 21.76   |
|                           | 5-Year High   | 14.74 | 24.54        | 24.08  | 21.76   |
|                           | 5-Year Low    | 4.67  | 7.29         | 16.65  | 15.23   |
|                           | 5-Year Median | 9.34  | 21.87        | 20.00  | 17.49   |
| P/S F12M                  | Current       | 0.19  | 9.57         | 2.85   | 2.71    |
|                           | 5-Year High   | 0.34  | 9.98         | 3.42   | 3.40    |
|                           | 5-Year Low    | 0.15  | 6.88         | 2.29   | 2.50    |
|                           | 5-Year Median | 0.25  | 8.38         | 2.95   | 2.95    |
| EV/EBITDA TTM             | Current       | 5.09  | 43.63        | 11.07  | 10.52   |
|                           | 5-Year High   | 10.56 | 51.42        | 12.85  | 12.87   |
|                           | 5-Year Low    | 4.53  | 33.43        | 7.56   | 8.27    |
|                           | 5-Year Median | 7.82  | 42.10        | 10.61  | 10.78   |

As of 05/26/2020

## Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



## Top Peers

| Company (Ticker)                                  | Rec          | Rank |
|---|--------------|------|
| Accenture PLC (ACN)                               | Neutral      | 3    |
| Arrow Electronics, Inc. (ARW)                     | Neutral      | 3    |
| Cognizant Technology Solutions Corporation (CTSH) | Neutral      | 4    |
| Genpact Limited (G)                               | Neutral      | 3    |
| International Business Machines Corporation (IBM) | Neutral      | 4    |
| KLA Corporation (KLAC)                            | Neutral      | 3    |
| Tech Data Corporation (TECD)                      | Neutral      | 3    |
| Avnet, Inc. (AVT)                                 | Underperform | 5    |

| Industry Comparison Industry: Business - Software Services |         |            |           | Industry Peers |         |         |
|--|---------|------------|-----------|----------------|---------|---------|
|  | SNX     | X Industry | S&P 500   | ACN            | ARW     | TECD    |
| Zacks Recommendation (Long Term)                           | Neutral | -          | -         | Neutral        | Neutral | Neutral |
| Zacks Rank (Short Term)                                    | 1       | -          | -         | 3              | 3       | 3       |
| VGM Score  | B       | -          | -         | A              | A       | A       |
| Market Cap   | 5.44 B  | 7.27 B     | 21.18 B   | 124.85 B       | 5.55 B  | 4.74 B  |
| # of Analysts  | 4       | 4          | 14        | 11             | 4       | 3       |
| Dividend Yield   | 0.00%   | 0.00%      | 2.03%     | 1.63%          | 0.00%   | 0.00%   |
| Value Score  | A       | -          | -         | B              | B       | A       |
| Cash/Price   | 0.06    | 0.06       | 0.06      | 0.04           | 0.04    | 0.18    |
| EV/EBITDA  | 6.43    | 13.12      | 12.37     | 17.03          | 23.45   | 7.23    |
| PEG Ratio  | 2.16    | 1.95       | 2.88      | 2.59           | 1.52    | NA      |
| Price/Book (P/B)   | 1.41    | 5.18       | 2.90      | 7.84           | 1.19    | 1.52    |
| Price/Cash Flow (P/CF)                                     | 5.12    | 23.95      | 11.55     | 22.04          | 6.60    | 7.73    |
| P/E (F1)   | 22.41   | 25.78      | 21.24     | 25.93          | 11.79   | 11.63   |
| Price/Sales (P/S)  | 0.23    | 2.89       | 2.24      | 2.80           | 0.20    | 0.13    |
| Earnings Yield   | 4.59%   | 2.16%      | 4.57%     | 3.85%          | 8.49%   | 8.60%   |
| Debt/Equity  | 0.70    | 0.28       | 0.76      | 0.17           | 0.48    | 0.43    |
| Cash Flow (\$/share)                                       | 20.63   | 2.23       | 6.96      | 8.91           | 10.65   | 17.27   |
| Growth Score   | C       | -          | -         | A              | A       | B       |
| Hist. EPS Growth (3-5 yrs)                                 | 20.43%  | 16.78%     | 10.87%    | 11.33%         | 6.71%   | 23.42%  |
| Proj. EPS Growth (F1/F0)                                   | -63.42% | -9.36%     | -10.31%   | 2.90%          | -20.99% | -8.77%  |
| Curr. Cash Flow Growth                                     | 54.78%  | 10.44%     | 5.46%     | 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    | 1.59       | 1.29      | 1.38           | 1.46    | 1.23    |
| Debt/Capital   | 41.03%  | 22.97%     | 44.54%    | 14.34%         | 32.34%  | 30.02%  |
| Net Margin   | 2.26%   | 4.35%      | 10.59%    | 11.13%         | -1.05%  | 1.01%   |
| Return on Equity   | 19.04%  | 9.99%      | 16.29%    | 32.87%         | 11.57%  | 15.43%  |
| Sales/Assets   | 2.06    | 0.74       | 0.55      | 1.43           | 1.77    | 2.94    |
| Proj. Sales Growth (F1/F0)                                 | -8.78%  | -2.32%     | -2.34%    | 2.81%          | -8.30%  | -3.77%  |
| Momentum Score   | F       | -          | -         | A              | A       | A       |
| Daily Price Chg  | 4.99%   | 0.00%      | 2.82%     | 1.39%          | 5.73%   | 0.94%   |
| 1 Week Price Chg   | 9.99%   | 7.49%      | 4.99%     | 5.35%          | 7.87%   | -3.67%  |
| 4 Week Price Chg   | 30.59%  | 9.79%      | 3.55%     | 10.11%         | 18.88%  | -3.96%  |
| 12 Week Price Chg  | -16.93% | -3.38%     | -4.95%    | 7.78%          | 3.99%   | -6.34%  |
| 52 Week Price Chg  | 14.58%  | 2.92%      | -3.04%    | 10.10%         | 7.54%   | 43.94%  |
| 20 Day Average Volume                                      | 393,216 | 455,237    | 2,429,758 | 2,037,807      | 732,848 | 546,231 |
| (F1) EPS Est 1 week change                                 | 0.00%   | 0.00%      | 0.00%     | 0.02%          | 0.00%   | 0.00%   |
| (F1) EPS Est 4 week change                                 | 48.77%  | -2.96%     | -2.27%    | 0.02%          | -2.69%  | -1.46%  |
| (F1) EPS Est 12 week change                                | -65.29% | -15.37%    | -16.39%   | -3.27%         | -20.81% | -12.92% |
| (Q1) EPS Est Mthly Chg                                     | 112.16% | -5.08%     | -4.03%    | 0.07%          | 35.47%  | -0.92%  |

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## 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.

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### 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    | A |
| Growth Score   | C |
| 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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### Disclosures

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