Our Research. Your Success.

Dec 31, 2019

SYNNEX Corporation (SNX)

$128.88 (As of 12/30/19)

Price Target (6-12 Months): **$135.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/03/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: D	

Summary

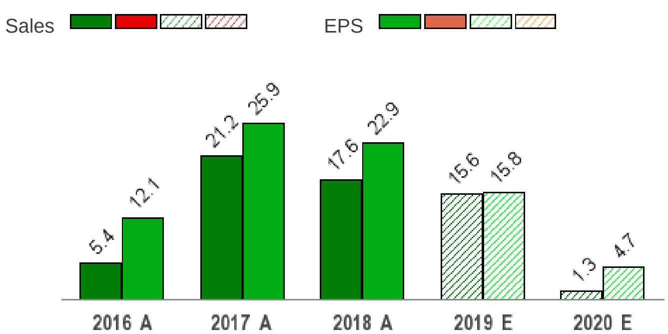
SYNNEX is benefiting from solid demand for its portfolio of products and services. The company is also performing well in all the end markets including the SMB. Moreover, acquisitions and partnerships are helping it expand its product portfolio. The company's buyout of Covergys is likely to be a key consistent driver. Further, new business wins, backed by its burgeoning footprint and the enhanced capabilities of its new consolidation are expected to be the key catalysts. Estimates have been stable ahead of the company's Q4 earnings release. The company's earnings surprise record is positive in recent quarters. However, the company's high-debt levels can worsen leverage risks and interest costs, which might erode its profits. Additionally, adverse foreign exchange fluctuations persist as a headwind.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$130.96 - $76.90**
20 Day Average Volume (sh)	**263,187**
Market Cap	**$6.6 B**
YTD Price Change	**59.4%**
Beta	**1.01**
Dividend / Div Yld	**$1.50 / 1.2%**
Industry	**Business - Software Services**
Zacks Industry Rank	**Bottom 34% (168 out of 253)**
Last EPS Surprise	**15.4%**
Last Sales Surprise	**9.3%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**01/09/2020**
Earnings ESP	**0.0%**
P/E TTM	**10.2**
P/E F1	**9.8**
PEG F1	**0.9**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2020	5,391 E	5,809 E	6,015 E	6,272 E	23,487 E
2019	5,249 A	5,723 A	6,204 A	5,999 E	23,175 E
2018	4,552 A	4,973 A	4,907 A	5,622 A	20,054 A

EPS Estimates

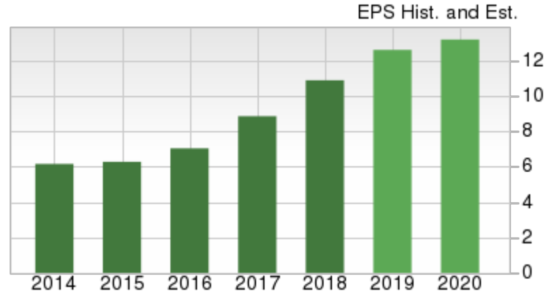
	Q1	Q2	Q3	Q4	Annual*
2020	$2.91 E	$3.10 E	$3.21 E	$3.94 E	$13.20 E
2019	$2.84 A	$2.86 A	$3.30 A	$3.61 E	$12.61 E
2018	$2.14 A	$2.38 A	$2.57 A	$3.65 A	$10.89 A

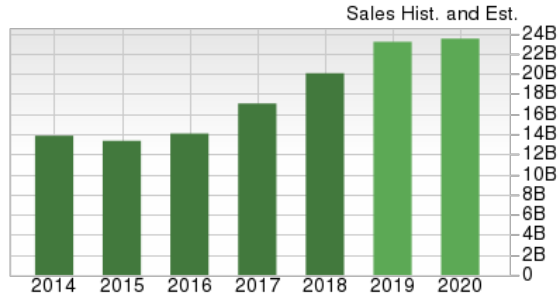
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/30/2019. The reports text is as of 12/31/2019.

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 $20.0.5 billion in fiscal 2018.

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. It generated 88% of revenues in fiscal 2018.

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. The segment represented 12% of revenues in fiscal 2018.

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:

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

- SYNNEX 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.
- SYNNEX'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.
- SYNNEX boasts a sturdy cash-flow generating ability. It ended the third quarter with cash and cash equivalents of nearly $262.3 million. During the period, cash flow from operations totaled approximately $250 million compared with $108 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.

Reasons To Sell:

Adverse foreign exchange volatility, high-debt level and rising competition are major concerns for SYNNEX.

- SYNNEX'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 Aug 31, 2019. The takeover moves also affected SYNNEX's capital position as high indebtedness raises its investment risk in the to-be-acquired company. At the end of the fiscal third-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.
- SYNNEX 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.
- SYNNEX 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.

Last Earnings Report

SYNNEX Reports Solid Q3 Results

Quarter Ending	08/2019
Report Date	Sep 24, 2019
Sales Surprise	9.26%
EPS Surprise	15.38%
Quarterly EPS	3.30
Annual EPS (TTM)	12.65

SYNNEX delivered non-GAAP earnings of $3.3 per share for third-quarter fiscal 2019, which improved 31.5% from the year-ago quarter and also beat the Zacks Consensus Estimate of $2.86.

Moreover, revenues of $6.2 billion surpassed the Zacks Consensus Estimate of $5.68 billion and increased 28.6% year over year as well.

Robust organic growth as well as the successful integration of the Convergys business is a key driver. Moreover, management noted that forex did not have much negative impact on the company's top and the bottom line.

Quarterly Details

SYNNEX's Technology Solutions revenues were up 16.5% year over year to $5 billion. The shipment of several sizable rollouts and the integration projects that the company won in prior quarters led to the year-over-year increase.

Management mentioned that the major project areas contributing to the company's growth were PCs, networking and cloud plus software related solutions. The company expects strength in SMB to remain a key catalyst.

Concentrix revenues soared 136% from the prior-year quarter to $1.2 billion, driven by the Convergys acquisition closed last October. New business wins are a positive too. Moreover, the company's strategy to rebalance its portfolio is an upside.

In the reported quarter, non-GAAP operating income surged 69.5% to $270.5 million. Also, non-GAAP operating margin expanded 105 basis points (bps) on a year-over-year basis to 4.36%.

Non-GAAP operating income for the Technology Solutions was $150 million, up 28% from the year-ago quarter, driven by product mix. Further, non-GAAP operating margin grew 30 bps to 3%

For Concentrix segment, non-GAAP operating income was $121 million, skyrocketing 182% year over year. Additionally, non-GAAP operating margin expanded 170 bps to 10.4%, buoyed by the Convergys consolidation.

Balance Sheet and Other Details

SYNNEX ended the fiscal third quarter with cash and cash equivalents of nearly $262.3 million compared with $271.5 million as of the previous quarter.

During the quarter, cash flow from operations totaled approximately $250 million compared with $108 million sequentially.

Guidance

For the fiscal fourth quarter, SYNNEX expects revenues in the range of $5.85-$6.15 billion. On a non-GAAP basis, earnings per share are envisioned in the band of $3.5-$3.7.

Recent News

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

On Dec 6, 2019, SYNNEX 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 SYNNEX have gained 27.9% in the past six months and 59.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have risen 2.4% and 12.8% in the past six months, respectively. Over the past year, while the Zacks sub-industry has increased 18.8%, the sector gained 33.8%.

The S&P 500 Index has gained 9.9% in the past six months and 28% in the past year.

The stock is currently trading at 9.77X forward 12-month earnings, which compares to 24.57X for the Zacks sub-industry, 22.14X for the Zacks sector and 18.77X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our $135 price target reflects 10.25X 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	9.77	24.57	22.14	18.77
	5-Year High	17.84	24.57	22.14	19.34
	5-Year Low	6.31	7.29	16.86	15.17
	5-Year Median	11.67	21.81	19.11	17.44
P/S F12M	Current	0.28	9.43	3.44	3.41
	5-Year High	0.34	9.63	3.45	3.41
	5-Year Low	0.17	6.88	2.29	2.54
	5-Year Median	0.25	8.36	2.97	3
EV/EBITDA TTM	Current	7.43	43.36	12.1	12.01
	5-Year High	10.56	48.89	12.59	12.86
	5-Year Low	5.47	33.45	7.68	8.49
	5-Year Median	7.93	40.74	10.5	10.65

As of 12/30/2019

Industry Analysis **Zacks Industry Rank:** Bottom 34% (168 out of 253)

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 Neutral	X Industry	S&P 500	ACN Neutral	ARW Neutral	TECD Neutral
VGM Score	A	-	-	D	A	A
Market Cap	6.58 B	7.81 B	23.75 B	133.90 B	6.88 B	5.09 B
# of Analysts	4	3.5	13	11		3
Dividend Yield	1.16%	0.00%	1.79%	1.52%	0.00%	0.00%
Value Score	A	-	-	C	B	A
Cash/Price	0.04	0.09	0.04	0.04	0.04	0.19
EV/EBITDA	11.83	23.44	13.92	18.24	7.04	7.89
PEG Ratio	0.94	2.74	2.12	2.61	11.33	NA
Price/Book (P/B)	1.83	4.41	3.32	8.58	1.48	1.71
Price/Cash Flow (P/CF)	9.69	23.44	13.73	23.63	7.26	8.34
P/E (F1)	9.78	30.49	19.56	26.92	11.33	11.46
Price/Sales (P/S)	0.29	3.31	2.67	3.05	0.23	0.14
Earnings Yield	10.23%	3.28%	5.10%	3.71%	8.83%	8.73%
Debt/Equity	0.77	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)	17.60%	17.60%	10.53%	11.25%	9.29%	23.16%
Proj. EPS Growth (F1/F0)	4.66%	4.66%	6.30%	6.31%	-15.60%	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	1.57	1.56	1.23	1.39	1.61	1.26
Debt/Capital	43.36%	21.18%	42.99%	14.60%	38.28%	30.36%
Net Margin	1.92%	4.52%	11.08%	11.06%	-0.29%	0.92%
Return on Equity	17.96%	9.76%	17.10%	33.35%	13.21%	15.52%
Sales/Assets	2.03	0.73	0.55	1.48	1.78	2.96
Proj. Sales Growth (F1/F0)	1.34%	6.33%	2.86%	6.66%	-2.67%	-0.74%
Momentum Score	D	-	-	F	C	C
Daily Price Chg	-0.09%	-0.16%	-0.43%	-0.74%	-0.13%	0.04%
1 Week Price Chg	-0.31%	0.00%	0.13%	0.53%	-0.28%	0.09%
4 Week Price Chg	4.58%	0.91%	2.78%	5.54%	5.71%	-0.36%
12 Week Price Chg	14.05%	9.14%	8.67%	12.76%	16.08%	37.97%
52 Week Price Chg	59.43%	29.65%	27.07%	49.38%	22.42%	75.48%
20 Day Average Volume	263,187	301,502	1,731,328	1,876,058	458,689	700,020
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.55%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	0.00%	0.14%	0.56%	2.76%	0.56%
(Q1) EPS Est Mthly Chg	0.00%	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	A
Growth Score	A
Momentum Score	D
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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.