

SYNEX CORP
Form 10-Q
April 09, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-31892

SYNEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2703333
(IRS Employer
Identification No.)

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44201 Nobel Drive

Fremont, California 94538
(Address of principal executive offices) (Zip Code)

(510) 656-3333

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 2, 2019
Common Stock, \$0.001 par value	51,219,234

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SYNEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(currency and share amounts in thousands, except for par value)

(unaudited)

	February 28, 2019	November 30, 2018 (As adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	\$249,301	\$461,820
Accounts receivable, net	3,167,301	3,640,496
Receivables from vendors, net	264,660	351,744
Inventories	2,430,392	2,392,559
Other current assets	317,500	316,197
Total current assets	6,429,154	7,162,817
Property and equipment, net	568,549	571,326
Goodwill	2,201,650	2,203,316
Intangible assets, net	1,328,801	1,377,305
Deferred tax assets	79,063	76,508
Other assets	154,119	152,227
Total assets	\$10,761,335	\$11,543,498
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings, current	\$701,083	\$833,216
Accounts payable	2,187,706	3,048,102
Accrued compensation and benefits	320,023	358,352
Other accrued liabilities	606,678	672,635
Income taxes payable	64,989	41,322
Total current liabilities	3,880,479	4,953,627
Long-term borrowings	2,827,616	2,622,782
Other long-term liabilities	346,640	325,119
Deferred tax liabilities	196,160	206,916
Total liabilities	7,250,894	8,108,444
Commitments and contingencies (Note 17-Commitments and Contingencies)		
Stockholders' equity:	—	—

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Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued or outstanding

Common stock, \$0.001 par value, 100,000 shares authorized, 52,895 and 52,861 shares

issued as of February 28, 2019 and November 30, 2018, respectively	53	53
Additional paid-in capital	1,519,523	1,512,201
Treasury stock, 2,175 and 2,167 shares as of February 28, 2019 and November 30, 2018, respectively	(150,242)	(149,533)
Accumulated other comprehensive income (loss)	(127,399)	(126,288)
Retained earnings	2,268,508	2,198,621
Total stockholders' equity	3,510,442	3,435,054
Total liabilities and equity	\$ 10,761,335	\$ 11,543,498

(Amounts may not add due to rounding)

The accompanying Notes are an integral part of these Consolidated Financial Statements (unaudited).

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SYNEX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(currency and share amounts in thousands, except for per share amounts)

(unaudited)

	Three Months Ended	
	February 28, 2019	February 28, 2018 (As adjusted)
Revenue:		
Products	\$4,080,684	\$3,989,743
Services	1,168,769	503,607
Total revenue	5,249,453	4,493,350
Cost of revenue:		
Products	(3,833,117)	(3,765,512)
Services	(737,415)	(314,323)
Gross profit	678,921	413,515
Selling, general and administrative expenses	(516,958)	(302,019)
Operating income	161,963	111,496
Interest expense and finance charges, net	(41,606)	(17,451)
Other income (expense), net	(695)	(1,178)
Income before income taxes	119,662	92,867
Provision for income taxes	(32,556)	(68,769)
Net income	\$87,106	\$24,098
Earnings per common share:		
Basic	\$1.70	\$0.60
Diluted	\$1.69	\$0.60
Weighted-average common shares outstanding:		
Basic	50,706	39,695
Diluted	50,927	39,978

(Amounts may not add due to rounding)

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SYNEX CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(currency in thousands)

(unaudited)

	Three Months Ended	
	February 28, 2019	February 28, 2018 (As adjusted)
Net income	\$87,106	\$ 24,098
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities, net of taxes of \$0 for both the		
three months ended February 28, 2019 and 2018	33	(142)
Change in unrealized gains of defined benefit plans, net of taxes of \$8 and \$0 for the		
three months ended February 28, 2019 and 2018, respectively	307	—
Unrealized (losses) gains on cash flow hedges during the period, net of taxes of \$5,595		
and \$(1,914) for the three months ended February 28, 2019 and 2018, respectively	(17,016)	5,386
Reclassification of net (gains) losses to net income, net of taxes of \$888 and \$(63) for		
the three months ended February 28, 2019 and 2018, respectively	(2,550)	177
Total change in unrealized gains (losses) on cash flow hedges, net of taxes	(19,566)	5,563
Foreign currency translation adjustments, net of taxes of \$(198) and \$(23) for the three		
months ended February 28, 2019 and 2018, respectively	20,070	10,797
Other comprehensive income	844	16,218
Comprehensive income	\$87,950	\$ 40,316

(Amounts may not add due to rounding)

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SYNEX CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(currency in thousands)

(unaudited)

	Three Months Ended	
	February 28,	February 28,
	2019	2018
		(As adjusted)
Total Stockholders' equity, beginning balance	\$3,435,054	\$2,287,297
Common stock and additional paid-in capital:		
Beginning balance	1,512,254	467,989
Share-based compensation	6,607	5,101
Common stock issued for employee benefit plans	822	1,604
Stock issuance costs (related to the Convergys acquisition in fiscal year 2018)	(107)	—
Ending balance	1,519,576	474,694
Treasury stock:		
Beginning balance	(149,533)	(77,133)
Repurchases of common stock for tax withholdings on equity awards	(709)	(1,488)
Repurchases of common stock	—	(154)
Ending balance	(150,242)	(78,775)
Retained earnings:		
Beginning balance	2,198,621	1,958,360
Net income	87,106	24,098
Cash dividends declared	(19,174)	(13,971)
Cumulative effect of changes in accounting principles	1,955	—
Ending balance	2,268,508	1,968,487
Accumulated other comprehensive income (loss):		
Beginning balance	(126,288)	(61,919)
Other comprehensive income (loss)	844	16,218
Cumulative effect of changes in accounting principles	(1,955)	—
Ending balance	(127,399)	(45,701)
Total stockholders' equity, ending balance	\$3,510,442	\$2,318,705
Cash dividends declared per share	\$0.375	\$0.350

(Amounts may not add due to rounding)

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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SYNEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(currency in thousands)

(unaudited)

	Three Months Ended	
	February 28,	February 28,
	2019	2018
	(As adjusted)	
Cash flows from operating activities:		
Net income	\$87,106	\$ 24,098
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	94,374	48,634
Share-based compensation	6,607	5,101
Provision for doubtful accounts	6,961	3,336
Deferred income taxes	(10,129)	(26,023)
Unrealized foreign exchange (gains) losses	1,322	(659)
Other	6,736	562
Changes in operating assets and liabilities, net of acquisition of businesses:		
Accounts receivable, net	487,937	196,978
Receivables from vendors, net	86,579	25,338
Inventories	(32,914)	(139,642)
Accounts payable	(875,761)	(200,127)
Other operating assets and liabilities	(17,119)	56,730
Net cash used in operating activities	(158,300)	(5,674)
Cash flows from investing activities:		
Purchases of property and equipment	(28,800)	(22,360)
Acquisition of businesses, net of refunds	(1,846)	(5,922)
Other	1,141	410
Net cash used in investing activities	(29,505)	