

# Avnet Fiscal First Quarter 2020 Financial Results

October 24, 2019



# Safe harbor statement

This document contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on management’s current expectations and are subject to uncertainty and changes in facts and circumstances. The forward-looking statements herein include statements addressing future financial and operating results of Avnet and may include words such as “will,” “anticipate,” “intend,” “estimate,” “forecast,” “expect,” “feel,” “believe,” “should,” and other words and terms of similar meaning in connection with any discussions of future operating or financial performance, business prospects or market conditions. Actual results may differ materially from the expectations contained in the forward-looking statements.

The following factors, among others, could cause actual results to differ materially from those described in the forward-looking statements: Avnet’s ability to retain and grow market share and to generate additional cash flow, risks associated with any acquisition activities and the successful integration of acquired companies, implementing and maintaining ERP systems, supplier losses and changes to supplier programs, an industry down-cycle in semiconductors, declines in sales, changes in business conditions and the economy in general, changes in market demand and pricing pressures, any material changes in the allocation of product or product rebates by suppliers, and other competitive and/or regulatory factors affecting the businesses of Avnet generally.

More detailed information about these and other factors is set forth in Avnet’s filings with the Securities and Exchange Commission, including the Company’s reports on Form 10-K, Form 10-Q and Form 8-K. Except as required by law, Avnet is under no obligation to update any forward looking statements, whether as a result of new information, future events or otherwise.

This document contains certain Non-GAAP measures which are provided to assist in an understanding of the Company’s business and performance. These measures should always be considered in conjunction with the appropriate GAAP measure. Non-GAAP definitions and references are included in the Appendix of this presentation.

# Executive Overview

Bill Amelio  
Chief Executive Officer

**AVNET**<sup>®</sup>  
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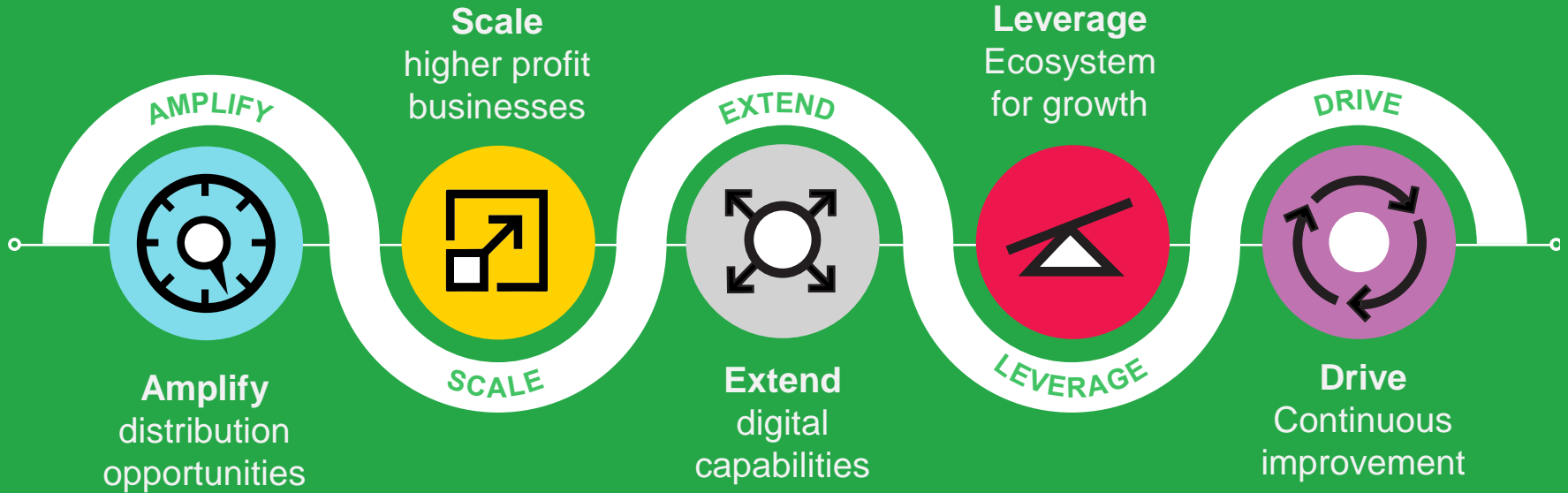


# Q1 2020 highlights



- Delivered quarterly sales of \$4.6B, in line with guidance
- Market trends continued to decline over the quarter
  - Largely due to macroeconomic headwinds, tariff uncertainty
  - Buying patterns impacted across key geographies
- Outlook for global market dynamics still uncertain
  - PMI below 50 in U.S., Europe and China
  - Asia sales leveling out, indicating a more favorable trend
  - EMEA and Americas remain under pressure
- Our comprehensive ecosystem remains compelling

# Fiscal year 2020 corporate strategy



**Successful execution will add value for our customers, suppliers, investors and our employees**

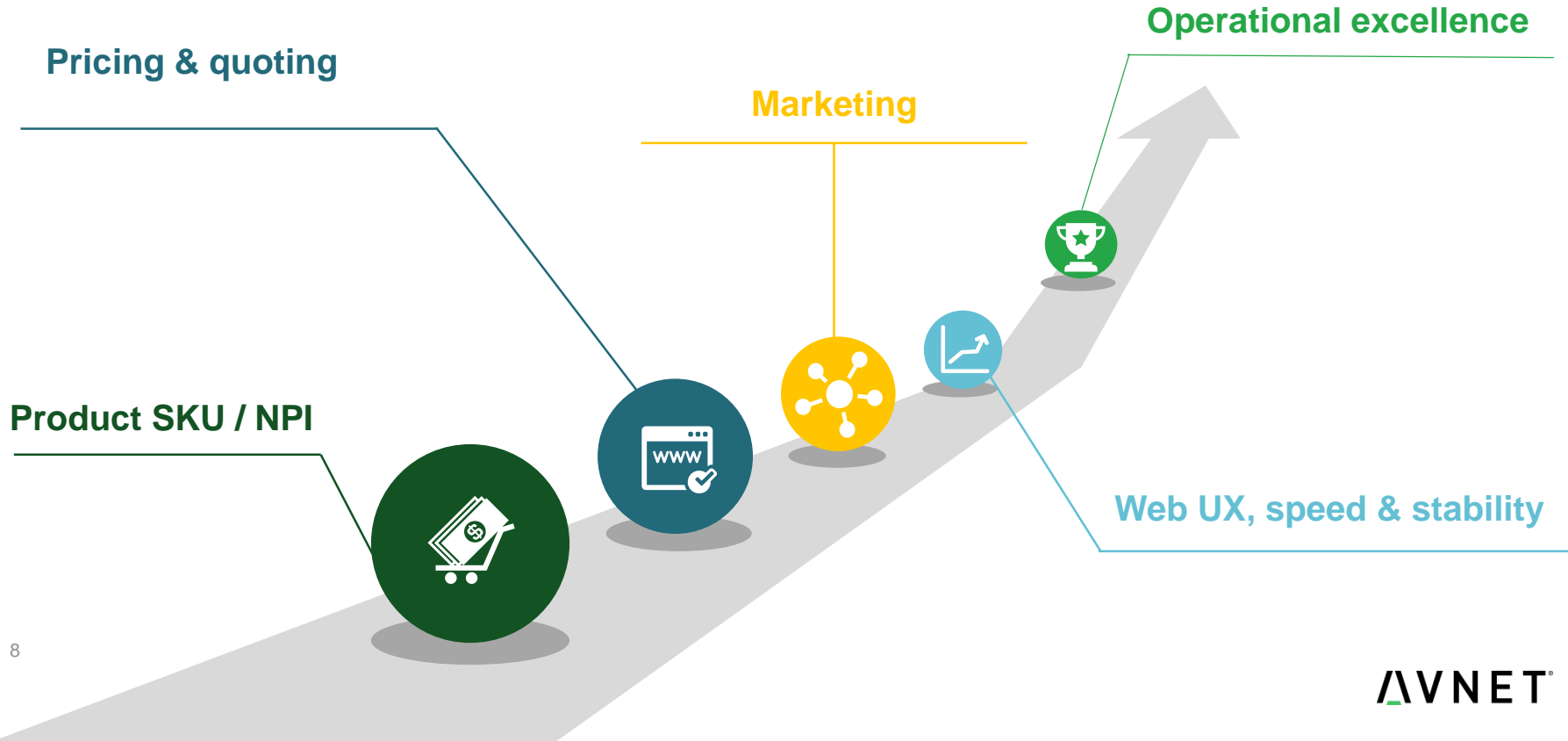
# 1 Accelerating electronic components business

- Quarterly sales of \$4.3B
  - Operating margins 2.6% compared with 3.4% a year ago
- Asia sales of \$1.9B, up more than 9% sequentially
  - Bookings continue to show signs of stability in the region
- Notable wins in the Americas, including:
  - Component business for a leading consumer wearables company
  - 5G business for a leading mobile solutions and services provider

## 2 Farnell: scaling higher profit margin businesses

- Pricing, sales and margin pressures continued
  - Lead times shortened and average selling prices declined across industry
  - Consistent with expectations from last quarter and previous cycles
- Revenue of \$336M, operating margins of 6.5%
- Despite continued challenges, prices started to stabilize through quarter
- We are bullish on Farnell and committed to our investments there

# Farnell roadmap: Sales growth w/ best-in-class profitability





### 3 Digital transformation driving growth

**Robotic Process Automation:** projects will continue throughout fiscal 2020

**Artificial Intelligence Pricing:** smooth launch with implementation targeted by June

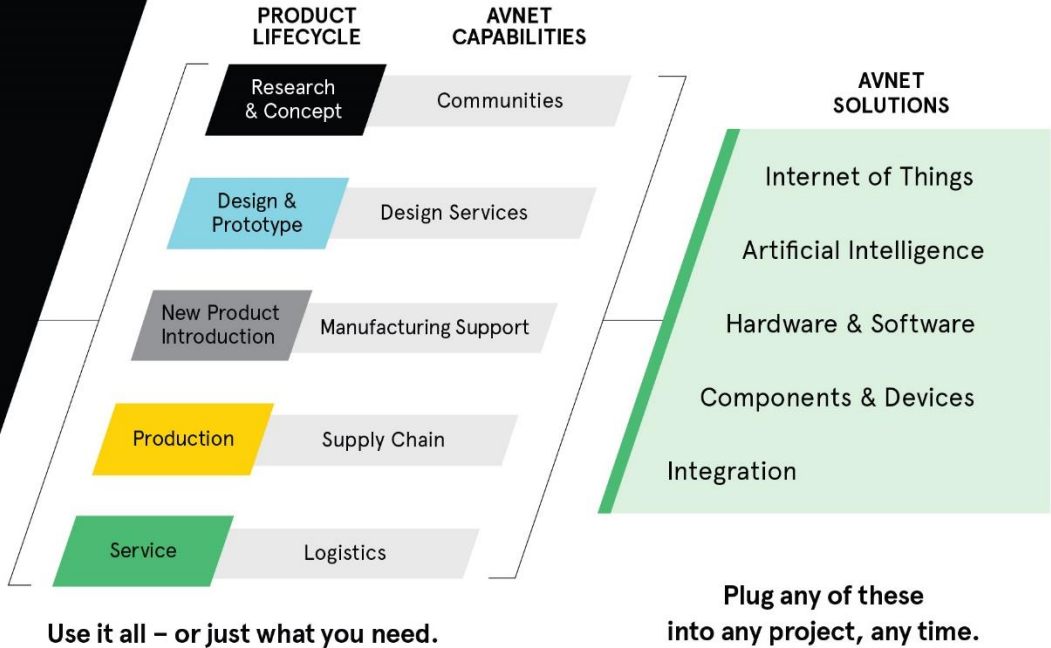
**Marketing Automation:** enables lead-sharing integration between Farnell and EC

**Salesforce Implementation:** deployed in U.S., Asia and parts of Europe

## Your ideas. Our Ecosystem.

Bring us your theories, your visions, your pipe dreams—we're ready to take on today's toughest challenges. Wherever you may be in your product journey, we have the custom solution to help get tomorrow's technology to market...fast.

**EXPLORE AVNET'S ECOSYSTEM**



## 4 Leveraging ecosystem to expand opportunities

- Witekio acquisition strengthens overall solutions offering
  - Part of larger strategy of building vertical solutions and scalable platforms
  - Complements previous Softweb Solutions acquisition
- Creating opportunities with non-traditional customers
  - Coffee retailers, fitness equipment manufacturers and beauty companies, etc.
  - Proves Avnet's unique position to be an end-to-end solutions provider
- Softweb continues to gain momentum
  - Sales pipeline of IoT Connect continues to grow

## The Solution: Water purifier solution Business case & IoT use case definition

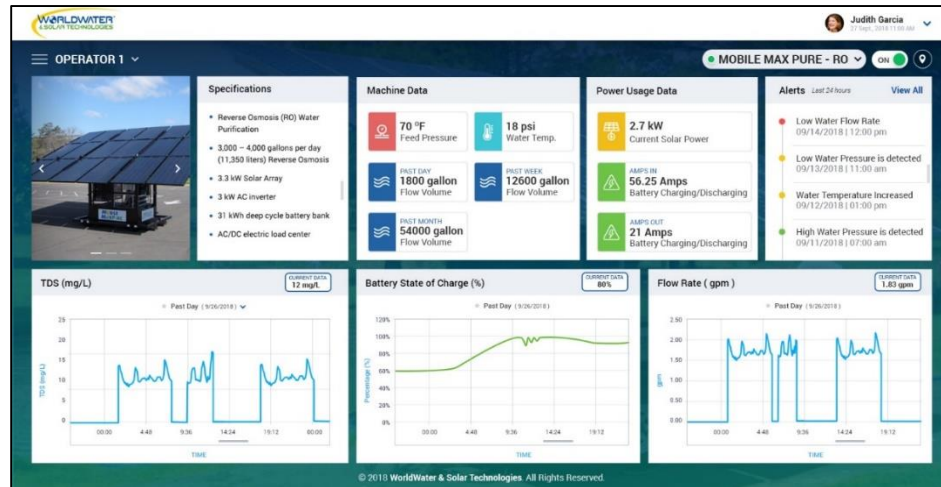
- Web application for remote monitoring
- Solar-power water purification tracking

## Softweb's Role

- IoT-based remote monitoring solution
- Custom hardware kit connected via Aeris
- Web application that monitors machine sensors

## Impact to customer

- Better asset tracking
- Matured diagnostic capabilities
- Improved insights through usage reports
- Deeper understanding of unit production



## 5 Driving performance and operational excellence

- Avnet remains aggressive in plans to improve execution
  - On track to pull forward \$50M of operating expense reductions
  - Continued transformation activities include moving to lower cost geos
    - Growing Serbia office
    - Expanding Guadalajara facility
    - Building out Bangalore

# Financial Overview

Tom Liguori  
Chief Financial Officer



# Q1 2020 Financial highlights

**\$4.6B** Revenues slightly above midpoint of guidance, down 1% QoQ

**11.8%** Gross margin, down 76 bps YoY

**-\$19M** Reduction in SG&A expenses YoY

**4 days** Improved sequentially to 84 days from 88 days

**\$196M** Cash flow generated this quarter

**104M** Diluted shares at end of 1Q20, down from 116M a year ago

**\$0.60** Adjusted EPS<sup>(1)</sup> at low end of guidance range

(1) Non-GAAP measure. See Non-GAAP Definitions section in the Appendix of this presentation

# Key metrics by business segment and region

## Electronic Components

- Revenues of **\$4.3B**, down 1% sequentially
- Operating margins of **2.6%** compared to 3.3% last quarter

## Americas

- Revenues of **\$1.2B**, down 4% YoY and sequentially
- Slowness in region felt across the industry and expected to continue

## EMEA

- Revenues of **\$1.5B**, down 14% YoY and 10% sequentially
- Constant currency down 11% YoY and 8% sequentially

## Asia

- Revenues of **\$1.9B**, up 9% sequentially, down 7.6% YoY
- Showed signs of stabilization after macro slowdown in March quarter

## Farnell

- Revenues of **\$336M**, down 11% YoY
- Operating margins of **6.5%**, impacted by lower volumes and pricing



# Q1 2020 Balance sheet and cash flow performance

**\$133M** Cash returned to shareholders through stock buybacks and dividends

**\$1.2B** Net debt at end of quarter

**1.6** Net debt leverage ratio at end of quarter

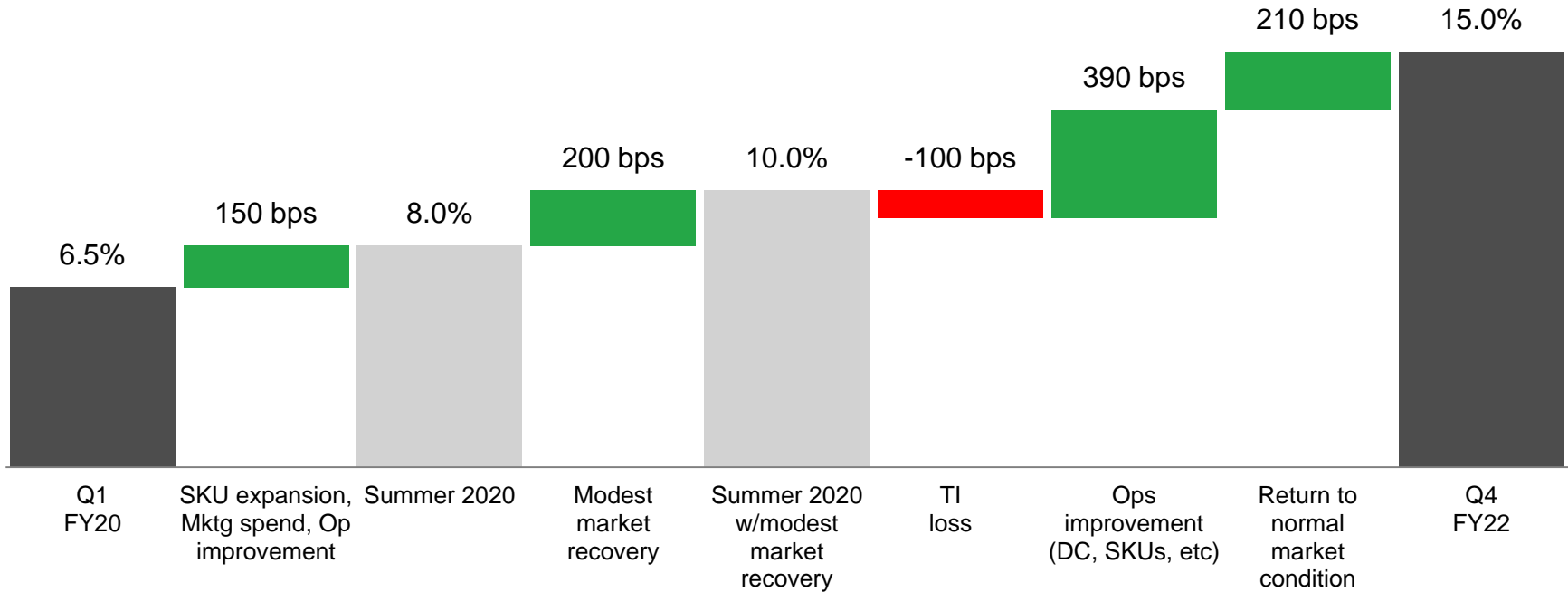
**\$196M** Cash provided by operations, well above our \$100M target

**104M** Diluted shares; on a path to get below 100M in coming quarters

# Managing through the macro slowdown

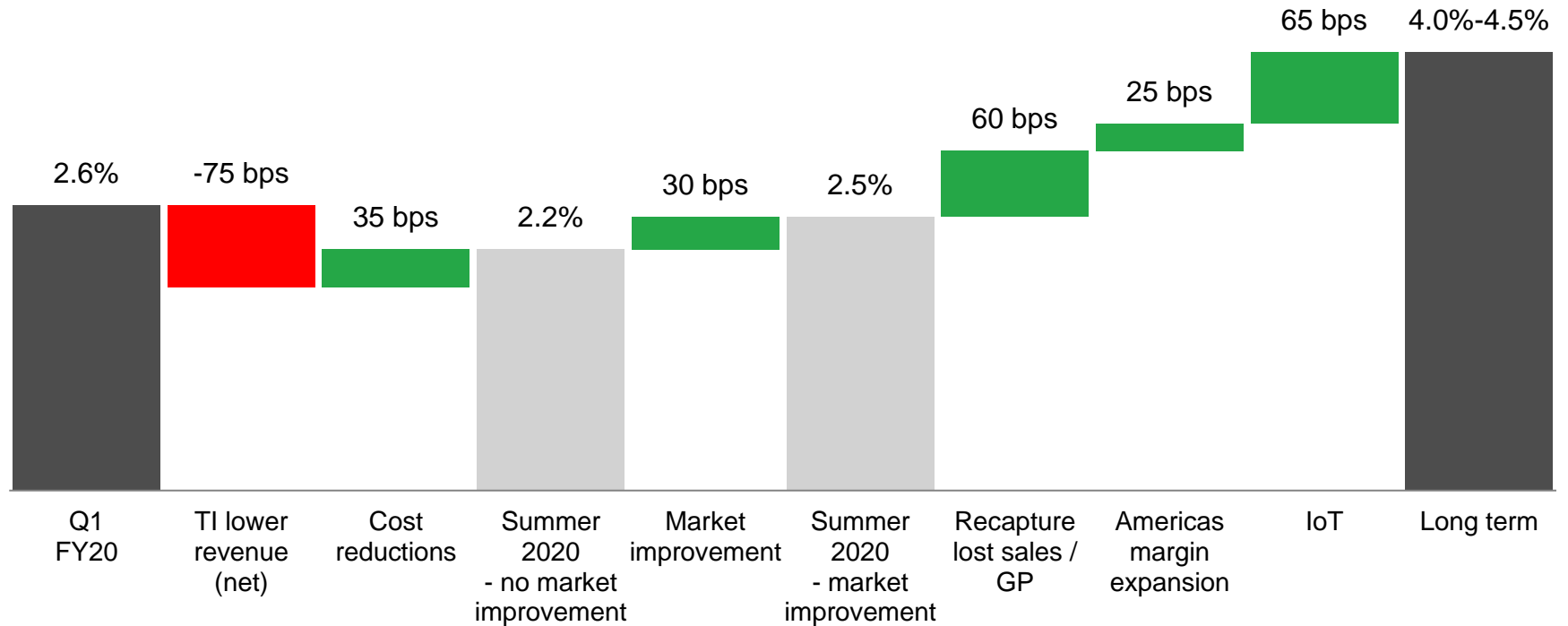
- Long-term focus:
  - Grow higher margin businesses including Farnell and IoT
- Near-term focus:
  - Return Farnell to double digit operating margins
  - Adjust business for TI transition
  - Manage costs and generate cash for share buyback

# Farnell operating margin recovery



8%-10% achievable by summer 2020; 15% achievable by the end of FY22

# EC operating margin – TI transition



EC op margin range of 2.2% to 2.5% by summer 2020, 4.0% to 4.5% longer term

# Near- and long-term operating margin targets

		Operating income margin		
		EC	Farnell	Total
Summer 2020	No market recovery	2.2%	8.0%	2.1%
	Modest market recovery	2.5%	10.0%	2.6%
Longer term		4.0% - 4.5%	15.0%	4.5% - 5.0%

# Outlook for Q2 FY20

*(ending on December 28, 2019)*

Metric	Guidance Range	Midpoint
Sales	\$4.2B - \$4.6B	\$4.4B
Non-GAAP Adjusted Diluted EPS <sup>(1)</sup>	\$0.35 – \$0.45	\$0.40
Estimated Annual Tax Rate	19% - 23%	21%

- Macroeconomic slowdown impacting results across the board
- Solid plan to recover Farnell
- Continue to manage factors within our control

# Q&A Session

# Thank you

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# Appendix

# Financial scorecard: Q1 FY20 progress report

(\$M)	Target	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Progress
<b>Growing higher margin business</b>							
% of AVT revenue from higher margin business	45%	38.8%	38.9%	41.2%	41.9%	38.7%	●
<b>Optimizing cost and operating income</b>							
Adjusted op expense as % of sales <sup>(1)</sup>		8.9%	8.9%	9.5%	9.4%	9.4%	●
Adjusted op expense as % of GP\$ <sup>(1)</sup>	65%	71.3%	71.6%	71.5%	73.7%	80.3%	●
Adjusted op income % <sup>(1)</sup>	4.5% - 5.0%	3.59%	3.54%	3.79%	3.34%	2.32%	●
Adjusted op income <sup>(1)</sup>		\$183	\$179	\$178	\$156	\$107	●
<b>Deploying capital to highest returns</b>							
Net working capital days	< 70 days	83	86	91	88	84	●
Share repurchase \$M		156.9	175.1	117.2	117.5	112.1	●
# dilutive shares (M)		116.5	111.5	108.8	105.6	104.4	●

# Non-GAAP Definitions

In addition to disclosing financial results that are determined in accordance with generally accepted accounting principles in the United States (“GAAP”), the Company also discloses certain non-GAAP financial information including (i) adjusted operating income, (ii) adjusted operating expenses, (iii) adjusted other income (expense), (iv) adjusted income tax expense, (v) adjusted income from continuing operations, and (vi) adjusted diluted earnings per share. See additional discussion, definitions and reconciliations of Non-GAAP measures included as Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission on October 24, 2019, which can be found on the Company’s website at [www.ir.avnet.com](http://www.ir.avnet.com).

There are also references to the impact of foreign currency in the discussion of the Company’s results of operations. When the U.S. Dollar strengthens and the stronger exchange rates of the current year are used to translate the results of operations of Avnet’s subsidiaries denominated in foreign currencies, the resulting impact is a decrease in U.S. Dollars of reported results. Conversely, when the U.S. Dollar weakens and the weaker exchange rates of the current year are used to translate the results of operations of Avnet’s subsidiaries denominated in foreign currencies, the resulting impact is an increase in U.S. Dollars of reported results. In the discussion of the Company’s results of operations, results excluding this impact are referred to as “constant currency.” Management believes sales in constant currency are useful measures for evaluating current period performance as compared with prior periods and for understanding underlying trends. In order to determine the translation impact of changes in foreign currency exchange rates on sales, income or expense items for subsidiaries reporting in currencies other than the U.S. Dollar, the Company adjusts the average exchange rates used in current periods to be consistent with the average exchange rates in effect during the comparative period.

Management believes that operating income and operating expenses adjusted for restructuring, integration and other expenses, goodwill impairment expense and amortization of acquired intangible assets and other, are useful measures to help investors better assess and understand the Company’s operating performance. This is especially the case when comparing results with previous periods or forecasting performance for future periods, primarily because management views the excluded items to be outside of Avnet’s normal operating results or non-cash in nature. Management analyzes operating income and operating expenses without the impact of these items as well as other income (expense) excluding certain amounts as an indicator of ongoing margin performance and underlying trends in the business. Management also uses these non-GAAP measures to establish operational goals and, in many cases, for measuring performance for compensation purposes.

Additional non-GAAP metrics management uses are adjusted operating income margin, which is defined as adjusted operating income (as defined above) divided by sales and adjusted operating expense to gross profit ratio, which is defined as adjusted operating expenses (as defined above) divided by gross profit.

Management also believes income tax expense, income from continuing operations and diluted earnings per share from continuing operations adjusted for the impact of the items described above and certain items impacting other expense and income tax expense are useful to investors because they provide a measure of the Company’s net profitability on a more comparable basis to historical periods and provide a more meaningful basis for forecasting future performance. Adjustments to income tax expense and the effective income tax rate include the effect of changes in tax laws including recent tax law changes in the U.S., changes in valuation allowances and unrecognized tax benefits, income tax audit settlements and adjustments to the adjusted interim effective tax rate based upon the expected annual adjusted effective tax rate. Additionally, because of management’s focus on generating shareholder value, of which net profitability is a primary driver, management believes income from continuing operations and diluted earnings per share from continuing operations excluding the impact of these items provides an important measure of the Company’s net profitability for the investing public.