

Avnet Fiscal Second Quarter 2019 Financial Results

Bill Amelio
Chief Executive Officer



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



Q2 2019 overall highlights



- Solid growth across Avnet ecosystem and worldwide
 - Double digit sales growth YoY
 - Adjusted diluted EPS⁽¹⁾ up 33% YoY
- Transformation resulted in strong operating leverage
- Continuing to grow in a mixed macro environment
 - Western Europe steady
 - Americas showing momentum
 - Defense and aerospace healthy
 - Strong industrial demand; transportation doing well

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

1 Accelerating electronic components business

- Americas improvement continues
 - Execution in the region dramatically improved
 - Forward indicators show healthy pipeline
 - Customer, supplier confidence restored
- Europe sales up double digits YoY
 - Remains most profitable region
- Asia sales up double digits YoY
 - Monitoring market trend indicators very closely
 - Book-to-bill ratio below parity

1 Accelerating electronic components business

- Strong quarter for Interconnect, Passive and Electromechanical (IP&E) business
 - Sales grew >16% YoY
 - Margins higher than corporate average
- Supplier line card continues to expand
 - Added two new global supplier franchises
 - Extended four regional supplier franchises

2 Scaling higher profit margin businesses

Premier Farnell

5% Q2 sales growth YoY, constant currency

19% Q2 operating income growth YoY

+7 New global suppliers added

AVID

2x Q2 sales growth YoY

Premier Farnell: New suppliers added	 
	
	
	

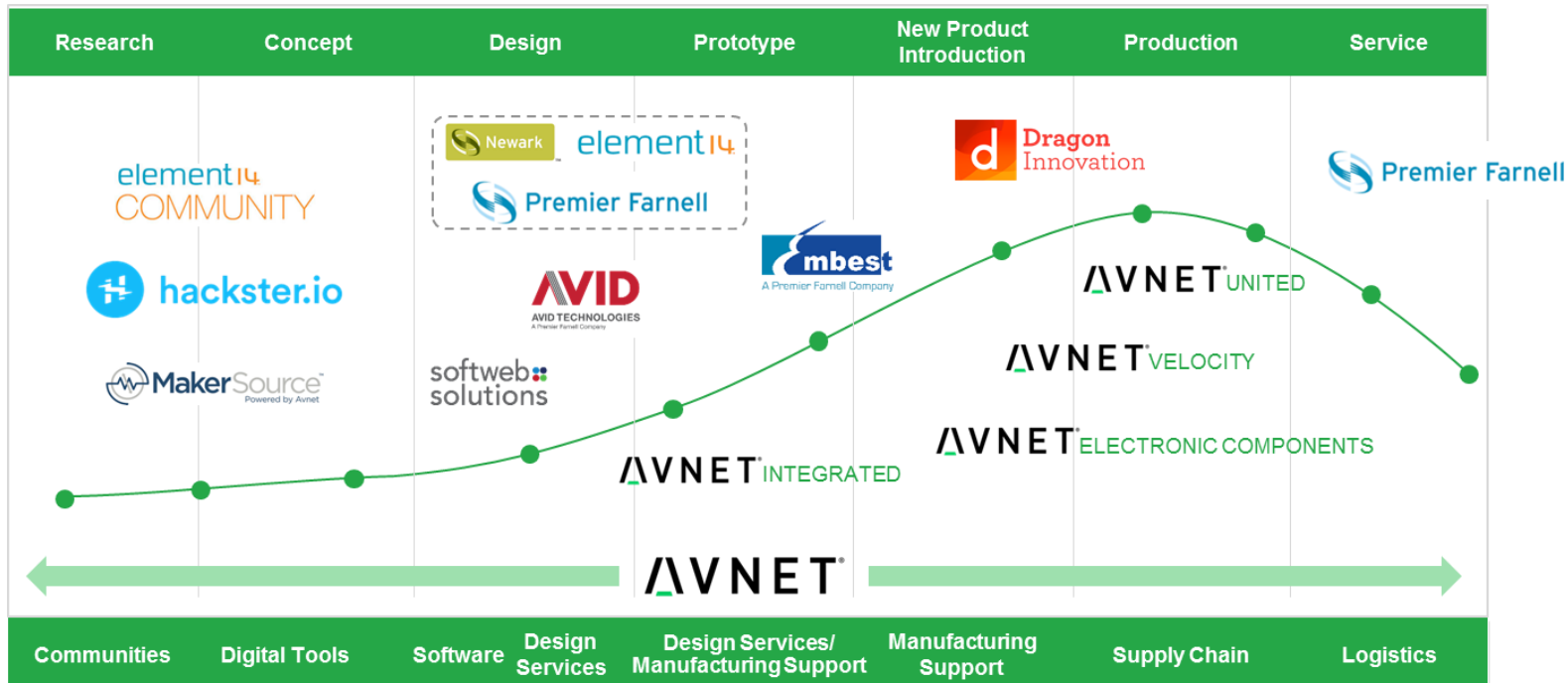
3 Digital capabilities driving growth and efficiency

Significant reduction in quote turnaround times → **margin uplift**

Tools tying ecosystem together → **improved customer experience and lead process**

Simplified IT roadmap → **functional enhancements and savings**

4 Leveraging ecosystem to expand opportunities



- 3-year total IoT pipeline more than tripled in first half of FY2019
- Partners have seen our end-to-end capability and have started sending leads
- Customers have become opportunity for multiple revenue sources

4 Leveraging ecosystem to expand opportunities

Smart Health Company Deal

- Multi-million dollar deal on breakthrough healthcare device

Crypto-Currency Opportunities

- Closed several opportunities, leveraging ecosystem from design to manufacturing

Softweb Solutions Acquisition

- Acquisition enhances ecosystem and IoT capability

Microsoft Azure Partnership

- FIRST Azure Sphere distribution partner
- Winning non-traditional customer business as result of partnership (e.g. Starbucks)

5 Driving performance and operational excellence *through continuous improvement*

- Q2 results show earnings leverage from transformation and cost optimization
- Migrated select sales and customer service operations to low-cost regions
- Reduced costs while improving customer satisfaction scores

On track to deliver \$245M in overall savings

Financial Overview

Tom Liguori
Chief Financial Officer



Q2 2019 Financial highlights

- \$5.05B** Q2 sales up 13.1% YoY in constant currency
- +33%** Increase in adjusted diluted EPS⁽¹⁾ YoY to \$1.04
- \$12M** YoY decline in SG&A
- 10M** Reduction in diluted share count YoY
- \$0.20** Quarterly dividend payment, up 11% from prior year quarter
- \$197M** Cash returned to shareholders

Key highlights by business and region (YoY)

Premier Farnell

- Sales grew **2.8%** (5.2% in constant currency)
- Operating income margin of **10.8%**

Electronic Components

- Sales grew **12.4%** (13.8% in constant currency)
- Operating income margin increased to **3.4%**

Americas

- Sales grew **7.5%**
- Operating margins continue to expand

EMEA

- Sales grew **10.8%**, (14.5% in constant currency)
- Leads all regions in operating margin percentage

Asia

- Sales grew **15.2%** (15.6% in constant currency)
- Book-to-bill ratio is below 1.0









Q2 2019 Income statement key metrics (YoY)

12.5%	Gross margin; impacted by higher mix of lower-margin Asia sales
\$12M	Reduction in SG&A expenses
\$62M	Restructuring net; to realign certain IT, distribution, business operations
\$178.8M	Adjusted operating income ⁽¹⁾ , up 27.5%
3.5%	Adjusted operating income margin ⁽¹⁾ , up 44 bps
21%	Adjusted tax rate ⁽¹⁾
-\$0.02	Per share foreign currency impact

Q2 2019 Balance sheet and cash flow performance

- 86 Net working capital days; increased by 3 days in the quarter
- \$72M Cash provided by operations
- 2.4 Leverage ratio maintained in conservative range; up from 2.0 sequentially
- \$197M Cash returned to shareholders through dividend & share repurchases
- \$482M Cash balance at end of quarter
- \$282M Increase in net debt at end of quarter

Financial scorecard: Q2 FY19 progress report

(\$M)	Target	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Progress
Growing higher margin business							
% of AVT revenue from higher margin business	45%	43.4%	42.0%	40.7%	38.5%	38.1%	
Optimizing cost and operating income							
Adjusted op expense as % of sales ⁽¹⁾		10.2%	10.1%	9.5%	8.9%	8.9%	
Adjusted op expense as % of GP\$ ⁽¹⁾	65%	76.7%	73.9%	72.7%	71.3%	71.6%	
Adjusted op income % ⁽¹⁾	4.5% - 5.0%	3.10%	3.56%	3.56%	3.59%	3.54%	
Adjusted op income ⁽¹⁾		\$140	\$171	\$180	\$182	\$179	
Deploying capital to highest returns							
Net working capital days	< 70 days	94	90	84	83	86	
Share repurchase \$M		67.4	70.0	117.5	156.9	175.1	
# dilutive shares		121.7	119.6	117.9	116.5	111.5	

Outlook for Q3 FY19

(ending on March 30, 2019)

Metric	Guidance Range	Midpoint
Sales	\$4.5B - \$4.9B	\$4.7B
Adjusted Diluted EPS ⁽¹⁾	\$1.03 - \$1.13	\$1.08
Estimated Tax Rate	19% - 23%	21%

At midpoint, guidance represents:

- 2% revenue decline in sales Y/Y
- 6% adjusted diluted EPS⁽¹⁾ growth Y/Y

Q&A Session

Appendix

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 January 24, 2019, which can be found on the Company’s website at 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.

Thank you

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Reach Further[™]

