

# Avnet Fiscal Fourth 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 electronic components, 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



# Q4 and fiscal year 2019 key metrics



- Delivered quarterly sales of \$4.7B, in line with guidance
- Achieved 3% FY19 sales growth despite macro headwinds
  - Exemplifies strength of strategic plan
- Remained agile in Q4 as market conditions changed
  - Accelerated cost-reduction programs
  - Kept SG&A expenses on a downward trend
- Pricing and margin pressure greater than anticipated
  - Lower demand and increased supply contributed
  - Exacerbated by global trade tensions and tariffs

# Q4 2019 key metrics



- Adjusted operating income margin<sup>(1)</sup> was 3.3%
- Another quarter of strong positive cash flow, \$335M
- Ecosystem strategy continues to prove effective
  - Building on core expertise
  - Seizing opportunities to expand into solutions

# 1 Accelerating electronic components business

- Quarterly sales of \$4.3B
  - Maintained operating income margin at 3.3% despite 7.1% YoY sales decrease
- Avnet Integrated made good progress over the past fiscal year
  - Improved mix of customers
  - Expecting significant margin gains upon completion of transformation
  - Primary focus is on higher margin embedded, displays and data center solutions

# 1 Accelerating electronic components business

- Americas
  - Saw nearly 10% growth YoY in demand creation design-win dollars
  - Another significant increase in NPS indicates customer satisfaction on the rise
  - Book-to-bill ratio above parity despite challenging market conditions
- EMEA revenues were down, but in line with expectations
  - IP&E segment grew faster than semiconductors, finishing ahead of target
  - Received more than 20 awards from suppliers in this quarter alone
  - Book-to-bill ratio below parity
- Asia revenue up sequentially, but declined YoY
  - Inventory correction in the region persists
  - Book-to-bill ratio ended below parity



## 2 Farnell: scaling higher profit margin businesses

- Macroeconomic trends hit the catalog industry particularly hard
  - Demand shifted from high service catalog back to broadline distributors
  - Revenue was \$343.5M, down 6.5% sequentially, 12% YoY
- Mix and pricing pressure resulted in lower margins
  - Sales of higher margin products in IP&E declined
  - Expecting industry-wide pricing pressure into calendar 2020
  - Transformation and integration strategies on track to improve margins long term



## 2 Farnell: scaling higher profit margin businesses

- Very strong reception to Raspberry Pi launch
  - The most powerful model to date
  - Farnell is the largest licensed distributor of Raspberry Pi
  - Exclusive agreement enabled Avnet SmartEdge Industrial IoT Gateway
  - Success of launch reinforces position as market leader in Raspberry Pi
- 159,000 SKUs added to Farnell website

### 3 Digital transformation driving growth

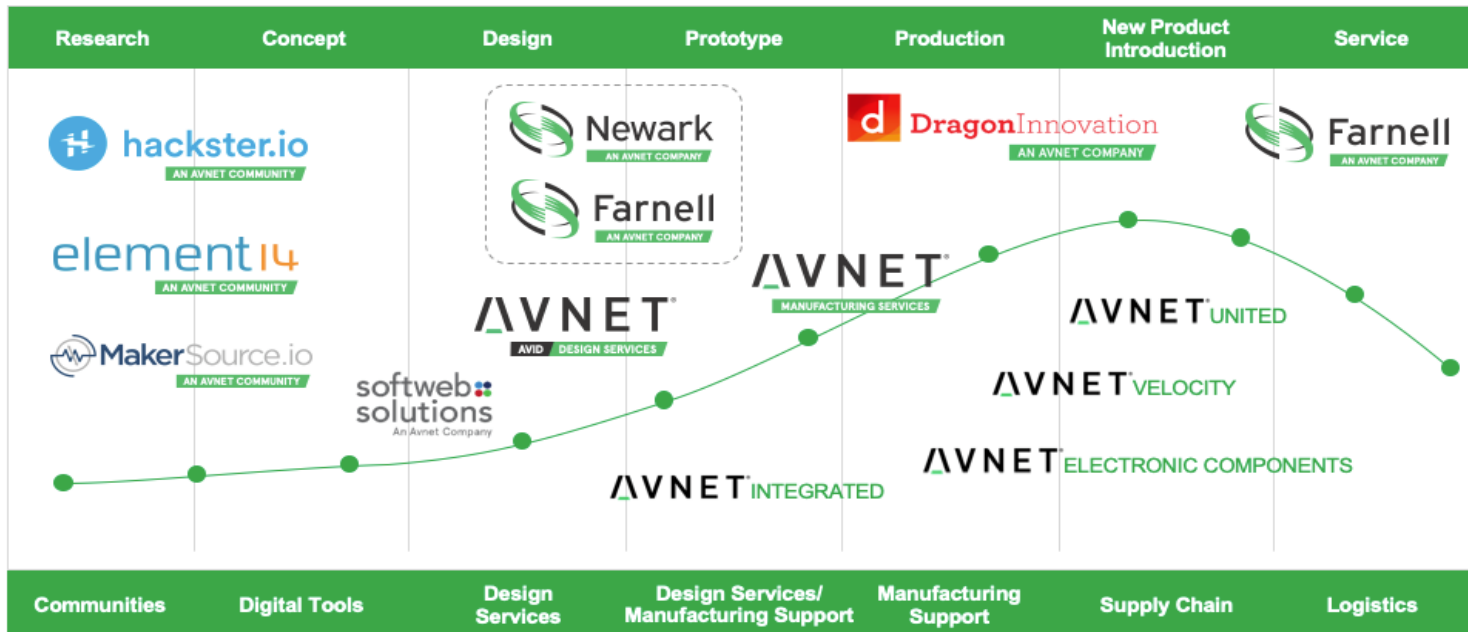
**Robotic Process Automation:** >50 projects released in FY19 with AI pricing on the way

**CRM:** deployed in Americas and Asia Pacific, with Europe coming onboard soon

**Lead sharing:** marketing automation generated thousands of leads, millions in sales

**AVAIL:** improving penetration into demand creation category

## 4 Leveraging ecosystem to expand opportunities



- Avnet uniquely positioned to be end-to-end provider in data-driven economy
- Three-year IoT pipeline has reached \$630M with potential to scale further
- Microsoft partnership continues to deliver customer opportunities

## 5 Driving performance and operational excellence *through continuous improvement*

- Digital tools have given us invaluable customer insights and data
  - Improved visibility laying the foundation for driving excellence for customers
- Continuing to monitor new opportunities by vertical
- Watching key indicators in order to best manage through continued correction
  - Focused on areas within our control, regardless of macro environment
  - Plans in place to remain agile and navigate through challenges

***Committed to customer satisfaction, solid execution and long-term growth***

# Financial Overview

Tom Liguori  
Chief Financial Officer



# Q4 2019 Financial highlights

- \$4.7B** Revenues in the quarter within guidance
- 12.7%** Gross margin down 30 bps YoY
- \$41M** Reduction in SG&A expenses YoY
- 18.9%** Adjusted tax rate<sup>(1)</sup> for the quarter (20.5% for the year)
- 106M** Diluted shares at end of FY19, down from 118M YoY
- \$0.95** Adjusted EPS<sup>(1)</sup>, down 4% YoY

# Key metrics by business segment and region

## Farnell

- Revenues of **\$343.5M**, down 12% YoY
- OI down \$12.4M sequentially with operating margin of **9.7%**

## Electronic Components

- Revenues of **\$4.3B**, flat sequentially
- Stable gross margins, lower SG&A helped stabilize op margins of **3.3%**

## Asia

- Revenues of **\$1.8B**, up 7% sequentially, down 8.5% YoY
- Signs of stabilizing since March quarter slowdown

## EMEA

- Revenues of **\$1.6B**, down 5.9% sequentially
- Top line was in line with guidance

## Americas

- Revenues of **\$1.3B**, down 2.4% sequentially, down 5.4% YoY
- EC expanded operating margins with GM increase and lower expenses YoY



# Q4 2019 Balance sheet and cash flow performance

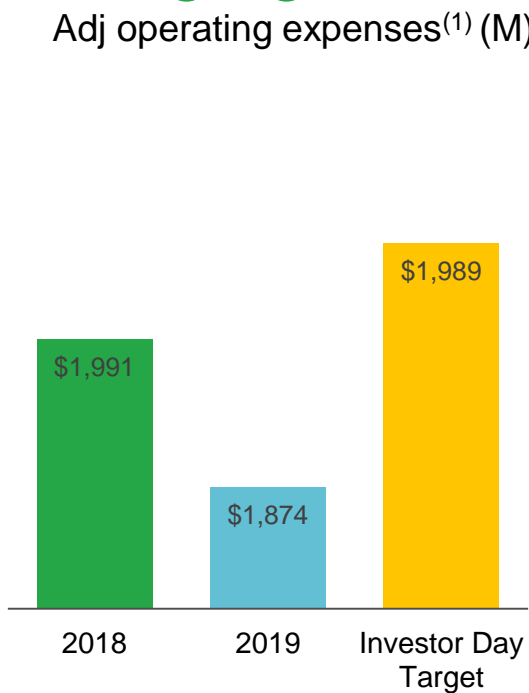
- \$335M** Cash provided by operations; \$604M in second half of FY19
- \$138M** Cash returned to shareholders through dividend & share repurchases
- \$137M** Goodwill impairment related to EC, driven by declining macro environment
- \$354M** Reduced revolving debt in the quarter
- \$1.2B** Net debt at end of quarter
- 1.4** Net debt leverage ratio at end of quarter

# Farnell's path to growth

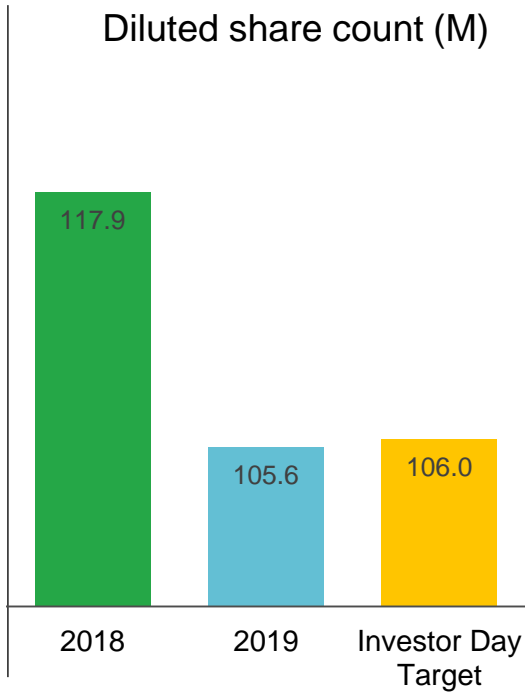
- Maintain long-term goal of 15% operating margins
- Continuing to work toward \$20M+ of annual savings
  - Integrating back office functions with Avnet
  - Transitioning to lower cost geographies
- New EMEA DC will enable more SKUs and reduce operating cost ~\$20M/year
  - Scheduled to ramp up in second half FY20
- To expand gross margins, investing in:
  - Pricing and quoting tools
  - Targeted marketing spend
  - eCommerce

# Managing the variables we can control

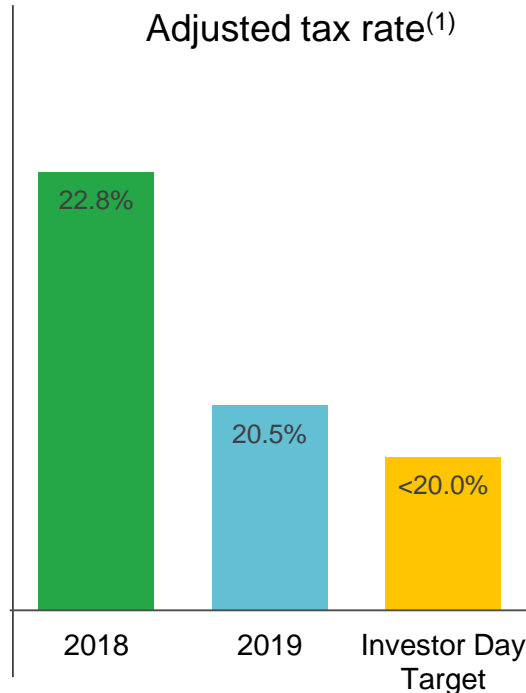
Adj operating expenses<sup>(1)</sup> (M)



Diluted share count (M)



Adjusted tax rate<sup>(1)</sup>



Operating expenses, share count and tax rate close to target after one year

# Outlook for Q1 FY20

*(ending on September 28, 2019)*

Metric	Guidance Range	Midpoint
Sales	\$4.4B - \$4.7B	\$4.55B
Non-GAAP Adjusted Diluted EPS <sup>(1)</sup>	\$0.60 – \$0.70	\$0.65
Estimated Annual Tax Rate	19% - 23%	21%

- Continued pricing pressure across all businesses
- Sequential declines in Americas and EMEA
- Stable business trends in Asia

# Q&A Session

# Thank you



# Appendix



# Financial scorecard: Q4 FY19 progress report

(\$M)	Target	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Progress
<b>Growing higher margin business</b>							
% of AVT revenue from higher margin business	45%	41.2%	39.0%	39.0%	41.2%	42.0%	●
<b>Optimizing cost and operating income</b>							
Adjusted op expense as % of sales <sup>(1)</sup>		9.5%	8.9%	8.9%	9.5%	9.4%	●
Adjusted op expense as % of GP\$ <sup>(1)</sup>	65%	72.7%	71.3%	71.6%	71.5%	73.7%	●
Adjusted op income % <sup>(1)</sup>	4.5% - 5.0%	3.56%	3.59%	3.54%	3.79%	3.34%	●
Adjusted op income <sup>(1)</sup>		\$180	\$183	\$179	\$178	\$156	●
<b>Deploying capital to highest returns</b>							
Net working capital days	< 70 days	84	83	86	91	88	●
Share repurchase \$M		117.5	156.9	175.1	117.2	117.5	●
# dilutive shares (M)		117.9	116.5	111.5	108.8	105.6	●

# 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 August 8, 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.