



Avnet, Inc. (AVT)

Updated August 26th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	0.0%	Market Cap:	\$5.05 B
Fair Value Price:	\$37	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	09/11/2024
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.7%	Dividend Payment Date:	09/25/2024
Dividend Yield:	2.4%	5 Year Price Target	\$47	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Avnet Inc. (AVT) is a global distributor of electronic components and technology solutions, connecting semiconductors and other components suppliers to customers in 140 countries. Avnet is the third-largest semiconductor distributor in the world and the largest for European chip distribution. The company has two main operating segments: the Electronic Components segment, which sells electrical components, semiconductors, interconnect, passive and electromechanical components, and the Farnell segment, which sells kits, tools, test measurement, and electronic components. The Electronic Components segment is the primary segment of the company, constituting 92.6% of 2022 sales, while the Farnell segment's contribution to sales was ~7.4%. The company operates across the Americas, Europe, the Middle East, Africa (EMEA), and Asia/Pacific regions.

On August 8th, 2024, Avnet announced Q4 2024 results, reporting non-GAAP adjusted diluted EPS of \$1.22 for the quarter, beating estimates by \$0.25.

The operating income margin was 3.0%, while the adjusted operating income margin was 3.5%. The operating income margin of its Electronic Components segment went up to 4.1%, with Farnell at 4.0%. During the quarter, Avnet generated \$274 million in operating cash flow and returned \$107 million to shareholders through share repurchases and dividends.

For the full fiscal year 2024, Avnet recorded \$23.8 billion in sales versus \$26.5 billion a year ago. Full-year diluted EPS was \$5.43, down from \$8.26, while adjusted diluted EPS came in at \$5.34, compared to \$8.06 last year. Operating income margin stood at 3.6 %, with an adjusted operating income margin of 3.8 %. The solid performances of the segments are seen in the operating margins for Electronic Components and Farnell at 4.3 % and 4.1 %, respectively. Avnet also generated \$690 million in operating cash flow for the year and returned \$277 million to shareholders through share repurchases and dividends.

Looking ahead, their CEO, Phil Gallagher, was quite confident in the company's strategy as they go into fiscal year 2025 and expect to gain value from a recovery in the markets.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.49	\$4.22	\$3.24	\$3.55	\$4.11	\$2.02	\$2.70	\$6.93	\$8.37	\$5.43	\$4.61	\$5.88
DPS	\$0.16	\$0.17	\$0.18	\$0.19	\$0.20	\$0.21	\$0.21	\$0.26	\$1.16	\$1.24	\$1.32	\$1.68
Shares¹	134.5	127.4	123.1	115.8	104.0	98.8	99.6	97.3	97.3	91.8	88.0	71.2

Avnet has suffered some recent setbacks that have hurt its profitability and EPS growth. Starting in 2016, the company suffered from a failed implementation of a new ERP system in North America that has prolonged impacted the firm's profitability and efficiency. Management's mistakes and poor execution are reflected in the financials as the EPS dropped from \$4.49 in 2015 to \$2.02 in 2020. However, the company experienced significant EPS and profitability growth in 2022.

We expect the company to continue its growth, but at a moderate pace, since despite the operational challenges, the company has a robust business model and will continue to do well in the coming years. The company has consistently reported double-digit revenue growth and has surpassed market expectations on EPS. Therefore, we used the midpoint

¹ Shares in millions.

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of analysts' EPS estimates of \$4.61 for 2025 and expect an annual EPS growth rate of 5.0% over the next five years, leading to our estimated EPS of \$5.88 by the end of the fiscal year 2030. Finally, we expect the company to maintain a healthy dividend distribution and forecast a dividend payment of \$1.68 in 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	9.7	10.0	12.6	11.8	10.5	14.3	14.7	6.2	5.6	10.1	11.9	8.0
Avg. Yld.	0.4%	0.4%	0.4%	0.5%	0.5%	0.7%	0.5%	0.6%	2.5%	2.3%	2.4%	3.6%

Avnet currently trades at a forward P/E of 11.9, higher than its normalized 10-year average P/E of 11.2 and five-year average P/E of 11.7. Even though the company operates in the cyclical sector and earnings growth has not been consistent, we believe it will continue to benefit from robust demand for its products in the communication and defense market. Hence, a P/E ratio of 8.0 would be a fair reflection of the business, in our view, which will result in a five-year price target of \$47.

Safety, Quality, Competitive Advantage, & Recession Resiliency

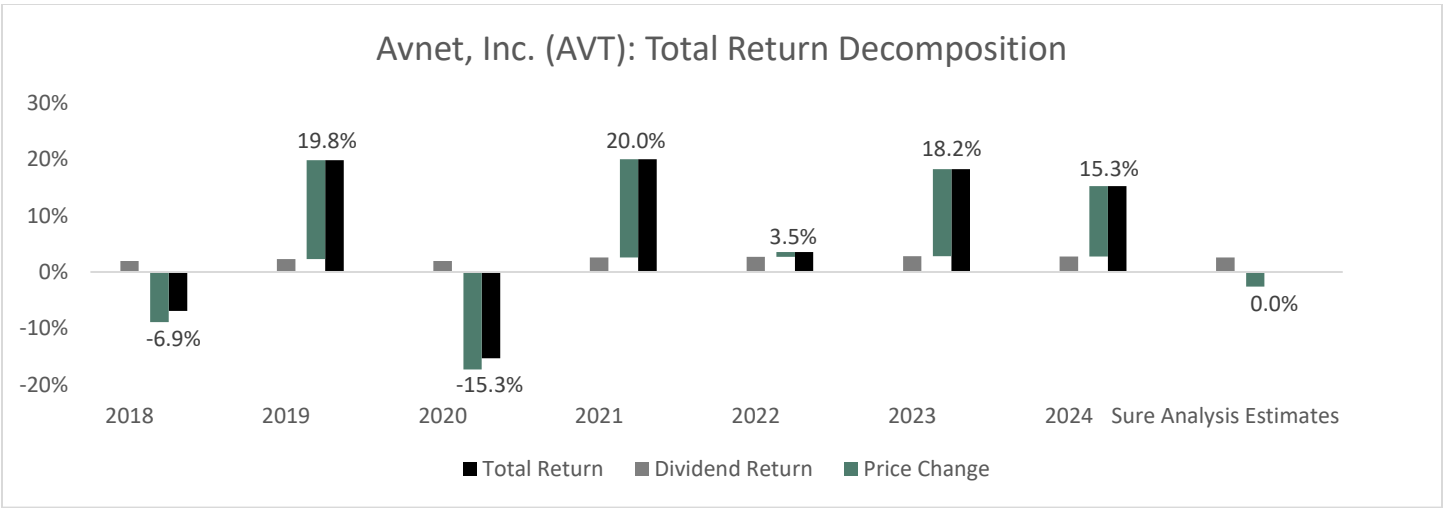
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	4%	4%	6%	5%	5%	10%	8%	4%	14%	23%	29%	29%

Avnet holds a competitive advantage as a global distributor of electronic components and solutions, benefiting from a vast network and industry expertise. Its recession performance has historically demonstrated resilience due to its diversified customer base spanning various sectors. However, its debt levels have fluctuated, impacting financial flexibility. Overall, AVT's competitive positioning and adaptable business model contribute to its stability during economic downturns, although debt management remains crucial for sustained growth. Avnet has paid increasing dividends over the past 11 years, with the payout ratio averaging 11.7%. The company has also been committed to increasing shareholder value by delivering a reliable dividend and continued share repurchases. Avnet returned \$165 million to shareholders in fiscal 2024 through share repurchases, representing 3.6% of shares outstanding, demonstrating its commitment to enhancing shareholder value.

Final Thoughts & Recommendation

Although Avnet has suffered from implementation failures that have impacted its efficiency and profitability, the company remains the third-largest chip distributor globally. Moreover, it holds the top market share in Europe. However, we maintain our rating to sell premised our total annual return projection of 0.0% for the medium-term, derived from the forecasted earnings-per-share growth of 5.0% and a dividend yield of 2.4%, and multiple compression.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27,500	17,655	16,741	17,440	19,037	19,519	17,634	19,535	24,310	26,540
Gross Profit	3,226	2,210	2,078	2,369	2,527	2,486	2,063	2,241	2,965	3,182
Gross Margin	11.7%	12.5%	12.4%	13.6%	13.3%	12.7%	11.7%	11.5%	12.2%	12.0%
SG&A Exp.	2,341	1,515	1,460	1,788	1,991	1,875	1,842	1,875	1,995	1,967
D&A Exp.	137	82	80	155	235	181	243	189	155	143
Operating Profit	885	695	618	581	536	611	221	366	971	1,215
Op. Margin	3.2%	3.9%	3.7%	3.3%	2.8%	3.1%	1.3%	1.9%	4.0%	4.6%
Net Profit	546	572	507	525	(156)	176	(31)	193	692	771
Net Margin	2.0%	3.2%	3.0%	3.0%	-0.8%	0.9%	-0.2%	1.0%	2.8%	2.9%
Free Cash Flow	114	451	87	(489)	98	412	657	41	(268)	(908)
Income Tax	156	86	87	47	288	60	(99)	(20)	141	212

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,251	10,800	11,240	9,700	9,597	8,565	8,105	8,925	10,390	12,480
Cash & Equivalents	929	933	1,031	836	621	546	477	200	154	288
Acc. Receivable	5,221	5,054	2,770	3,338	3,641	3,168	2,928	3,576	4,301	4,764
Inventories	2,613	2,482	2,560	2,825	3,142	3,008	2,732	3,237	4,244	5,465
Goodwill & Int.	1,533	1,378	644	1,426	1,201	1,020	839	867	771	781
Total Liabilities	6,360	6,115	6,549	4,518	4,912	4,424	4,379	4,841	6,196	7,725
Accounts Payable	3,402	3,338	1,591	1,862	2,269	1,864	1,754	2,401	3,432	3,374
Long-Term Debt	2,074	1,978	2,492	1,779	1,655	1,720	1,425	1,214	1,612	3,059
Total Equity	4,890	4,685	4,691	5,182	4,685	4,140	3,726	4,084	4,193	4,752
LTD/E Ratio	0.42	0.42	0.53	0.34	0.35	0.42	0.38	0.3	0.38	0.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.0%	5.2%	4.6%	5.0%	-1.6%	1.9%	-0.4%	2.3%	7.2%	6.7%
Return on Equity	11.9%	11.9%	10.8%	10.6%	-3.2%	4.0%	-0.8%	4.9%	16.7%	17.2%
ROIC	8.2%	8.4%	7.3%	7.4%	-2.4%	2.9%	-0.6%	3.7%	12.5%	11.3%
Shares Out.	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6	99.8	93.4
Revenue/Share	196.26	127.21	125.71	135.56	158.76	176.16	175.51	195.02	243.55	284.22
FCF/Share	0.81	3.25	0.65	(3.80)	0.81	3.72	6.54	0.41	(2.69)	(9.73)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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