Avnet, Inc. (AVT)

Updated November 28th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	-1.7%	**Market Cap:**	$4.96 B
Fair Value Price:	$33	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/04/2024
% Fair Value:	166%	**5 Year Valuation Multiple Estimate:**	-9.6%	**Dividend Payment Date:**	12/18/2024
Dividend Yield:	2.4%	**5 Year Price Target**	$42	**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 October 30th, 2024, Avnet announced Q1 2025 results, reporting non-GAAP adjusted diluted EPS of $0.92 for the quarter was down from $1.61 in the prior year, but beat estimates by $0.07. Revenue of $5.6 billion was an 11.6% year-over-year decline due to softer market conditions, though sequential sales grew 0.7%.

The Electronic Components (EC) segment delivered $5.3 billion in sales, supported by a 6.2% growth in the Asia region, while Farnell segment sales fell 17.6% year-over-year due to ongoing challenges. Operating income margin for the quarter was 2.5%, with adjusted operating margin at 3.0%, reflecting cost management efforts. Cash flow from operations totaled $106 million, supporting continued investment in growth and shareholder returns.

CEO Phil Gallagher emphasized Avnet's strong execution amidst uneven market conditions, highlighting improvements in the Asia region and the company's focus on enhancing Farnell's operating model. Avnet returned nearly $100 million to shareholders through share repurchases, reducing outstanding shares by 2.1%, and paid $29 million in dividends. Looking ahead, the company guided fiscal Q2 revenue between $5.4 billion and $5.7 billion, with adjusted EPS expected in the range of $0.80 to $0.90. Avnet remains focused on capitalizing on profitable growth opportunities as market conditions stabilize, leveraging its global distribution capabilities and strategic partnerships.

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	***$4.08***	***$5.20***
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***
Shares[1]	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 of analysts' EPS estimates of $4.08 for 2025 and expect an annual EPS growth rate of 5.0% over the next five years,

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[1] Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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leading to our estimated EPS of $5.20 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	Now	2030
Avg. P/E	9.7	10.0	12.6	11.8	10.5	14.3	14.7	6.2	5.6	10.1	***13.3***	***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%***	***4.0%***

Avnet currently trades at a forward P/E of 13.3, 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 results in a five-year price target of $42.

Safety, Quality, Competitive Advantage, & Recession Resiliency

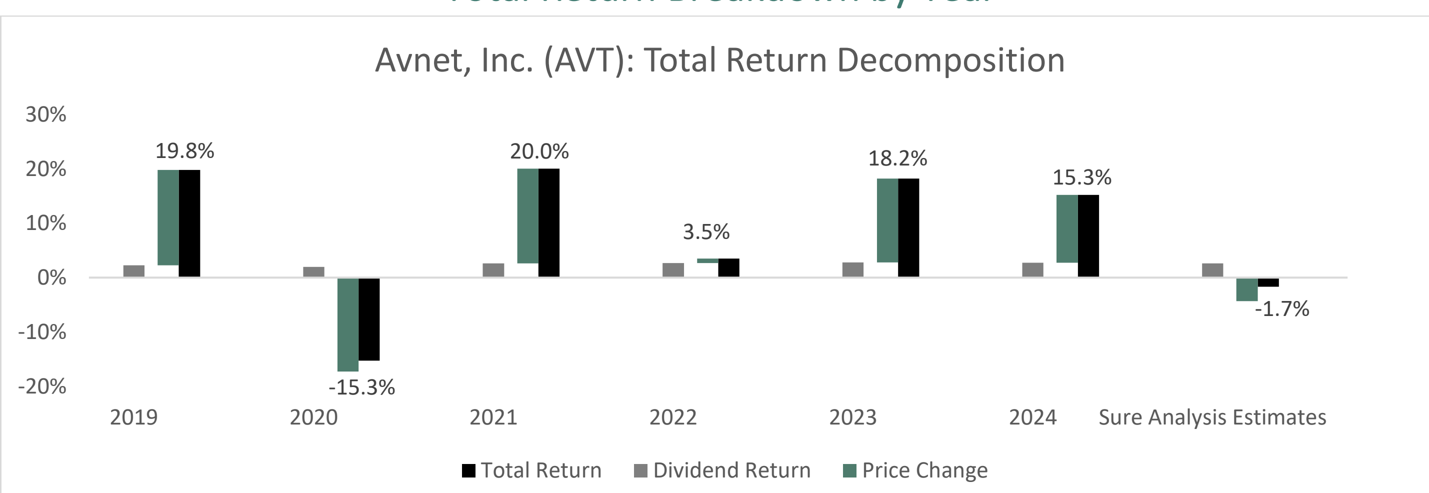
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	4%	4%	6%	5%	5%	10%	8%	4%	14%	23%	***32%***	***32%***

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 repurchased nearly $100 million of its shares during Q1 fiscal 2025, reducing outstanding shares by 2.1% and reinforcing its commitment to returning value to shareholders.

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 -1.7% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	17,655	16,741	17,440	19,037	19,519	17,634	19,535	24,310	26,540	23,760
Gross Profit	2,210	2,078	2,369	2,527	2,486	2,063	2,241	2,965	3,182	2,766
Gross Margin	12.5%	12.4%	13.6%	13.3%	12.7%	11.7%	11.5%	12.2%	12.0%	11.6%
SG&A Exp.	1,515	1,460	1,788	1,991	1,875	1,842	1,875	1,995	1,967	1,870
D&A Exp.	82	80	155	235	181	243	189	155	143	141
Operating Profit	695	618	581	536	611	221	366	971	1,215	897
Op. Margin	3.9%	3.7%	3.3%	2.8%	3.1%	1.3%	1.9%	4.0%	4.6%	3.8%
Net Profit	572	507	525	(156)	176	(31)	193	692	771	499
Net Margin	3.2%	3.0%	3.0%	-0.8%	0.9%	-0.2%	1.0%	2.8%	2.9%	2.1%
Free Cash Flow	451	87	(489)	98	412	657	41	(268)	(908)	464
Income Tax	86	87	47	288	60	(99)	(20)	141	212	134

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	10,800	11,240	9,700	9,597	8,565	8,105	8,925	10,390	12,480	12,210
Cash & Equivalents	933	1,031	836	621	546	477	200	154	288	311
Acc. Receivable	5,054	2,770	3,338	3,641	3,168	2,928	3,576	4,301	4,764	4,391
Inventories	2,482	2,560	2,825	3,142	3,008	2,732	3,237	4,244	5,465	5,469
Goodwill & Int.	1,378	644	1,426	1,201	1,020	839	867	771	781	781
Total Liabilities	6,115	6,549	4,518	4,912	4,424	4,379	4,841	6,196	7,725	7,284
Accounts Payable	3,338	1,591	1,862	2,269	1,864	1,754	2,401	3,432	3,374	3,346
Long-Term Debt	1,978	2,492	1,779	1,655	1,720	1,425	1,214	1,612	3,059	2,899
Total Equity	4,685	4,691	5,182	4,685	4,140	3,726	4,084	4,193	4,752	4,926
LTD/E Ratio	0.42	0.53	0.34	0.35	0.42	0.38	0.3	0.38	0.64	0.59

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.2%	4.6%	5.0%	-1.6%	1.9%	-0.4%	2.3%	7.2%	6.7%	4.0%
Return on Equity	11.9%	10.8%	10.6%	-3.2%	4.0%	-0.8%	4.9%	16.7%	17.2%	10.3%
ROIC	8.4%	7.3%	7.4%	-2.4%	2.9%	-0.6%	3.7%	12.5%	11.3%	6.4%
Shares Out.	134.5	127.4	123.1	115.8	104.0	98.8	99.6	99.8	93.4	91.8
Revenue/Share	127.21	125.71	135.56	158.76	176.16	175.51	195.02	243.55	284.22	258.69
FCF/Share	3.25	0.65	(3.80)	0.81	3.72	6.54	0.41	(2.69)	(9.73)	5.05

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