

## Arrow Electronics (ARW)

**\$69.08** (As of 05/29/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

### Summary

Arrow's first-quarter results were aided by a strong uptrend in design activity across all regions. Notably, a sequential improvement in backlog was also a positive. Strong momentum in infrastructure software, next-generation hardware and hybrid cloud architectures is encouraging as well. However, demand for electronic components and IT remained low during the first quarter, as a result of the coronavirus-led economic disruptions. Moreover, the quarter ended two days earlier on Mar 28, instead of Mar 30. This also had a negative impact on revenues. Also, consumption of Arrow's European exports continues to decline. Shares have underperformed the industry in the past year.

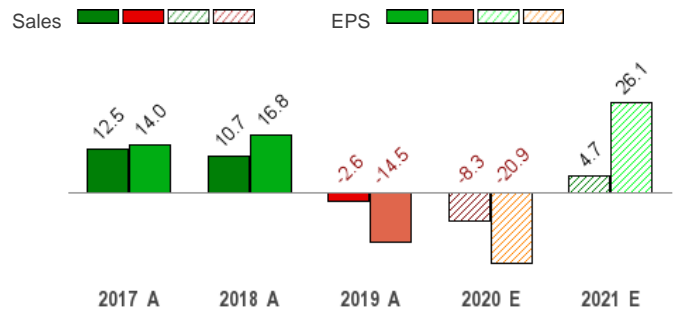
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$85.80 - \$39.25
20 Day Average Volume (sh)	723,851
Market Cap	\$5.5 B
YTD Price Change	-18.5%
Beta	1.46
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Electronics - Parts Distribution</a>
Zacks Industry Rank	Top 33% (83 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.6%
Last Sales Surprise	7.0%
EPS F1 Est- 4 week change	10.8%
Expected Report Date	NA
Earnings ESP	-2.4%
P/E TTM	10.4
P/E F1	11.6
PEG F1	4.3
P/S TTM	0.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,490 E	6,893 E	7,061 E	7,503 E	27,767 E
2020	6,381 A	6,371 E	6,561 E	7,204 E	26,518 E
2019	7,156 A	7,345 A	7,078 A	7,338 A	28,917 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.48 E	\$1.72 E	\$1.87 E	\$2.38 E	\$7.53 E
2020	\$0.97 A	\$1.45 E	\$1.59 E	\$2.19 E	\$5.97 E
2019	\$1.84 A	\$1.60 A	\$1.86 A	\$2.20 A	\$7.55 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/29/2020. The reports text is as of 06/01/2020.

## Overview

New York-based Arrow Electronics Inc. is one of the world's largest distributors of electronic components and enterprise computing products. Arrow provides one of the broadest product ranges in the electronic components and enterprise computing solutions distribution industries. Along with these, the company provides a wide range of value-added services to help customers reduce their marketing time, lower the total cost of ownership, introduce innovative products through demand creation opportunities and enhance their overall competitiveness.

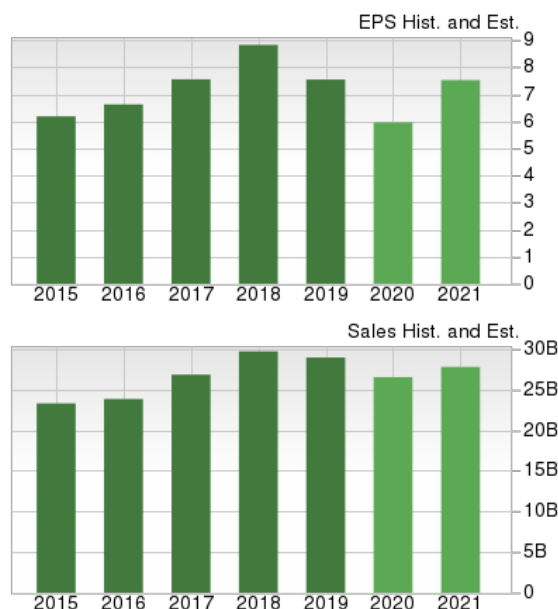
The company serves over 150,000 customers — original equipment manufacturers (OEMs), contract manufactures (CMs) and commercial customers — through 300 sales facilities and 45 distribution centers in over 80 countries. The company's customer base comprises OEMs, CMs, value-added resellers (VARs) and other commercial users. The company's products primarily target the industrial sector (companies manufacturing machine tools, factory automation equipment or robotics equipment).

Arrow's offerings can be broadly divided into two categories:

1) Global Components (70% of 2019 revenues): Arrow distributes electronic components to OEMs and CMs through its global components business segment. This segment deals in semiconductor products and related services; passive, electro-mechanical and interconnect products such as capacitors, resistors, potentiometers, power supplies, relays, switches and connectors; and computing and memory. Within this segment, semiconductor products and related services contributed nearly 72% of total Global Components sales in 2019.

2) Global Enterprise Computing Solutions (30%): Arrow provides enterprise computing solutions to VARs through its global ECS business segment. The computing segment includes products like servers, workstations, storage products, microcomputer boards and systems, design systems, desktop computer systems, software, monitors, printers, flat panel displays, system chassis and enclosures, controllers and communication control equipment.

Total adjusted revenues generated in 2019 were \$28.9 billion, down 2.6% year over year. Moreover, 60% of the revenues came from its operations outside the United States, reflecting the influence of foreign exchange rate on its revenues.



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## Reasons To Buy:

▲ A significant portion of the company's revenues comes from the sales of semiconductors. Despite the recent uncertainties and slowdown in the semiconductor market, per the recent predictions of WSTS, the semiconductor industry is expected to return to modest growth in 2020. Arrow Electronics' sale of semiconductor products accounted for approximately 42%, 46% and 45% of consolidated sales in 2016, 2017 and 2018, respectively. Therefore, an improvement in this market indicates an improvement in the company's business.

We believe that Arrow's core strength of providing best-in-class services and easy-to-acquire technologies will bolster its growth in the future.

▲ Arrow's core strength of providing best-in-class services and easy-to-acquire technologies is expected to bolster growth in the future. Moreover, the company has secured significant market share through its broad portfolio of products and services and continued efforts to maximize consumer satisfaction. The company's diverse product range includes ArrowSphere, UC in the Cloud solutions, engineering design capabilities and remote infrastructure-management (Live Virtual Help Desk) services. This platform is particularly designed for aggregating, merchandizing and delivering cloud-related services to system integrators, autonomous software dealers and IT service providers all over the world. There is a huge scope for the company to earn additional revenues through the enhancement of the cloud-related portal. We believe its expertise in understanding market dynamics and strong product portfolio will continue to support growth.

▲ Arrow has been active on the acquisitions front. Over the last three decades, the company had acquired as many as 45 businesses. In January 2018, the company acquired eInfochips which is specialized in chip designing for products and IoT solutions. The acquisition of eInfochips will not only broaden Arrow Electronics' IoT capabilities but will also add a large skilled talent pool. Apart from this, the acquisition will be accretive to the electronic parts distributor's top and bottom lines. Acquisitions are likely to enable Arrow to enter markets, diversify and broaden its product portfolio and maintain its leading position. We believe, the company's continued acquisitions are expected to be a significant contributor to its revenue stream.

▲ Arrow returns cash to investors through share repurchases. Share buybacks are a good way to return cash to investors when growth opportunities are limited. These also have a positive effect on earnings per share. The company repurchased shares worth nearly \$390 million in 2019, reducing its outstanding shares by approximately 6%.

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## Reasons To Sell:

- ▼ Arrow's near-term financial results are likely to be impacted by the demand and supply chain disruptions of electronics components due to rapidly spreading coronavirus outside of China. Furthermore, organizations are pushing back their big and expensive technology investments due to global economic slowdown concerns, which is anticipated to hamper Arrow's sales in the near-term.
- ▼ The latest forecast for worldwide IT spending by Gartner might dampen Arrow's growth prospects. Worldwide IT spending is anticipated to be \$3.4 trillion in 2020, a decrease of 8% from 2019. The research firm expects worldwide spending on IT services to decline 7.7% year-over-year to \$1.032 trillion in 2020. Gartner pointed out that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and effects of the global economic recession.
- ▼ Arrow has a highly leveraged balance sheet. The company has always had a good amount of debt on its balance sheet. Its long-term debt was \$2.6 billion as of Mar 31, 2020. Liquidity is low, since cash and liquid assets are just a fraction of its total assets. We think that the company has limited financial flexibility because of its high debt burden and further increases in debt could make investment in the shares risky. Thus, the company has to generate substantial amount of cash flow to effectively service its debt.
- ▼ Arrow derived approximately 60% of total revenue from outside the U.S. in 2019, in the form of key currencies such as pound, Euro, Australian Dollar and Yen. Thus, currency fluctuations can impact overall profitability of the company.
- ▼ Arrow's competitors are also keen on solidifying their respective positions in the electronics distribution market through strategic acquisitions. In the past few years, Avnet acquired RTI Holdings, TSSLink, Nexicore Assets, Ascendant Technology, Seamless Technologies, Inc. and MSC Investoren GmbH (or MSC Group).
- ▼ Arrow is significantly dependent on sales of semiconductors for revenues. The fears of trade war have been an overhang on chip stocks. With China being one of the biggest markets for semiconductors, investors are apprehensive about the impact of a full-fledged trade war on chip stocks. This makes us anxious about the near-term prospects of the company.

An uncertain economic condition, competition from Avnet and Ingram Micro, and a highly leveraged balance sheet remain concerns.

## Last Earnings Report

### Arrow's Q1 Earnings Miss Estimates, Revenues Beat

Arrow Electronics reported fourth-quarter 2019 adjusted earnings per share of 97 cents, down 49% on a year-over-year basis. The figure also missed the Zacks Consensus Estimate by 12.6%.

Revenues came in at \$6.38 billion, down 11% from the year-ago quarter. Adjusted revenues dropped 9% year over year. The revenue figure, however, beat the consensus mark of \$5.96 billion.

Demand for electronic components and IT remained low during the first quarter, as a result of the coronavirus-led economic disruptions.

However, a strong uptrend in design activity across all regions was a breather.

### Segmental Details

Adjusted revenues from Global Components decreased 12% year over year to \$4.55 billion. On a reported basis, revenues declined 10%.

Region-wise, the segment's adjusted revenues from the Americas decreased 15% due to high levels of inventory with customers. Adjusted sales from the Asia Pacific declined 5% year over year. Global Components' contribution from Europe fell 10% on an adjusted basis. Components sales in the Americas decreased 16% year over year, as adjusted.

Adjusted revenues from Global Enterprise Computing Solutions (ECS) came in at \$1.83 billion, down 6% year over year. The decline in demand for servers, networking and services took a toll on revenues from this segment. Moreover, the quarter ended two days earlier on Mar 28, instead of Mar 30. This also had a negative impact on revenues.

Billings for the ECS segment were flat year over year during the first quarter.

ECS revenues from the Americas declined 6% after adjusting for foreign-currency changes. Adjusted sales from Europe fell 5% year over year.

Notably, backlog improved sequentially. However, lead times declined year over year in the first quarter. The overall book-to-bill ratio improved and came above parity at 1.12.

Strong design activity was a positive.

### Margins

Arrow's non-GAAP gross profit decreased 14.7% from the prior-year quarter to \$728.4 million.

Operating income dropped 43.5% to \$156.5 million.

### Balance Sheet and Cash Flow

Arrow exited the first quarter with cash and cash equivalents of \$201 million compared with the previous quarter's \$300.1 million.

Long-term debt was \$2.22 billion compared with \$2.64 billion at the end of the prior quarter.

The company's cash flow from operations was \$466.9 million.

In the first quarter, Arrow returned approximately \$150 million to shareholders through the stock-repurchase program and was left with approximately \$188 million of authorization.

### Guidance

For the second quarter of 2020, sales are expected between \$6.08 billion and \$6.68 billion.

Global Components sales are projected at \$4.4-\$4.7 billion. Global ECS sales are estimated to be \$1.68-\$1.98 billion.

Interest and other expenses will presumably be about \$40 million. As a result, the company projects non-GAAP earnings per share of \$1.38-\$1.54.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	7.00%
EPS Surprise	-12.61%
Quarterly EPS	0.97
Annual EPS (TTM)	6.63

## Recent News

On May 15, 2020, Arrow Electronics announced that William F. Austen has been elected to the company's board of directors.

On Jan 30, 2020, Arrow Electronics partnered with Microchip Technology on an engineering services project to simplify connectivity and security across industrial, smart building and energy markets.

On Jan 21, 2020, Arrow Electronics revealed that it has again been named to FORTUNE's "World's Most Admired Companies" list, topping the "Wholesalers: Electronics and Office Equipment" category for the seventh consecutive year.

On Jan 16, 2020, Arrow Electronics announced that W. Victor Gao has been named to its executive leadership team as senior vice president and chief marketing officer.

## Valuation

Arrow's shares have plunged 18.4% in the year-to-period (YTD) while has gained 8.7% over the trailing 12 months. Stocks in the Zacks sub-industry have fallen 22.6% while the Zacks Computer & Technology sector has gained 4.6% YTD. Over the past year, the Zacks sub-industry has decreased 1.3%, while the sector increased 27.5%.

The S&P 500 Index has declined 5.4% YTD while has gained 11.1% in the past year.

The stock is currently trading at 10.44X forward 12-month earnings, which compares with 11.94X for the Zacks sub-industry, 24.39X for the Zacks sector and 22.09X for the S&P 500 Index.

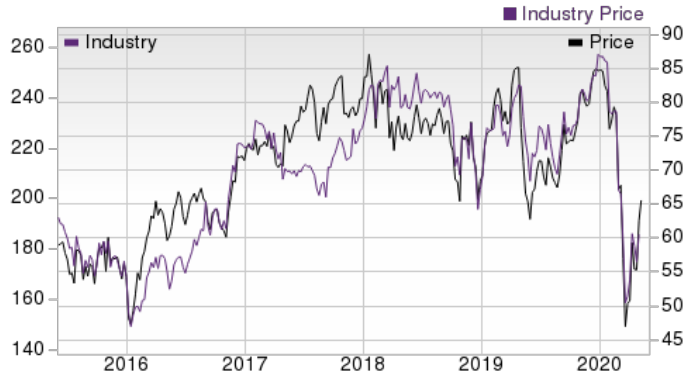
Over the past five years, the stock has traded as high as 11.51X and as low as 5.33X, with a 5-year median of 9.09X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 10.96X forward 12-months earnings.

The table below shows summary valuation data for ARW

Valuation Multiples - ARW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	10.44	11.94	24.39	22.09
	5-Year High	11.51	12.30	24.39	22.09
	5-Year Low	5.33	7.71	16.72	15.23
	5-Year Median	9.09	9.65	19.26	17.49
EV/S TTM	Current	0.26	0.27	4.19	2.98
	5-Year High	0.40	0.44	4.43	3.46
	5-Year Low	0.20	0.21	2.55	2.13
	5-Year Median	0.34	0.33	3.59	2.83
EV/EBITDA TTM	Current	7.32	6.59	11.93	11.27
	5-Year High	8.51	9.14	12.71	12.86
	5-Year Low	5.14	4.98	7.57	8.26
	5-Year Median	7.12	6.95	10.72	10.80

As of 05/29/2020

## Industry Analysis Zacks Industry Rank: Top 33% (83 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Applied Materials, Inc. (AMAT)	Neutral	2
AMETEK, Inc. (AME)	Neutral	3
KLA Corporation (KLAC)	Neutral	3
NVIDIA Corporation (NVDA)	Neutral	2
Teledyne Technologies Incorporated (TDY)	Neutral	4
Tech Data Corporation (TECD)	Neutral	3
WESCO International, Inc. (WCC)	Neutral	3
Avnet, Inc. (AVT)	Underperform	5

Industry Comparison Industry: Electronics - Parts Distribution				Industry Peers		
	ARW	X Industry	S&P 500	AVT	NVDA	TDY
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	2	4
VGM Score	A	-	-	A	C	C
Market Cap	5.45 B	2.69 B	21.48 B	2.69 B	218.34 B	13.72 B
# of Analysts	4	4	14	4	13	1
Dividend Yield	0.00%	0.00%	1.96%	3.08%	0.18%	0.00%
Value Score	B	-	-	A	D	F
Cash/Price	0.04	0.15	0.06	0.15	0.07	0.02
EV/EBITDA	23.15	6.87	12.56	5.36	61.55	23.66
PEG Ratio	4.35	1.77	2.87	1.87	2.69	NA
Price/Book (P/B)	1.17	0.73	2.92	0.73	16.67	4.98
Price/Cash Flow (P/CF)	6.49	6.44	11.74	3.65	67.58	26.96
P/E (F1)	11.67	15.50	21.35	19.46	45.44	40.23
Price/Sales (P/S)	0.19	0.19	2.27	0.15	18.54	4.28
Earnings Yield	8.64%	6.90%	4.52%	5.14%	2.20%	2.49%
Debt/Equity	0.48	0.48	0.76	0.39	0.57	0.31
Cash Flow (\$/share)	10.65	7.46	6.96	7.46	5.25	13.88
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	6.71%	5.73%	10.87%	-6.71%	40.62%	18.64%
Proj. EPS Growth (F1/F0)	-20.99%	-28.22%	-10.48%	-65.94%	34.94%	-11.51%
Curr. Cash Flow Growth	-14.43%	-0.83%	5.39%	-8.48%	-20.70%	14.47%
Hist. Cash Flow Growth (3-5 yrs)	1.86%	1.86%	8.55%	1.13%	28.68%	11.00%
Current Ratio	1.46	2.42	1.29	2.42	10.29	1.80
Debt/Capital	32.34%	32.34%	44.54%	28.17%	36.34%	23.89%
Net Margin	-1.05%	-0.63%	10.59%	-0.63%	28.17%	12.78%
Return on Equity	11.57%	10.11%	16.26%	6.14%	28.59%	15.49%
Sales/Assets	1.77	1.77	0.55	2.13	0.66	0.72
Proj. Sales Growth (F1/F0)	-8.30%	-8.62%	-2.53%	-10.92%	31.95%	0.13%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	1.83%	0.92%	-0.11%	-1.23%	4.58%	1.13%
1 Week Price Chg	7.87%	1.01%	4.99%	7.76%	6.31%	7.37%
4 Week Price Chg	9.79%	5.00%	4.40%	-9.26%	21.47%	14.88%
12 Week Price Chg	1.14%	-6.87%	-2.75%	-9.44%	29.91%	3.63%
52 Week Price Chg	7.00%	-19.39%	0.07%	-35.03%	155.21%	57.89%
20 Day Average Volume	723,851	294,935	2,425,602	1,086,016	14,759,365	190,871
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.48%	0.00%
(F1) EPS Est 4 week change	10.82%	-0.70%	-1.70%	-1.41%	4.75%	0.00%
(F1) EPS Est 12 week change	-20.81%	-29.25%	-16.00%	-28.30%	1.95%	-15.87%
(Q1) EPS Est Mthly Chg	35.47%	17.73%	-3.25%	50.00%	4.68%	0.00%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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