Avnet, Inc. (AVT)

$26.49 (As of 06/11/20)

Price Target (6-12 Months): **$23.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Underperform**
	(Since: 05/25/20)	
	Prior Recommendation: Neutral	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:A
	Value: A Growth: A	Momentum: A

Summary

Weakness in the components industry due to coronavirus-led demand disruptions hurt Avnet's third-quarter results. Sluggishness in automotive and industrial end markets was a concern. Moreover, lower pricing and higher costs related to the impact of coronavirus on the company's logistic operations affected the margins. A highly leveraged balance sheet is an overhang. Shares have underperformed the industry on a year to date basis. However, strong demand in the aerospace and defense market was an upside. Moreover, cost-saving efforts were significantly yielding. Besides, Avnet has been trying to expand presence in IoT, which is a lucrative industry. Key partnerships were tailwinds for the top line. Notably, Avnet expects to replace the Texas Instruments revenues with higher-margin revenues by the end of fiscal 2022.
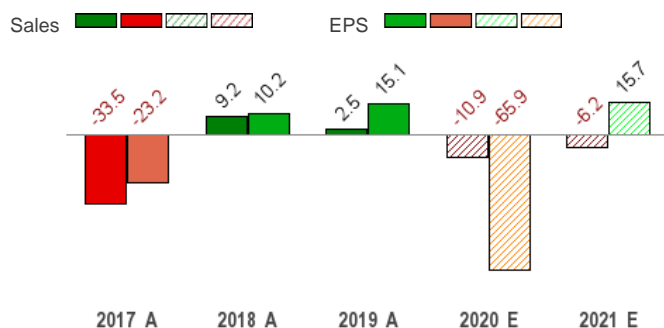
Price, Consensus & Surprise
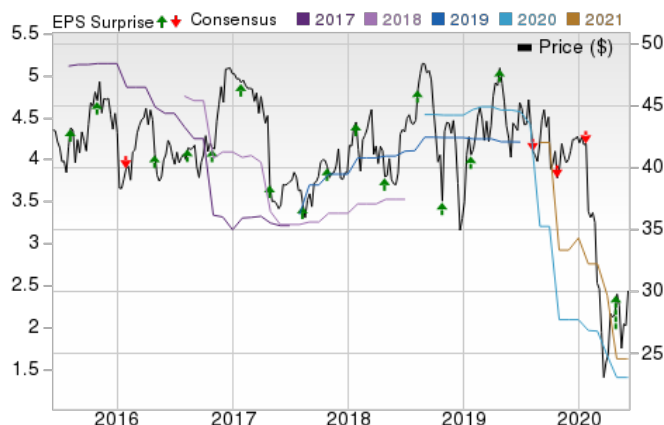
Data Overview

52 Week High-Low	**$46.41 - $17.85**
20 Day Average Volume (sh)	**1,007,050**
Market Cap	**$2.6 B**
YTD Price Change	**-37.6%**
Beta	**1.36**
Dividend / Div Yld	**$0.84 / 3.2%**
Industry	**Electronics - Parts Distribution**
Zacks Industry Rank	**Bottom 33% (170 out of 252)**
Last EPS Surprise	**31.0%**
Last Sales Surprise	**7.2%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**08/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**11.4**
P/E F1	**18.9**
PEG F1	**1.4**
P/S TTM	**0.1**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,979 E	4,010 E	4,089 E	4,234 E	16,311 E
2020	4,630 A	4,535 A	4,310 A	3,912 E	17,387 E
2019	5,090 A	5,049 A	4,699 A	4,681 A	19,519 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.18 E	$0.39 E	$0.45 E	$0.61 E	$1.62 E
2020	$0.60 A	$0.40 A	$0.38 A	$0.01 E	$1.40 E
2019	$1.03 A	$1.04 A	$1.09 A	$0.95 A	$4.11 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 06/11/2020. The reports text is as of 06/12/2020.

Overview

Based in Phoenix, AZ, Avnet Inc., (AVT) is one of the world's largest distributors of electronic components and computer products. The company's customer base includes original equipment manufacturers (OEMs), electronic manufacturing services (EMS) providers, original design manufacturers (ODMs), and value-added resellers (VARs). Avnet maintains an extensive inventory, including electronic products from more than 300 component and system manufacturers, which it distributes to customers worldwide.

Avnet distributes products for companies like International Business Machines Corp. and Hewlett-Packard Co. As part of its major restructuring initiative to focus on high growth businesses, the company sold its troubled TS business to Tech Data Corp. in a cash-stock deal worth $2.6 billion during fiscal 2017.

Avnet has two major operating segments — Electronic Components (EC) and Premier Farnell (PF). Through the EC segment, the company distributes semiconductors and Interconnect, passive and electromechanical devices (IP&E), and provides supply chain management, inventory replenishment system and non-complex engineering design services. This segment also offers integrated solutions, including technical design, integration and assembly of embedded products, systems and solutions for industrial applications.

EPS Hist. and Est.

Sales Hist. and Est.

Avnet's PF segment supports low volume customers that require electronic components quickly to develop and test their products. This segment provides a comprehensive suite of kits, tools, electronic components and industrial automation components to both engineers and entrepreneurs.

The company operates across the Americas; Europe, Middle East and Africa (EMEA); and Asia/Pacific (Asia) regions.

The product set consists of semiconductors (approximately 77% of fiscal 2019 revenues), Interconnect, IP&E (18%), and Others (2.5%). Region wise, Avnet generated approximately 26.3% of revenues from operations in the Americas in fiscal 2019 while EMEA contributed about 34.6%. Asia accounted for 39% of revenues.

Avnet's major competitors include Arrow Electronics Inc., Future Electronics, World Peace Group, Mouser Electronics and Digi-Key Electronics.

■ Consensus Estimate ■ 12 Month EPS
━ Price ($)
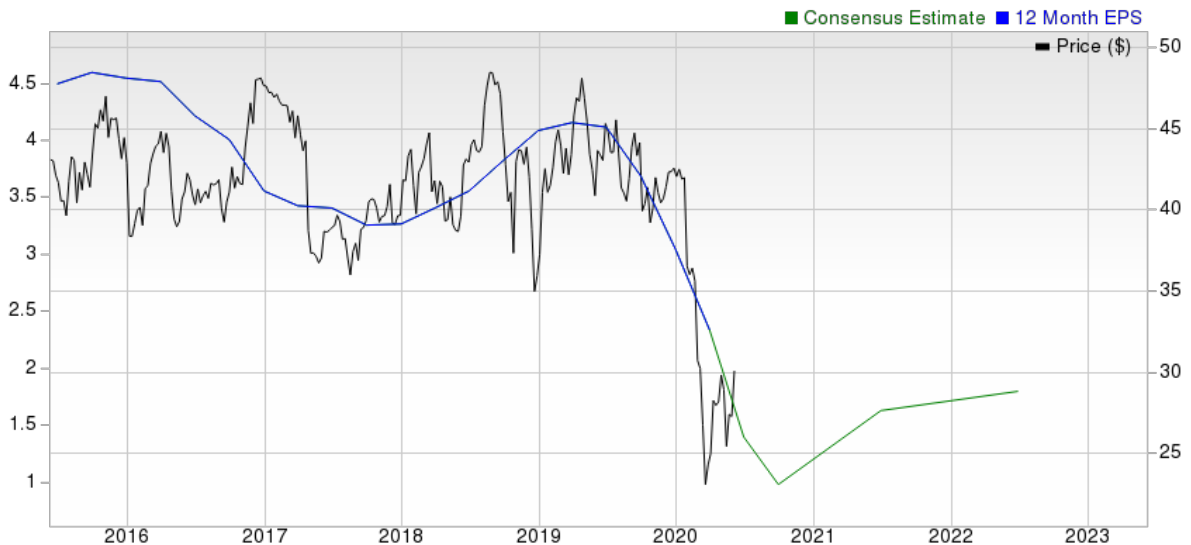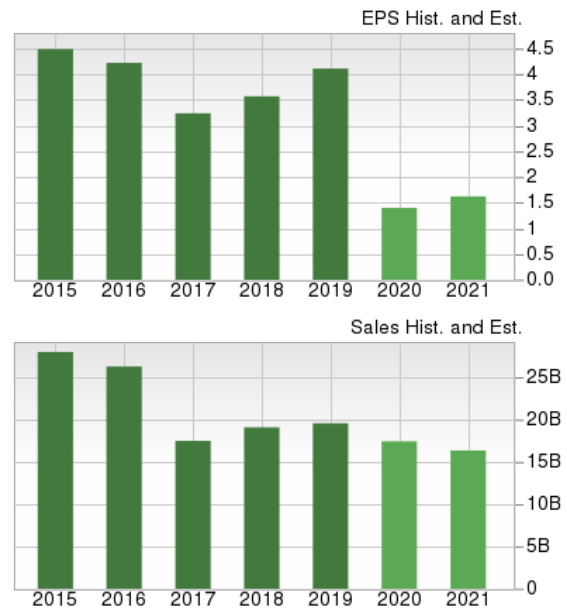
Reasons To Sell:

▼ Though the sale of the Technology Solution division to Tech Data Corporation has allowed Avnet to focus on high growth areas such as marketing electronic components and related products in the supply chain, it will take considerable time to reflect in the company's bottom line performances. This makes us cautious about the company's near-term prospects.

▼ Asia undoubtedly remains one of the largest growth drivers in the current environment. Although profitable in the long run, the company's extensive investments in the region will impact its margins in the near term. We also believe that any unfavorable currency fluctuations and an uncertain macroeconomic environment may temper growth at the company because of the major part of its revenues coming from outside the United States.

▼ Continued weakness in the industrial and automotive segments due to the downturn in China, overall slowdown in sales in Asia and headwinds from Europe, are affecting the company's growth. Furthermore, the coronavirus triggered global recession is likely to negatively impact Avnet's financial performance in the near-term.

▼ Avnet's domestic and foreign operations are subject to significant competition. It faces stiff competition from Arrow Electronics Inc. — a formidable rival. Arrow's acquisition of Waching's Wireless business, ALTIMATE Group, Global Link Technology, Redemtech and expansion in Sao Paulo, Brazil can turn out to be highly profitable, and pose a serious threat to Avnet, going forward.

▼ Avnet is a highly leveraged company. The company's long-term debt (including current maturities) is $1.46 billion as of Mar 31, 2020, which is significantly higher than cash and cash equivalents of $402.7 million.

▼ The latest forecast for worldwide IT spending by Gartner might dampen Avnet's growth prospects. The worldwide IT spending is anticipated to be $3.4 trillion in 2020, suggesting 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 this year. Gartner noted that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and the global economic recession.

> Though the sale of the TS division will allow Avnet to focus on high growth areas in the supply chain, it will take considerable time to reflect in the company's bottom line performances.

Risks

- In the past few years, Avnet has been taking major restructuring steps to streamline its business. It intends to focus on high growth businesses only and divest underperforming businesses. In doing so, the company sold its troubled Technology Solution business to Tech Data Corporation (TDC) for $2.6 billion during fiscal 2017. The divestment of the Technology Solution division has allowed Avnet to focus on high growth areas such as marketing electronic components and related products in the supply chain. The company intends to use its resources to make investments in embedded solutions, IoT and critical digital platforms as well as expand its footprint in newer markets.

- Over the last one year, Avnet has been trying to expand its presence in the IoT space. The company's acquisition of Dragon Innovation, a manufacturing consultancy and software vendor which enjoys strong presence in the IoT space, is considered to be in the same direction. Therefore, in our opinion, this acquisition will enable Avnet in providing powerful, simple-to-use tools to engineers which will enable them to manufacture and roll out hardware products in a more fast and cost-effective manner. On the IoT front, the company has made several partnerships with the likes of AT&T, as well as acquisitions, such as Premier Farnell and Hackster.io, to enhance its capabilities in this space. Per the company, the aforementioned acquisitions have expanded its "reach to more than two million customers and an active community of more than 750,000 entrepreneurs, makers and engineers."

- Acquisitions form an important part of the company's core strategy to bolster portfolio and expand global operations, while contributing significantly to the revenue stream. The acquisition of Dragon Innovation, a manufacturing consultancy and software vendor, helped the company expand presence in the IoT space. Avnet has also pursued a number of key acquisitions over the past few years, which are expected to comprehensively bolster its performance and augment its product base and operational network. This makes us optimistic about the company's growth prospects.

Last Earnings Report

Avnet's Q3 Earnings & Revenues Beat Estimates

Avnet recently reported third-quarter fiscal 2020 results, wherein both top and bottom lines beat estimates.

Its non-GAAP earnings were 38 cents per share, surpassing the consensus mark by 31%. However, the metric plunged 65% year over year.

Revenues of $4.31 billion surpassed the Zacks Consensus Estimate by 7.2% but decreased 8.5% year over year. Nonetheless, the top line matched the midpoint of the company-guided range of $4.1-$4.5 billion.

Strong demand in the aerospace and defense market was a tailwind. However, weakness in automotive and industrial end markets was a concern.

Soft demand from Asia was a deterrent. Moreover, lower pricing and higher costs related to the impact of coronavirus on the company's logistic operations affected the bottom line.

Quarter in Detail

Electronic Components segment fell 8.2% year over year to $4 billion due to lower revenues in Asia as a result of the Chinese New Year and COVID-19.

Revenues from the Americas declined 7.2% year over year and that from the EMEA region was down 13.1%. Further, Asia revenues dropped 4% year over year.

Premier Farnell segment's revenues of $335.1 million decreased 8.8% year over year.

During the quarter, Avnet expanded its partnership with Micron. The company also inked a global distribution deal with Sequans Communications for modem component Monarch Go to launch new IoT devices on Verizon with no additional testing, significantly reducing time to market. Moreover, Avnet also won ON Semiconductor's 2019 Distributor of the Year award.

Avnet also saw lower revenues from Texas Instruments as their 40-year distribution partnership ended in the first quarter of 2020.

Margins

Avnet reported gross profit of $518.9 million, down 16.9% year over year. Gross margin shrank 130 basis points (bps) to 12%, primarily due to lower revenues from Asia as well as global pricing pressures.

Adjusted operating income was $70.4 million, plunging 60.5% year over year. Adjusted operating margin came in at 1.6%, down 216 bps.

Adjusted operating expenses increased primarily due to a reserve for a potential bad debt from a customer.

However, focus on cost-reduction efforts was a boon.

Balance Sheet and Cash Flow

Avnet exited the fiscal second quarter with cash and cash equivalents of $402.7 million compared with $488.8 million in the previous quarter.

Long-term debt was $1.19 billion, flat sequentially.

The company returned $58 million to its shareholders in the form of $37 million from repurchased shares and $21 million worth of dividends.

Cash flow was $98 million in the quarter.

Guidance

Avnet is still in the process of assessing the potential impact of coronavirus on its business operations, financial performance and the results of operations in the fourth quarter. Therefore, the company refrained from providing a guidance for the fourth quarter of fiscal 2020.

Notably, Avnet expects to replace the Texas Instruments revenues with higher-margin revenues by the end of fiscal 2022.

Quarter Ending	03/2020
Report Date	**Apr 27, 2020**
Sales Surprise	**7.24%**
EPS Surprise	**31.03%**
Quarterly EPS	**0.38**
Annual EPS (TTM)	**2.33**

Recent News

On May 21, Avnet declared quarterly cash dividend 21 cents per share. Dividend will be payable on Jun 17 of shareholders record date as of Jun 3.

On May 5, Avnet's XRF16 system-on-module, featuring the Xilinx Zynq UltraScale+ Radio Frequency (RF) System-on-Chip SoC Gen-2, hit the market. The module expands Avnet's product offerings by accelerating development and production for developers working on applications that require next-generation 5G connectivity.

On Feb 7, Avnet declared quarterly cash dividend 21 cents per share. Dividend will be payable on Mar 18 of shareholders record date as of Mar 4.

On Jan 7, Avnet launched a Partner Program at the CES 2020, which will aid IoT efforts by providing system integrators and OEMs with space to create IoT solutions cost effectively. Hence, the developers will be able to continue with their developments on the company's IoTConnect platform, which is powered by Microsoft's Azure IoT Suite.

Valuation

Avnet's shares have lost 25.2% in the year-to-date (YTD) period, and 28.3% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have fallen 13.8% and inched up 8.7% YTD, respectively. Over the past year, while the Zacks sub-industry decreased 2.9%, the sector gained 24.4%.

The S&P 500 Index has inched up 0.2% YTD and increased 11.9% in the past year.

The stock is currently trading at 16.44X forward 12-month earnings, which compares with 11.69X for the Zacks sub-industry, 24.29X for the Zacks sector and 21.72X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.73X and as low as 7.57X, with a 5-year median of 10.49X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $23 price target reflects 13.97X forward 12-months earnings.

The table below shows summary valuation data for AVT

Valuation Multiples - AVT		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.72	13.33	25.28	23.35
	5-Year High	19.72	13.33	25.28	23.35
	5-Year Low	7.57	7.71	16.72	15.23
	5-Year Median	10.48	9.66	19.28	17.49
EV/EBITDA TTM	Current	5.07	7.12	12.4	11.97
	5-Year High	9.54	9.14	12.72	12.85
	5-Year Low	3.73	4.98	7.57	8.25
	5-Year Median	6.14	6.94	10.73	10.81
EV/Sales TTM	Current	0.23	0.3	4.35	3.17
	5-Year High	0.44	0.44	4.43	3.46
	5-Year Low	0.16	0.21	2.59	2.14
	5-Year Median	0.3	0.33	3.59	2.82

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
AMETEK, Inc. **(AME)**	Neutral	3
American Superconductor Corporation **(AMSC)**	Neutral	3
Arrow Electronics, Inc. **(ARW)**	Neutral	3
Advantest Corp. **(ATEYY)**	Neutral	3
KLA Corporation **(KLAC)**	Neutral	3
NVIDIA Corporation **(NVDA)**	Neutral	2
Tech Data Corporation **(TECD)**	Neutral	2
WESCO International, Inc. **(WCC)**	Neutral	3

Industry Comparison — Industry: Electronics - Parts Distribution

	AVT	X Industry	S&P 500	AME	ARW	TECD
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	2
VGM Score	A	-	-	B	A	A
Market Cap	2.62 B	2.03 B	21.32 B	20.21 B	5.16 B	4.83 B
# of Analysts	4	4	14	8	4	3
Dividend Yield	3.17%	0.00%	1.99%	0.82%	0.00%	0.00%
Value Score	A	-	-	C	B	A
Cash/Price	0.14	0.14	0.06	0.06	0.03	0.17
EV/EBITDA	5.26	7.02	12.31	15.59	22.25	7.37
PEG Ratio	1.40	1.82	2.88	3.56	1.41	NA
Price/Book (P/B)	0.71	0.71	2.92	3.79	1.11	1.55
Price/Cash Flow (P/CF)	3.55	6.12	11.24	16.83	6.14	7.84
P/E (F1)	19.55	14.94	20.84	24.94	10.96	11.89
Price/Sales (P/S)	0.14	0.18	2.24	3.98	0.18	0.13
Earnings Yield	5.29%	7.21%	4.64%	4.01%	9.13%	8.41%
Debt/Equity	0.39	0.48	0.76	0.51	0.48	0.43
Cash Flow ($/share)	7.46	7.46	7.01	5.23	10.65	17.27
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	-6.71%	5.73%	10.87%	13.12%	6.71%	23.20%
Proj. EPS Growth (F1/F0)	-65.94%	-30.48%	-10.81%	-15.69%	-20.99%	-9.46%
Curr. Cash Flow Growth	-8.48%	-0.83%	5.46%	23.89%	-14.43%	-4.74%
Hist. Cash Flow Growth (3-5 yrs)	1.13%	1.86%	8.55%	10.17%	1.86%	18.72%
Current Ratio	2.42	2.42	1.29	1.88	1.46	1.27
Debt/Capital	28.17%	32.34%	44.75%	33.98%	32.34%	30.10%
Net Margin	-0.63%	-0.63%	10.54%	18.48%	-1.05%	1.00%
Return on Equity	6.14%	10.11%	16.08%	18.77%	11.57%	15.32%
Sales/Assets	2.13	1.77	0.55	0.52	1.77	2.92
Proj. Sales Growth (F1/F0)	-10.92%	-8.92%	-2.60%	-14.41%	-8.30%	-5.97%
Momentum Score	A	-	-	A	B	D
Daily Price Chg	-7.41%	-7.41%	-6.44%	-5.43%	-8.86%	-2.14%
1 Week Price Chg	10.32%	2.55%	7.51%	5.76%	10.13%	2.07%
4 Week Price Chg	1.34%	1.34%	8.40%	11.86%	6.45%	-1.15%
12 Week Price Chg	20.63%	20.63%	25.04%	27.65%	46.09%	25.77%
52 Week Price Chg	-40.37%	-5.45%	-6.33%	2.81%	-5.45%	36.56%
20 Day Average Volume	1,007,050	297,838	2,634,935	1,283,385	650,494	653,151
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.27%	0.00%	-0.76%
(F1) EPS Est 12 week change	-26.89%	-30.92%	-15.86%	-18.17%	-19.85%	-13.91%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	3.26%

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.

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.

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

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.

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.

Disclosures