

CFO Review of Fiscal 2017 First Quarter Results

Discontinued Operations

On September 19, 2016, Avnet, Inc. announced that it had entered into an agreement to sell its Technology Solutions (TS) operating group to Tech Data Corporation. The transaction is subject to customary closing conditions and regulatory approval and is expected to close in the first half of calendar 2017. As a result of the pending sale and having met applicable accounting requirements, Avnet is reporting the TS business as a discontinued operation beginning with the first quarter of fiscal 2017.

The first quarter of fiscal 2016 ended October 3, 2015, had an extra week of sales, which resulted in an estimated \$525 million impact on adjusted sales and \$0.11 to \$0.13 on adjusted diluted EPS.

	Q1' FY16	Q4' FY16	Q1' FY17	Y/Y Chg	Seq. Chg
Adjusted Sales ⁽¹⁾	\$ 6,969.7	\$ 6,226.8	\$ 6,040.3	\$ (929.4)	\$ (186.5)
Adjusted Gross Profit ⁽¹⁾	\$ 791.5	\$ 731.0	\$ 715.9	\$ (75.5)	\$ (15.1)
<i>Adjusted Gross Profit Margin ⁽¹⁾</i>	11.4 %	11.7 %	11.9 %	49 bps	11 bps

	Q1' FY16	Q1' FY17	Y/Y Chg
Sales	\$ 4,600.8	\$ 4,173.4	\$ (427.4)
Gross Profit	\$ 563.3	\$ 525.5	\$ (37.8)
<i>Gross Profit Margin</i>	12.2 %	12.6 %	35 bps
Operating Income	\$ 170.0	\$ 131.0	\$ (39.0)
Adjusted Operating Income ⁽¹⁾	\$ 240.4	\$ 193.1	\$ (47.3)
<i>Operating Income Margin</i>	3.7 %	3.1 %	(55) bps
<i>Adjusted Operating Income Margin ⁽¹⁾</i>	3.5 %	3.2 %	(25) bps
Net Income	\$ 130.3	\$ 68.8	\$ (61.4)
Adjusted Net Income ⁽¹⁾	\$ 152.9	\$ 118.4	\$ (34.5)
Adjusted Diluted EPS ⁽¹⁾	\$ 1.12	\$ 0.91	(18.8)%
Diluted EPS	\$ 0.96	\$ 0.53	(44.8)%
Return on Working Capital (ROWC) ⁽²⁾	20.9 %	16.2 %	(473) bps
Return on Capital Employed (ROCE) ⁽²⁾	11.2 %	8.9 %	(232) bps
Working Capital Velocity ⁽²⁾	6.1	5.1	(1.0)

(1) As the TS business is a discontinued operation the Avnet reported Sales, Gross Profit and Operating Income amounts exclude the sales, gross profit and operating income from TS for the periods presented. References to Adjusted Sales, Adjusted Gross Profit and Adjusted Operating Income include the sales, gross profit and operating income, respectively, of TS as well as other historical adjustments. See the reconciliation of non-GAAP financial information attached as exhibit 99.2 to the Form 8-K filed with the Securities Exchange Commission on October 27, 2016 ("Exhibit 99.2").

(2) Returns reflect both continuing and discontinued operations. See Exhibit 99.2.

- Adjusted sales for the first quarter of fiscal 2017 decreased 13.3% year over year to \$6.04 billion. Adjusted organic sales (excluding extra week in prior year) decreased 7.0%.
 - Sales (from continuing operations) for the first quarter of fiscal 2017 decreased 9.3% year over year to \$4.17 billion. Organic sales from continuing operations (excluding extra week in prior year) decreased 2.8%.
- Adjusted operating income decreased by 19.7% year over year to \$193.1 million and adjusted operating margin declined 25 basis points primarily due to lower sales and an extra week in the prior year quarter.
 - Sequentially, adjusted operating income decreased 0.8% while adjusted operating income margin improved by 7 basis points as a 52 basis point improvement at EM was offset by a decline of 81 basis points at TS.
- Adjusted diluted earnings per share of \$0.91 decreased 18.8% year over year, with the decline primarily due to lower sales and an extra week in the prior year quarter.
- Cash flow generated from continuing operations was \$111.3 million in the first quarter of fiscal 2017.

- During the first quarter of fiscal 2017, the Company paid a dividend of \$0.17 per share, or \$21.7 million.

Sales

The first quarter of fiscal 2016 ended October 3, 2015, had an extra week of sales, which resulted in an estimated \$300 million impact on EM sales and an estimated \$225 million impact on TS sales

	Q1' FY16 ⁽²⁾	Q1' FY17	Year-over-Year Growth Rates Reported
Electronics Marketing (EM)	\$ 4,600.8	\$ 4,173.4	(9.3)%
Constant Currency ⁽¹⁾			(9.7)%
Americas	\$ 1,375.5	\$ 1,305.8	(5.1)%
EMEA	\$ 1,338.1	\$ 1,265.3	(5.4)%
Constant Currency ⁽¹⁾			(5.3)%
Asia	\$ 1,887.2	\$ 1,602.3	(15.1)%
Constant Currency ⁽¹⁾			(16.1)%
Technology Solutions (TS)	\$ 2,368.9	\$ 1,866.9	(21.2)%
Constant Currency ⁽¹⁾			(20.3)%
Americas	\$ 1,398.4	\$ 1,043.5	(25.4)%
EMEA	\$ 677.1	\$ 580.3	(14.3)%
Constant Currency ⁽¹⁾			(10.0)%
Asia	\$ 293.4	\$ 243.1	(17.1)%
Constant Currency ⁽¹⁾			(18.3)%

⁽¹⁾ Year-over-year sales growth rate excludes the impact of changes in foreign currency exchange rates. Refer to Exhibit 99.2

⁽²⁾ Adjusted from historical results to reflect the transfer of the embedded computing solutions business from TS to EM

- EM's first quarter fiscal 2017 sales of \$4.2 billion decreased 9.3% year over year as reported primarily due to a double-digit decline in the Asia region. Adjusting for the extra week in the prior year quarter sales decreased 3.4% in constant currency.
 - Americas' sales decreased 5.1% year over year as reported, and increased 1% year over year adjusting for the extra week in the prior year quarter.
 - EMEA's sales decreased 5.3% in constant currency, and increased 1.7% in constant currency excluding the extra week in the prior year quarter.
 - Asia's sales decreased 9.0% year over year excluding the extra week in the prior year quarter, primarily due to expected declines in the region's select high volume supply chain engagements.
- EM's sales increased 3.5% sequentially in constant currency, which is above the normal seasonal range of -2% to +2%. The above seasonal growth is primarily due to the ERP disruption in the Americas regions in the prior quarter.
- TS' sales decreased 21.2% year over year to \$1.9 billion, primarily due to declines in server, storage and software. Adjusting for the extra week in the prior year quarter, sales declined 13.8% in constant currency.
 - After adjusting for the extra week in the prior year quarter, sales in the Americas region decreased 17.7% year over year, and the EMEA and Asia region declined 6.5% and 11.4%, respectively, in constant currency.

Operating Income

Electronics Marketing (EM) Total

Operating Income
 Operating Income Margin

	Q1' FY16 ⁽¹⁾	Q1' FY17	Y/Y Change
Operating Income	\$ 217.7	\$ 186.5	\$ (31.2)
Operating Income Margin	4.7	4.5 %	(26) bps

Technology Solutions (TS) Total

Operating Income
 Operating Income Margin

	Q1' FY16 ⁽¹⁾	Q1' FY17	Y/Y Change
Operating Income	\$ 69.8	\$ 42.7	\$ (27.2)
Operating Income Margin	3.0	2.3 %	(66) bps

⁽¹⁾ Adjusted from historical results to reflect the transfer of the embedded computing solutions business from TS to EM

- EM operating income margin of 4.5% decreased 26 basis points from the year ago quarter primarily due to the year-over-year decline in sales and from higher operating costs incurred as a result of the ERP implementation in the Americas region.
- TS operating income margin of 2.3% decreased 66 basis points from the prior year quarter primarily due to a decline in the Americas and EMEA regions, partially offset by an improvement in the Asia region.

Interest Expense, Other Income (Expense) and Income Taxes

Interest Expense
 Other Income (Expense)

	Q1' FY16	Q1' FY17	Y/Y Change
Interest Expense	\$ 22.0	\$ 27.2	\$ 5.2
Other Income (Expense)	\$ 0.9	\$ (13.7)	\$ (14.6)

Income Tax Expense - continuing operations
 Adjusted Income Tax Expense ⁽¹⁾
 Effective Tax Rate - continuing operations
 Adjusted Effective Tax Rate ⁽¹⁾

	Q1' FY16	Q1' FY17	Y/Y Change
Income Tax Expense - continuing operations	\$ 37.8	\$ 21.4	\$ (16.4)
Adjusted Income Tax Expense ⁽¹⁾	\$ 58.0	\$ 44.7	\$ (13.3)
Effective Tax Rate - continuing operations	25.4 %	23.8 %	(162) bps
Adjusted Effective Tax Rate ⁽¹⁾	27.5 %	27.4 %	(10) bps

⁽¹⁾ Refer to Exhibit 99.2.

- Interest expense of \$27.2 million increased \$5.2 million from the year ago quarter primarily due to interest expense incurred on the Company's \$550.0 million 4.625% Notes issued in March 2016.
- The Company incurred \$13.7 million of other expense in the first quarter of fiscal 2017 compared with \$0.9 million of other income in the first quarter of fiscal 2016. The year-over-year increase in other expense was primarily due to higher expenses incurred to hedge the foreign currency purchase price of Premier Farnell.
- The adjusted effective tax rate of 27.4% in the first quarter of fiscal 2017 was consistent with adjusted effective tax rate in the first quarter of fiscal 2016.

Working Capital

	Q4' FY16	Q1' FY17	Y/Y Change
Accounts Receivable	\$ 2,803.6	\$ 2,876.3	\$ 72.7
Inventories	\$ 2,589.7	\$ 2,418.8	\$ (170.9)
Accounts Payable	\$ (1,616.7)	\$ (1,463.6)	\$ 153.1
Working Capital- continuing operations	\$ 3,776.6	\$ 3,831.5	\$ 54.9
Working Capital- discontinued operations	\$ 820.9	\$ 918.3	\$ 97.4

- Working capital (accounts receivable plus inventories less accounts payable) from continuing operations increased \$54.9 million sequentially.
- Inventories decreased \$170.9 million sequentially, or 6.6%, primarily due to a decline in the Americas region coming off elevated inventory levels in the prior quarter related to the ERP implementation.

Returns

	Q1' FY16	Q1' FY17	Y/Y Change
Return on Working Capital (ROWC) ⁽¹⁾	20.9 %	16.2 %	(473) bps
Return on Capital Employed (ROCE) ⁽¹⁾	11.2 %	8.9 %	(232) bps

⁽¹⁾ Returns reflect both continuing and discontinued operations. Refer to Exhibit 99.2.

- ROWC and ROCE declined year over year primarily due to the decline in operating income.

Cash Flow

	Q1' FY16	Q1' FY17	Y/Y Change
Net Income – Continuing Operations	\$ 111.0	\$ 68.6	\$ (42.4)
Non-Cash Items	\$ 56.3	\$ 56.3	\$ -
Working Capital and Other	\$ (194.8)	\$ (13.6)	\$ 181.2
Cash Flow (Used in) from Operations - Continuing Operations	\$ (27.5)	\$ 111.3	\$ 138.8
Cash Flow Used in Operations – Discontinued Operations	\$ (6.2)	\$ (111.4)	\$ (105.2)
Net Cash Flow Used in Operations	\$ (33.7)	\$ (0.1)	\$ 33.6
TTM CF from operations	\$ 590.8	\$ 258.0	\$ (332.8)

- The Company generated \$111.3 million of cash from continuing operations during the first quarter of fiscal 2017.
- During the first quarter of fiscal 2017, the Company did not repurchase shares. Entering the second quarter of fiscal year 2017, the Company had approximately \$174.9 million remaining under the current repurchase authorization.
- During the first quarter of fiscal 2017, the Company paid a dividend of \$0.17 per share, or \$21.7 million in total.
- Cash and cash equivalents at the end of the first quarter of fiscal 2017 was \$1.20 billion, of which \$1.1 million was held outside the United States; net debt (total debt less cash and cash equivalents) was approximately \$1.51 billion.

Forward-Looking Statements

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: the Company’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, the separation and pending sale of the TS business, an industry down-cycle in semiconductors, IT hardware or software products, 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.

Non-GAAP Definitions and Reconciliations

A discussion on the impact of foreign currency on the Company’s results of operations, the definition of organic sales and a reconciliation of non-GAAP financial information is attached as Exhibit 99.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 27, 2016.