Avnet Inc AVT (XNAS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 09 Nov 2020 22:28, UTC	28.21 USD 09 Nov 2020	32.00 USD 07 Aug 2020 05:14, UTC	0.88	3.14 09 Nov 2020	2.98 09 Nov 2020	2.79 09 Nov 2020	Electronics & Computer Distribution	Standard

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Undervalued
Uncertainty	High	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

AVT

Undervalued | Fairly Valued | Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.80	0.91	0.77	0.83
Price/Earnings	—	15.0	21.4	20.1
Forward P/E	15.8	—	15.9	13.9
Price/Cash Flow	4.0	14.7	15.6	13.1
Price/Free Cash Flow	4.5	30.4	23.0	19.5
Trailing Dividend Yield%	3.14	1.78	1.89	2.35

Source: Morningstar

Bulls Say

- The Internet of Things should drive demand across several end markets, allowing steady, noncyclical growth.
- Avnet has targeted makers and startups, giving it the opportunity to more directly benefit from extremely high-growth opportunities.
- Content growth in automotive, industrial, and medical markets should maintain long-term demand for components and chips.

Bears Say

- Broadline distributors will likely try to expand into value-added services, causing margin pressure for Avnet.
- Further supplier consolidation may cause other suppliers to make exclusive distribution agreements with competitors.
- Suppliers could follow the TI example and bring demand creation in-house, nullifying the need for value-added distributors like Avnet.

Avnet Benefits From a Near-Term Recovery in Demand; Maintain $32 FVE, Shares Undervalued

Business Strategy and Outlook

Brian Colello, CPA, Sector Director, 20 March 2020

Avnet is one of the world's largest value-added distributors of electronic components, such as interconnect, passives, and capacitors, and has a dominant position in the semiconductor market. The firm has been plagued with a handful of recent supplier losses, but we think it will rebound and still benefit from secular tailwinds such as the Internet of Things. We believe the firm will maintain its place near the top of the distributor pile due to its significant cost advantage over other broadline distributors, who may attempt to add their own value-added services, and suppliers, who may consider bringing such services in-house. Therefore, we believe Avnet warrants a narrow-moat rating.

Avnet has focused on capturing market share earlier in the design chain and with a broader set of customers. Over the past three years, it has acquired catalog distributor Premier Farnell and its associated online network, Element14. Avnet has made similar moves to address the growing "maker" market by acquiring Dragon Innovation and Hackster.io, and by securing a partnership with Kickstarter. Through these investments, we think Avnet will have opportunities to accelerate growth in component sales and will be able to provide services spanning the entire product life cycle. After it opted to sell the technology solutions business, we believe the firm transitioned to a unique distribution model, with an opportunity to expand its customer base and then retain those same customers as they scale. We also expect the components distribution business to be less volatile than the broader semiconductor industry, owing to Avnet's expanding customer base of small to midsize electronic equipment manufacturers.

Along with competitor Arrow, we believe Avnet has positioned itself well to benefit from broad-based demand for electronic content in a variety of consumer products, as well as automotive, medical, and industrial end markets, due to the growing need for connectivity and automation. Despite the loss of ADI, Texas Instruments and other supplier relationships, Avnet retains significant market share in electronic components distribution, which we expect to continue.

Analyst Note

Brian Colello, CPA, Sector Director, 28 October 2020

Avnet reported strong fiscal first-quarter results with revenue exceeding the high end of previous guidance by a healthy margin. Adjusted earnings per share was also well ahead of prior guidance but was still down from the year-ago quarter. Business conditions appear to be improving for Avnet, with improving demand in Asia and a bounce back in component demand from the automotive end market, in line with a resumption of manufacturing activity after COVID-19-related shutdowns. We will maintain our $32 fair value estimate for narrow-moat Avnet and we continue to view shares as modestly undervalued.

Revenue in the September quarter was $4.72 billion, up 13.5% sequentially, up 2.0% year over year and well above the high end of the firm's prior guidance of $4.0 billion-$4.4 billion as announced in August. Avnet saw a recovery in automotive and industrial component demand, along with positive sentiment from electronics services customers. By region, revenue from Asia was up 22.2% sequentially and 4.8% year over year. Europe revenue was up 10.2% sequentially and 0.7% year over year, while Americas revenue was up 4.9% sequentially but down 0.8% year over year. A portion of the sequential and year over year strength in total was because the current period was a 14 week quarter, instead of Avnet's usual 13-week quarters. If the September quarter were 13 weeks, Avnet would have estimated its sales to be $4.4 billion. GAAP operating margin came in at 0.4%, up 34 basis points sequentially but down 97 basis points from the year-ago quarter. Days of working capital dropped below 80, the firm's lowest level since 2016, and is closer to Avnet's target range of 75 days.

For the December quarter, Avnet foresees revenue in the range of $4.0 billion-$4.4 billion which, at the midpoint, would represent an 11% sequential decline (partially as Avnet reverts to a 13 week quarter) and a 7% decline year over year.

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09 Nov 2020 22:28, UTC	09 Nov 2020	07 Aug 2020 05:14, UTC		09 Nov 2020	09 Nov 2020	09 Nov 2020		

Economic Moat

Brian Colello, Sector Director, 07 August 2020

Avnet is one of the world's largest value-added distributors of electronic components (92% of 2019 revenue) and the owner of specialty distributor Premier Farnell (8% of 2019 revenue). Avnet retains significant market share in electronic components--despite the decision to sell the enterprise solutions business and ongoing supplier channel changes within the semiconductor industry--and we believe the firm has a cost advantage over would-be broadline distributors attempting to enter the value-added space and most suppliers that might consider bringing such services in house. Avnet's continued investment in value-added services for design and supply chains have enabled the firm to maintain its competitive position near the top of the distributor market, and we believe that these services provide a competitive advantage capable of generating returns above the cost of capital for the next decade. Thus, we assign Avnet a narrow moat rating.

Like competitor Arrow Electronics, Avnet has a broad range of components and provides various value-added services to help customers develop new products, improve time to market, and reduce inefficiencies. However, while the two companies have competed for several years as broadline distributors with value-added services, their strategies have diverged over the past two years. As a broadline distributor, Avnet fulfills electronic component orders and introduces vendors to other end markets but also provides several value-added services, such as component testing, design-chain support, supply-chain management, and other engineering-intensive offerings. Traditional fulfillment and broadline distributors, such as WPG and Ingram Micro, produce operating margins between 1% and 2%, whereas Arrow and Avnet generate 3%-5% margins due to the additional services they offer. Some of these firms have attempted to enter the value-added services space, but without success, as Avnet's capabilities are not cheap to acquire.

Using selling, general, and administrative expenses as a proxy, Avnet has spent 8%-10% of sales annually since 2013 on investment in engineering and sales. By comparison, Ingram Micro has increased SG&A as a percentage of sales from 4% to 5% over the past five years to gain the same value-added services customers (now roughly on par with Avnet in actual dollar spend), but it cannot push too much farther due to the former's wafer-thin margins. WPG's SG&A expenses have bounced between 2%-3% over the same period, while Arrow outspends the firm by 4-5 times. Due to the requisite time and investment necessary, along with the margin profile of the nearest competitors, we do not view firms like WPG or Ingram Micro as immediate competitive threats, but we acknowledge that of the duopoly, Avnet is at greatest risk.

In late 2016, Avnet completed the acquisition of U.K.-based online distributor Premier Farnell for $840 million. We believe the new business combination is in the process of creating a unique distribution model that focuses on an expanded customer base. Avnet has also extended its move into the "maker" and startup market by acquiring Dragon Innovation and Hackster.io, and by agreeing a partnership deal with Kickstarter. Avnet is particularly focused on the startup and hobbyist market, but it currently represents a small portion of revenue and profits. While the volumes associated with these customers are low, they come at much higher margins. They also provide Avnet with opportunities to increase revenue from supply-chain and design-chain services as its customers scale. The Premier Farnell acquisition included intangible assets in the form of 600,000 users of Element14, Premier Farnell's online engineering and hobbyist design forum. While by no means a moat source, the Element14 and Hackster.io online networks provide a useful feedback loop between customers, products, and designers to drive future growth. Avnet estimates that participants in these online communities spend 20% more than the average customer.

Avnet sold its technology solutions, or enterprise IT, business to Tech Data Corp. in 2016. Unlike competitor Arrow, which remains in enterprise IT, Avnet has opted to focus solely on components, helping to service the needs of early companies, "makers," and startups. We believe that with Premier Farnell, Avnet will have more opportunities to accelerate component growth, as it will be able to provide services spanning the entire product life cycle, from idea generation all the way to volume production. However, we wonder whether Avnet has disposed of a significant opportunity in Internet of Things by selling its IT solutions business, which gave the firm granular familiarity with IT environments of their enterprise customers. Avnet could have used its position between semiconductor vendors and customers, providing customized products and platforms from multiple vendors (hardware, software, and services) and even used its

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components business as an opportunity to help enterprise clients design custom hardware where vendor options were unavailable. However, Avnet's management conceded it would have required significant investment to catch up to competitors (Arrow has happily gobbled up share in Avnet’s transition). The shift in focus demonstrates the extent to which Avnet and Arrow’s business models and customer bases have diverged.

Avnet's customers benefit from the firm’s broad product line, and also simplify its design and procurement process by going through one distributor with ancillary services rather than several vendors. Suppliers get access to a broad range of customers by using Avnet without having to make significant investment in sales and engineering teams. In exchange for these services, Avnet can generate gross margins of 15%-18% for demand creation (versus the 9%-11% for fulfillment). Due to the requisite engineering and sales expenses associated with these services, demand creation comes with much higher operating expenses while still generating operating profit above simple fulfillment.

One exception to this dynamic has been Texas Instruments, which no longer pays distributors for demand creation, as it believes that it can attract customers to its TI.com website and service these customers with its internal salesforce. TI continues to use Avnet and others for fulfillment, but the lack of demand creation revenue leads to lower margins for distributors like Avnet. While TI has demonstrated how a supplier can effectively sidestep leading distributors like Avnet, in turn using the distributor purely for fulfillment, we believe it is unlikely that many other suppliers will follow suit. For one, TI took several years building an engineering community that could provide the same resources that Avnet currently offers, and it is one of only a few chipmakers with a broad enough portfolio to make this attractive (for example, the fewer products offered, the more likely the supplier will need a broadline/value-added distributor with complementary products, engineering expertise, and customer relationships). TI is the market share leader in analog semiconductors at about 18% (per IC Insights), more than double its next-closest competitor.

Other leading analog and microcontroller vendors, such as Analog Devices and Microchip Technology, simply lack the size and scale of TI, and we doubt they will be able to replicate TI's business model and refuse to pay additional margins for demand fulfillment any time soon. While TI, ADI, and Microchip spend a similar percent of sales on SG&A, in the range of 11%-15% depending on the year, TI spends over $1.5 billion per year. This amount is on par with what Avnet spends annually to maintain and expand its global engineering and sales teams. By contrast, ADI and Microchip spend roughly a third of that amount in dollar terms. We don't foresee TI's rivals such as ADI or Microchip matching TI's salesforce prowess any time soon. Instead of attempting to match TI, many leading chipmakers continue to tout the importance of distributors like Avnet. However, we note recent share loss at Avnet, with ADI notably shifting its global distribution relationship to Arrow (and away from Avnet) upon its acquisition of Linear Technology.

Fair Value & Profit Drivers

Brian Colello, Sector Director, 07 August 2020

Our fair value estimate for Avnet is $32, which implies a fiscal 2021 EV/adjusted EBITDA multiple of 15 times.

After 2.5% growth in fiscal 2019 (ending June), Avnet experienced a 10% decline in revenue in fiscal 2020 on account of the loss of Texas Instruments, along with continued macroeconomic weakness due to COVID-19. We expect the impact from TI and lingering COVID-19 effects to weigh on fiscal 2021 revenue as we model another sales decline of 7%. We anticipate that TI will end all Avnet activity by the end of December 2020. We model a sharp recovery in demand in fiscal 2022 of 8% as business conditions return to normal after COVID-19. Longer term, for the remaining two years of our forecast, we expect revenue growth of roughly 3%, which assumes recovery of global demand for components, passives, and other semiconductors but also that the firm continues to struggle with share losses.

We expect Avnet's gross margins to remain fairly stable around the mid-12% range throughout the forecast period as we reach midcycle. We also forecast the company to benefit from cross-selling opportunities and cost synergies with Farnell, resulting in slight operating margin expansion. However, we are currently less optimistic about the firm reaching its target of adjusted operating margins near 5% in the midterm and we currently forecast margins hovering in the high 2% range as we reach midcycle.

Risk & Uncertainty

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Brian Colello, Sector Director, 07 August 2020

We assign a high uncertainty rating to Avnet for several reasons. Avnet is a linchpin between semiconductor vendors and its end-market customers and is thus exposed to cyclicality on both sides. Indeed, ongoing supplier consolidation has caused recent channel realignment that has negatively affected the firm. Suppliers could also decide to bring their demand creation abilities in-house, as Texas Instruments did recently, which would significantly reduce Avnet's value proposition. At the same time, broadline distributors will likely continue to acquire their own value-added services, further encroaching on Avnet's territory.

Finally, the firm sells semiconductors and components into cyclical markets, such as automotive and industrial, which exposes Avnet's revenue and profitability to economic downturns.

Stewardship

Brian Colello, Sector Director, 20 March 2020

We think Avnet is a Standard steward of shareholder capital. William Amelio has served as CEO since September 2016, while also serving as a member of Avnet's board of directors since 2014. He brought considerable managerial experience with him when he joined Avnet, previously serving as CEO of CHC Group and president and CEO of Lenovo Group, and holding several leadership roles at Dell. William Schumann has served as Avnet's chairman of the board since 2012. We approve of the company's decision to split the chairman and CEO roles, and we believe the board of directors is sufficiently diversified and experienced.

Avnet has a prudent capital allocation policy, in our view, with a quarterly dividend, a share-repurchase program, and ongoing initiatives for strategic M&A. M&A has been key to Avnet's strategy, helping it to expand its cost advantage, increase its geographical footprint, and acquire new capabilities and customers. In 2016, the firm sold its technology solutions business to Tech Data Corp. for $2.6 billion of cash and stock, in order to focus its efforts on the core components business. In the same year, Avnet purchased specialty catalog distributor Premier Farnell for $840 million. We are generally supportive of the business combination, as we think the firm has greatly expanded its customer base, and with the addition of acquisitions of Hackster.io and Dragon Innovation, it has purchased digital properties that will help it accelerate growth. We also think the firm can capture customers at an earlier stage with these properties, growing with startups as they scale from ideation to full-scale volume production.

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Analyst Notes Archive

Avnet Announces Strong Q4 Results Amid a CEO Transition; Maintain $38 FVE

Brian Colello, Sector Director, 03 August 2020

Avnet announced a CEO transition as Phil Gallagher has been named Interim CEO, replacing Bill Amelio, who held the role for the past four years. However, perhaps the bigger news is that Avnet also announced fiscal fourth-quarter results that were well ahead of CapIQ consensus expectations. Avnet will provide more financial details and insight along with its earnings report on Thursday, but across the semiconductor landscape, we've seen business conditions that have not been nearly as bad as previously anticipated during the depths of the coronavirus crisis. We are maintaining our $38 fair value estimate for narrow-moat Avnet for now as we await additional details on Thursday evening. Shares rose as much as 20% after hours to the $32 range, yet we still view shares as modestly undervalued.

In the June quarter, Avnet expects to report sales of $4.2 billion. The firm did not provide guidance in April, but revenue exceeded CapIQ consensus of $3.98 billion. Sales at these levels should be down only 2.5% sequentially and down 10% year over year, an admirable result in light of the COVID-19 downturn. Adjusted EPS will come in at $0.64, again well above CapIQ consensus of $0.04 per share, although $0.50 of the outperformance will come from lower tax and interest expenses and favorable foreign currency gains. Cash flow from operations will come in at $288 million.

Phil Gallagher, the new Interim CEO, has worked at Avnet for over 30 years and was most recently the Global President of Avnet's Electronic Components business. As expected, Gallagher plans to prioritize the profitable growth of both its core distribution business and Farnell.

Avnet Pushing Against the Coronavirus and Customer Loss Headwinds; FVE to $32 from $38

Brian Colello, Sector Director, 07 August 2020

Avnet reported predictable fiscal fourth-quarter results that were consistent with the company's announcement on Monday associated with the CEO transition to Phil Gallagher. However, the company's forecast for the September quarter was below our expectations. We are lowering our fair value estimate for narrow-moat Avnet to $32 per share from $38, and shares appear fairly valued to us.

Revenue in the June quarter was $4.16 billion, within a rounding error of the $4.2 billion of revenue from the firm's update on Monday. Sales were down 3.5% sequentially and 11% year over year. Electronics components, or EC, revenue made up 93% of Avnet's total sales and were down 8% sequentially and 11% year over year, consistent with sluggish semiconductor sales amid the coronavirus pandemic. The firm's higher margin Farnell segment saw revenue decline 12% sequentially and 15% year over year as expected due to COVID-19-related manufacturing shutdowns. Lower sales levels caused EC operating margin to fall 60 basis points sequentially to 1.5%, while Farnell's operating margin fell 340 basis points sequentially to 3.6%.

For the September quarter, Avnet expects revenue in the range of $3.8 billion-$4.2 billion which, at the midpoint, would represent declines of 4% sequentially and 14% year over year. The year-over-year decline is worse than the forecasts provided by many of the company's semiconductor suppliers. We attribute the underwhelming forecast to the ongoing loss of Texas Instruments as a customer, as revenue was $324 million in the June quarter but should be only $100 million-$150 million in the September quarter as the relationship dwindles to zero by year-end. Meanwhile, the firm should barely do better than breakeven, with adjusted EPS forecast to be $0.00-$0.16. Longer-term, Avnet should remain an important distributor within the semiconductor supply chain, but the loss of business with Texas Instruments should remain a drag.

Avnet Benefits From a Near-Term Recovery in Demand; Maintain $32 FVE, Shares Undervalued

Brian Colello, Sector Director, 28 October 2020

Avnet reported strong fiscal first-quarter results with revenue exceeding the high end of previous guidance by a healthy margin. Adjusted earnings per share was also well ahead of prior guidance but was still down from the year-ago quarter. Business conditions appear to be improving for Avnet, with improving demand in Asia and a bounce back in component demand from the automotive end market, in line with a resumption of manufacturing activity after COVID-19-related shutdowns. We will maintain our $32 fair value estimate for narrow-moat Avnet and we continue to view shares as modestly

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undervalued.

Revenue in the September quarter was $4.72 billion, up 13.5% sequentially, up 2.0% year over year and well above the high end of the firm's prior guidance of $4.0 billion-$4.4 billion as announced in August. Avnet saw a recovery in automotive and industrial component demand, along with positive sentiment from electronics services customers. By region, revenue from Asia was up 22.2% sequentially and 4.8% year over year. Europe revenue was up 10.2% sequentially and 0.7% year over year, while Americas revenue was up 4.9% sequentially but down 0.8% year over year. A portion of the sequential and year over year strength in total was because the current period was a 14 week quarter, instead of Avnet's usual 13-week quarters. If the September quarter were 13 weeks, Avnet would have estimated its sales to be $4.4 billion. GAAP operating margin came in at 0.4%, up 34 basis points sequentially but down 97 basis points from the year-ago quarter. Days of working capital dropped below 80, the firm's lowest level since 2016, and is closer to Avnet's target range of 75 days.

For the December quarter, Avnet foresees revenue in the range of $4.0 billion-$4.4 billion which, at the midpoint, would represent an 11% sequential decline (partially as Avnet reverts to a 13 week quarter) and a 7% decline year over year.

Quantitative Equity Report | Release: 09 Nov 2020, 17:27, GMT-06:00 | Reporting Currency: USD | Trading Currency: USD | Exchange:XNAS

Avnet Inc AVT ★★★Q 09 Nov 2020 02:00 UTC

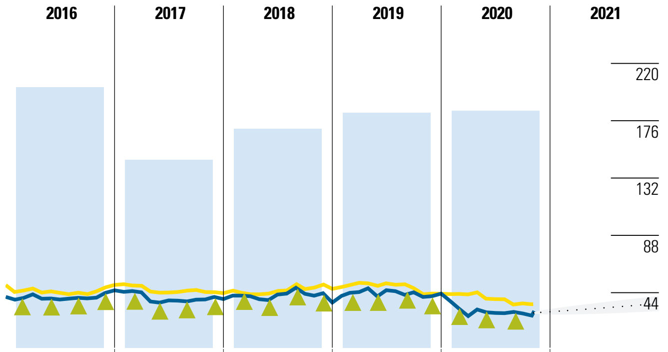
Last Close	Fair Value^Q	Market Cap	Sector	Industry	Country of Domicile
09 Nov 2020	09 Nov 2020 02:00 UTC	09 Nov 2020			
28.21	33.46	2,642.7 Mil	Technology	Electronics & Computer Distribution	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Avnet is a leading value-added distributor of electronic components. The company's customer base is composed of original equipment manufacturers, or OEMs, electronic manufacturing services, or EMS, providers and original design manufacturers, or ODMs. The firm operates in two groups--electronic components and Farnell, the latter of which was acquired by Avnet in October 2016.

Price vs. Quantitative Fair Value

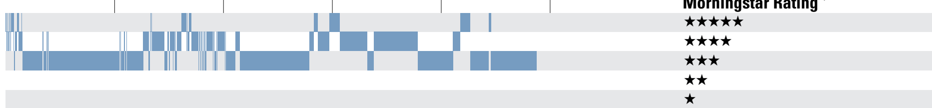


Momentum:	Negative
Standard Deviation:	33.49
Liquidity:	High

17.85	52-Wk	43.00
17.85	5-Yr	51.50

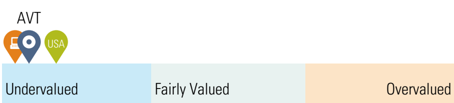
2016	2017	2018	2019	2020	
12.7	-15.3	-6.9	19.8	-32.0	Total Return %
0.3	-36.7	-1.9	-11.4	-43.4	+/– Market (Morningstar US Index)
1.43	1.82	2.16	1.93	3.14	Trailing Dividend Yield %
1.43	1.82	2.22	1.98	3.14	Forward Dividend Yield %
13.6	19.8	-38.5	32.4	-30.4	Price/Earnings
0.2	0.3	0.2	0.2	0.1	Price/Revenue

Morningstar Rating^Q



Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	85	87	88
Valuation	Undervalued	54	61	50
Quantitative Uncertainty	High	97	97	94
Financial Health	Moderate	58	22	58



Source: Morningstar Equity Research

2016	2017	2018	2019	2020	TTM	Financials (Fiscal Year in Mil)
26,219	17,440	19,037	19,519	17,634	17,727	Revenue
-6.1	-33.5	9.2	2.5	-9.7	0.5	% Change
867	599	557	611	221	179	Operating Income
-5.6	-30.9	-7.0	9.8	-63.8	-19.2	% Change
507	525	-156	176	-31	-92	Net Income
224	-369	253	535	730	657	Operating Cash Flow
-148	-120	-156	-123	-74	-64	Capital Spending
77	-489	98	412	657	593	Free Cash Flow
0.3	-2.8	0.5	2.1	3.7	3.3	% Sales
3.80	4.08	-1.30	1.59	-0.31	-0.90	EPS
-7.8	7.4	-131.9	—	-119.5	—	% Change
3.29	-3.13	-2.39	2.56	6.79	5.97	Free Cash Flow/Share
0.68	0.70	0.74	0.80	0.84	0.84	Dividends/Share
37.04	40.80	42.78	41.93	37.22	38.22	Book Value/Share
132,008	127,954	119,577	108,951	99,349	98,829	Shares Outstanding (K)
						Profitability
10.8	10.6	-3.2	4.0	-0.8	-2.4	Return on Equity %
4.6	5.0	-1.6	1.9	-0.4	-1.1	Return on Assets %
1.9	3.0	-0.8	0.9	-0.2	-0.5	Net Margin %
2.38	1.67	1.97	2.15	2.12	2.05	Asset Turnover
2.4	1.9	2.0	2.1	2.2	2.2	Financial Leverage
11.6	13.6	13.3	12.7	11.7	11.5	Gross Margin %
3.3	3.4	2.9	3.1	1.3	1.0	Operating Margin %
1,339	1,729	1,489	1,420	1,425	1,195	Long-Term Debt
4,691	5,182	4,685	4,140	3,726	3,778	Total Equity
44.4	30.8	36.5	40.0	31.1	25.2	Fixed Asset Turns

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.80	0.91	0.77	0.83
Price/Earnings	—	15.0	21.4	20.1
Forward P/E	15.8	—	15.9	13.9
Price/Cash Flow	4.0	14.7	15.6	13.1
Price/Free Cash Flow	4.5	30.4	23.0	19.5
Trailing Dividend Yield %	3.14	1.78	1.89	2.35
Price/Book	0.7	1.1	2.3	2.4
Price/Sales	0.1	0.2	1.7	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	-2.4	4.3	12.5	12.9
Return on Assets %	-1.1	1.9	6.4	5.2
Revenue/Employee (Mil)	1.2	1.2	0.4	0.3

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.5	0.6	0.6	0.5
Solvency Score	659.1	—	449.9	552.4
Assets/Equity	2.2	2.1	1.6	1.7
Long-Term Debt/Equity	0.4	0.3	0.1	0.4

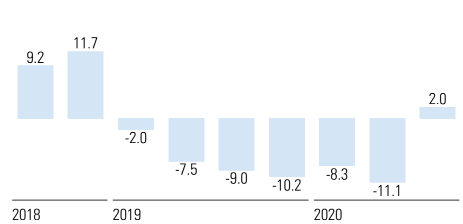
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	-9.7	0.4	0.0	-0.8
Operating Income %	-63.8	-27.5	-20.5	-10.4
Earnings %	—	—	—	—
Dividends %	5.0	6.3	5.6	—
Book Value %	-5.2	-3.6	1.8	6.7
Stock Total Return %	-30.8	-8.1	-7.1	0.8

Quarterly Revenue & EPS

Revenue (Mil)	Sep	Dec	Mar	Jun	Total
2020	4,630.0	4,534.8	4,309.8	4,159.7	17,634.3
2019	5,089.9	5,049.0	4,698.8	4,680.9	19,518.6
2018	4,660.9	4,521.6	4,795.1	5,059.2	19,036.9
2017	4,173.4	4,273.6	4,441.9	4,606.4	17,440.0
Earnings Per Share ()					
2020	0.40	0.04	-1.29	0.51	-0.31
2019	0.72	0.33	0.81	-0.30	1.59
2018	0.47	0.39	-2.68	0.50	-1.30
2017	0.53	0.79	2.10	0.65	4.08

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

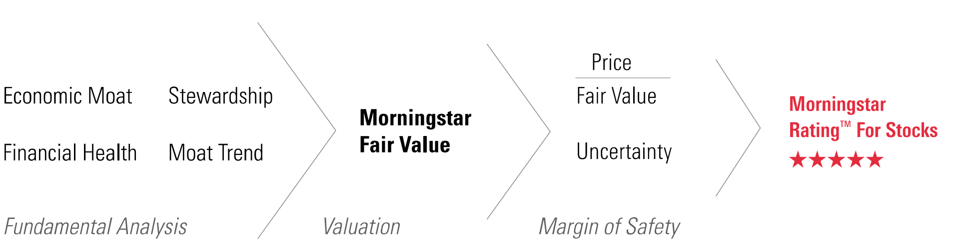
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

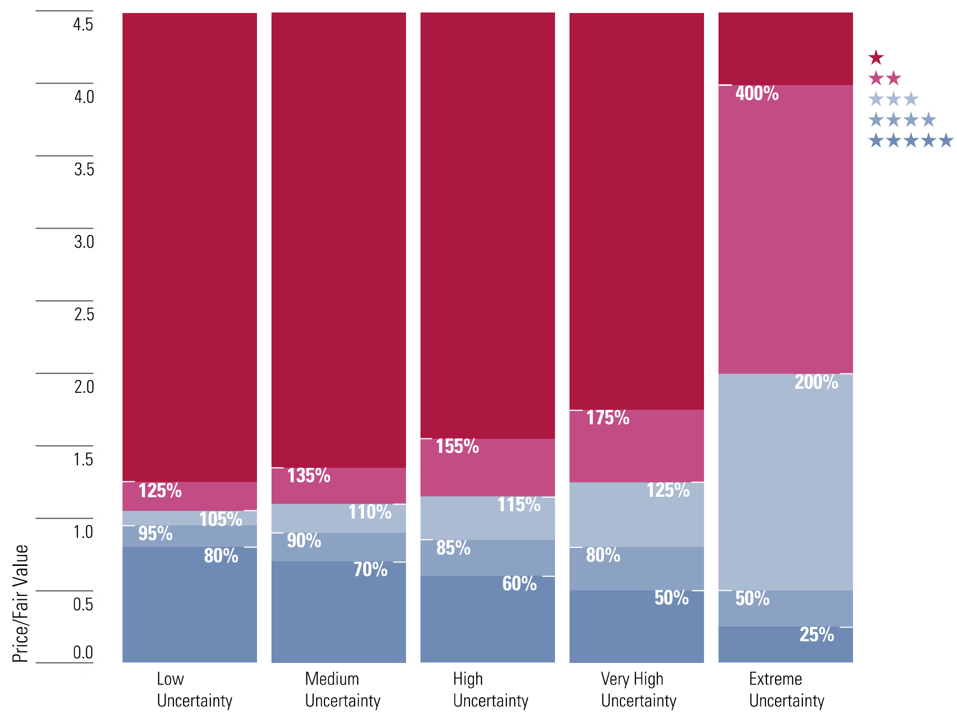
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:

(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health

(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health <0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health >0.7

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Research Methodology for Valuing Companies

Other Definitions

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
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- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

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A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

Avnet Inc AVT (XNAS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 09 Nov 2020 22:28, UTC	28.21 USD 09 Nov 2020	32.00 USD 07 Aug 2020 05:14, UTC	0.88	3.14 09 Nov 2020	2.98 09 Nov 2020	2.79 09 Nov 2020	Electronics & Computer Distribution	Standard

Price/Fair Value Morningstar data as of Nov 09, 2020

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Avnet Inc AVT (XNAS)

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