

Third Quarter

# 2020

## CFO Commentary

As reflected in our earnings release, there are a number of items that impact the comparability of our results with those in the trailing quarter and prior quarter of last year. The discussion of our results may exclude these items to give you a better sense of our operating results. As always, the operating information we provide to you should be used as a complement to GAAP numbers. For a complete reconciliation between our GAAP and non-GAAP results, please refer to our earnings release and the earnings reconciliation found at the end of this document.

The following reported and non-GAAP information included in this CFO commentary is unaudited and should be read in conjunction with the company's Form 10-Q for the quarterly period ended September 26, 2020, and the Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

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Third-quarter 2020  
diluted earnings per  
share increased 94%  
year over year; non-  
GAAP diluted  
earnings per share  
increased 12% year  
over year

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## Third-Quarter Summary

Sales were above the high end of our prior expectations for the quarter as demand and supply conditions improved for electronic components and information technology solutions compared to the first and second quarters of 2020. In addition, investments in design, engineering, and supply chain capabilities are allowing Arrow Electronics to do more business with customers and suppliers. Higher sales and focused operating expense control drove earnings per share above the high end of the prior expectations. Arrow is committed to maximizing near-term opportunities while advancing the long-term strategy to be the leading enabler of next-generation technology solutions.

Demand conditions for the global components business improved during the third quarter despite ongoing disruptions from the COVID-19 pandemic. Sales were above the high end of prior guidance, principally driven by the Asia region where manufacturing customers have more quickly returned to prior production levels. Demand from the transportation and consumer electronics industries improved significantly compared to the second quarter.

For the enterprise computing solutions business, net sales were near the high end of the prior guidance range. Enabling remote workers remains the focus for IT spending, driving demand for security and hybrid cloud solutions. Demand from larger, better capitalized, value-added reseller customers has been more resilient than demand from smaller customers.

Key returns metrics improved and cash flow from operations was strong due to the proactive management of working capital. Cash flow was used to reduce debt by approximately \$79 million, while excess cash flow was returned to shareholders through the repurchase of 1.9 million shares for \$150 million.

Third-quarter diluted earnings per share and non-GAAP diluted earnings per share exceeded the high ends of the prior guidance ranges.

# Consolidated Overview

## Third Quarter 2020

P&L Highlights*	Q3 2020	Y/Y Change	Y/Y Change Adjusted for Wind Down & Currency	Q/Q Change
Sales	\$7,231	2%	2%	9%
Gross Profit Margin	10.9%	(40) bps	(50) bps	(50) bps
Non-GAAP Gross Profit Margin	10.9%	(40) bps	(50) bps	(30) bps
Operating Income	\$238	38%	10%	21%
Operating Margin	3.3%	90 bps	30 bps	30 bps
Non-GAAP Operating Income	\$244	(3)%	(6)%	22%
Non-GAAP Operating Margin	3.4%	(20) bps	(20) bps	40 bps
Net Income	\$166	80%	28%	25%
Diluted EPS	\$2.13	94%	36%	27%
Non-GAAP Net Income	\$162	5%	1%	29%
Non-GAAP Diluted EPS	\$2.08	12%	8%	31%

\* \$ in millions, except per share data; may reflect rounding.

- Consolidated sales were \$7.23 billion
  - Above the high end of the prior expectation of \$6.325-\$6.925 billion
  - Changes in foreign currencies positively impacted sales growth by approximately \$97 million or 100 basis points year over year
- Consolidated gross profit margin and non-GAAP gross profit margin was 10.9%
  - Down 40 basis points year over year due a higher mix of Asia components sales, and a higher sales mix of lower value products in the Europe region for global components
- Operating income margin was 3.3% and non-GAAP operating income margin was 3.4%
  - Operating expenses as a percentage of sales were 7.6%, down 40 basis points year over year
  - Non-GAAP operating expenses as a percentage of sales were 7.5%, down 20 basis points year over year
- Interest and other expense, net was \$30 million
  - Below the prior expectation of \$33 million due to lower interest rates on floating rate debt and lower borrowings

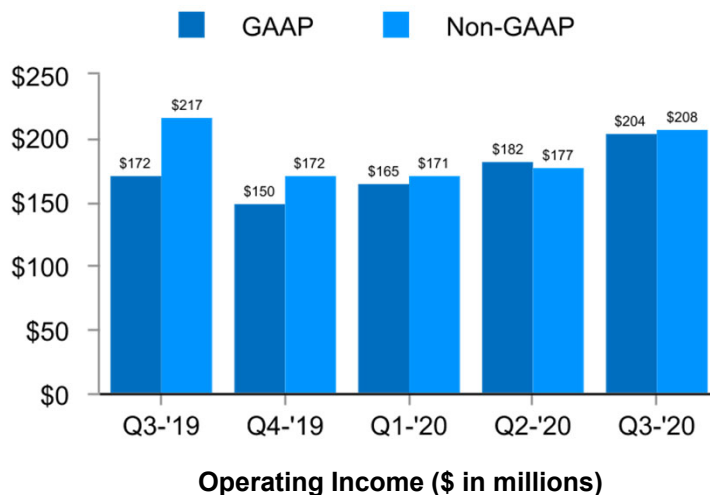
## Third-Quarter 2020 CFO Commentary

- Effective tax rate for the quarter was 21.2%, and non-GAAP effective tax rate was 23.6%
  - Non-GAAP effective tax rate was in line with the prior expectation of 24% and within the target long-term range of 23% to 25%
- Diluted shares outstanding were 78.1 million
  - Slightly below the prior expectation of 78.5 million
- Diluted earnings per share were \$2.13
  - Above the prior expectation of \$1.34 - \$1.50
  - Includes non-recurring tax item of \$.06 per share and a gain on investments and pension settlement gain of \$.04 per share.
- Non-GAAP diluted earnings per share were \$2.08
  - Above the prior expectation of \$1.54 - \$1.70
  - Changes in foreign currencies positively impacted earnings per share by approximately \$.06 compared to the third quarter of 2019

*A reconciliation of non-GAAP financial measures, including sales, gross profit margin, operating expenses, operating income margin, effective tax rate, and diluted earnings per share, to GAAP financial measures is presented in the reconciliation tables included herein.*

## Components

### Global

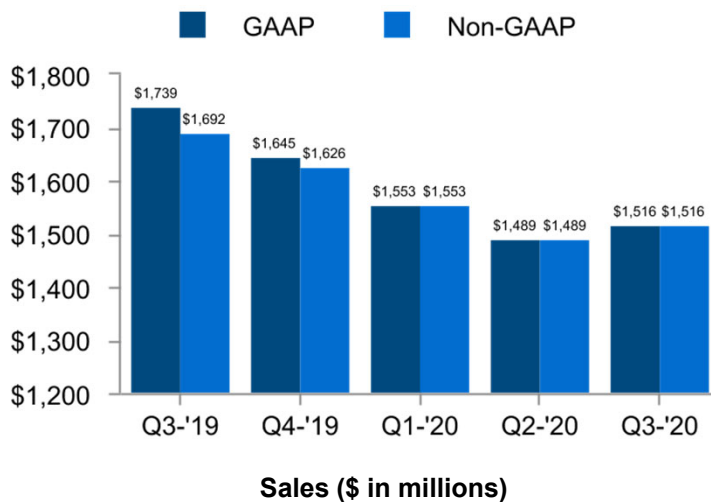


- Sales increased 5% year over year adjusted for the wind down of the PC and mobility asset disposition business and for changes in foreign currencies
  - Sales increased 5% year over year as reported
- Lead times increased slightly year over year
- Backlog increased year over year
- Book-to-bill was 1.03, up from 0.91 in the third quarter of 2019
- Cancellation rates were within normal ranges
- Operating margin of 3.8%
- Non-GAAP operating margin of 3.9% decreased 50 basis points year over year
  - Lower sales volumes resulted in lower expense leverage in the Americas and Europe
- Return on working capital increased year over year

Global components  
third-quarter sales  
increased 5% year over  
year.

## Components

### Americas

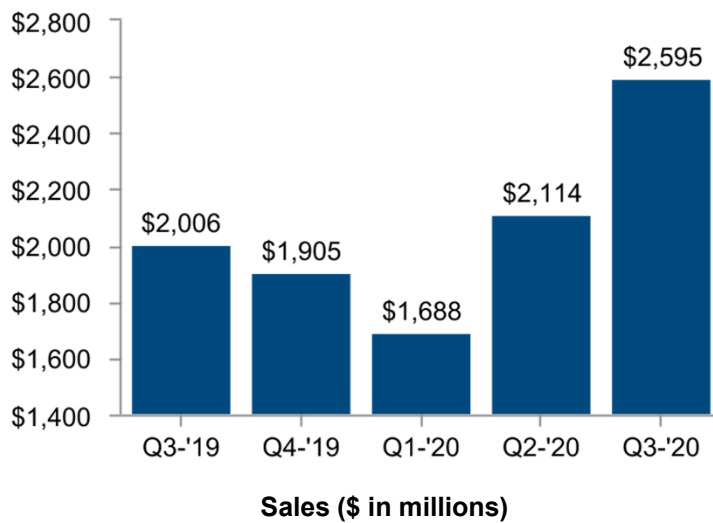


- Sales decreased 10% year over year adjusted for the wind down of the PC and mobility asset disposition business and for changes in foreign currencies
  - Sales decreased 13% year over year as reported
  - Consumer products sales increased year over year
  - Aerospace and defense, industrial and transportation sales decreased year over year
  - Consumer products and transportation sales increased significantly compared to the second quarter

Americas components sales decreased 10% year over year on a non-GAAP basis.

## Components

### Asia



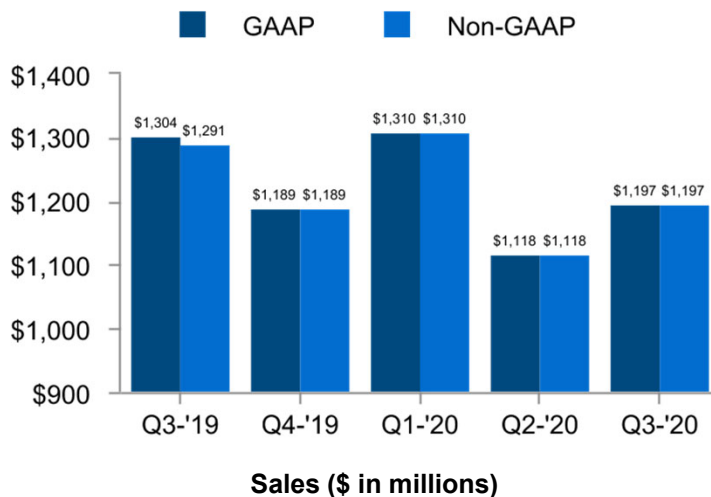
- Sales increased 29% year over year
  - Wireless, transportation and power management sales increased significantly year over year and compared to the second quarter



Asia components sales increased 29% year over year.

## Components

### Europe



- Sales decreased 8% year over year
  - Sales decreased 12% year over year adjusted for the wind down of the PC and mobility asset disposition business and for changes in foreign currencies
  - All key verticals decreased year over year
  - Transportation sales increased significantly compared to the second quarter

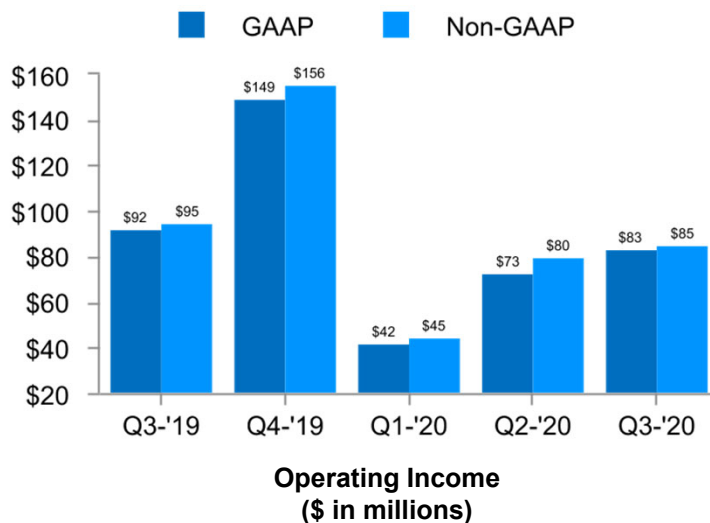


Europe components  
sales decreased 8%  
year over year.



## Enterprise Computing Solutions

### Global

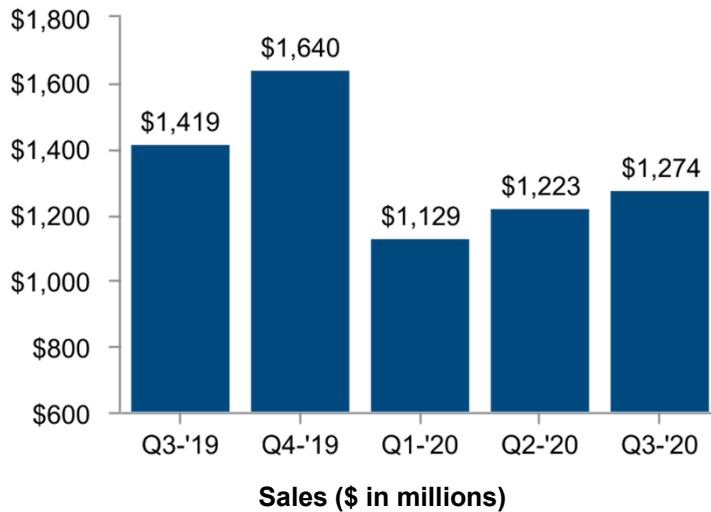


- Sales decreased 5% year over year
  - Sales decreased 7% year over year adjusted for changes in foreign currencies
- Billings increased year over year adjusted for changes in foreign currencies
  - Billings increased in both regions
- Operating margin of 4.3% decreased 30 basis points year over year
- Non-GAAP operating margin of 4.4% decreased 30 basis points year over year
- Return on working capital remains favorable

Enterprise computing solutions sales decreased 5% year over year.

## Enterprise Computing Solutions

### Americas



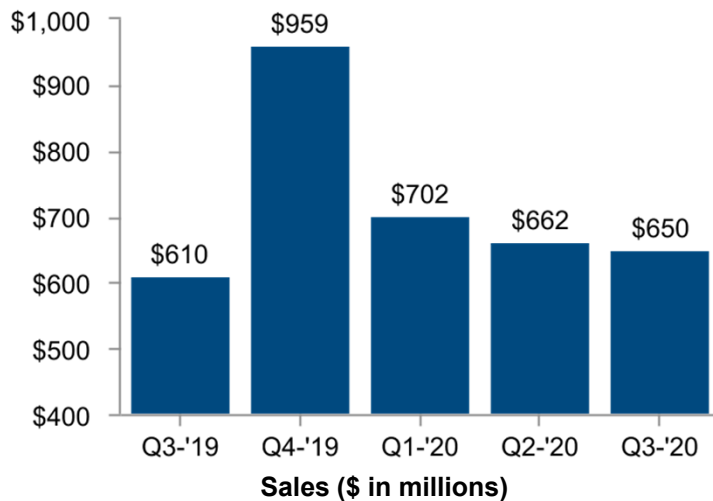
- Sales decreased 10% year over year
  - Growth in security, services, and proprietary server billings year over year
  - Storage and networking billings decreased year over year



ECS Americas sales  
decreased 10% year  
over year.

## Enterprise Computing Solutions

### Europe



- Sales increased 6% year over year
  - Sales increased 1% year over year adjusted for changes in foreign currencies
  - Security, infrastructure software, and services billings increased year over year adjusted for changes in foreign currencies
  - Industry-standard server and networking billings decreased year over year



ECS Europe sales  
increased 6% year over  
year.

### Cash Flow from Operations

Cash flow from operating activities was \$275 million in the quarter and was \$1.65 billion over the last 12 months.

### Working Capital

Working capital to sales was 15.0%, down 320 basis points year over year. Return on working capital was 21.9% compared to 13.4% in the third quarter of 2019. Non-GAAP return on working capital was 22.5% up 290 basis points year over year.

### Return on Invested Capital

Return on invested capital was 10.6% compared to 6.5% return in the third quarter of 2019. Non-GAAP return on invested capital was 10.6%, up 90 basis points year over year.

### Share Buyback

Repurchased approximately 1.9 million shares of stock for \$150 million. Total cash returned to shareholders over the last 12 months was approximately \$475 million.

### Debt and Liquidity

Net-debt-to-last-12-months EBITDA ratio is approximately 2.0x. Total liquidity of \$3.4 billion when including cash of \$227 million.

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**Cash flow from operating activities of \$1.65 billion over the last 12 months.**

# Arrow Electronics Outlook

## Guidance

We are expecting the average USD-to-Euro exchange rate for the fourth quarter of 2020 to be \$1.16 to €1; changes in foreign currencies to increase sales by approximately \$110 million, and earnings per share on a diluted basis by \$.07 compared to the fourth quarter of 2019.

### Fourth-Quarter 2020 Guidance

Consolidated Sales	\$7.45 billion to \$8.05 billion
Global Components	\$5.1 billion to \$5.4 billion
Global ECS	\$2.35 billion to \$2.65 billion
Diluted Earnings Per Share <sup>1</sup>	\$2.42 to \$2.58
Non-GAAP Diluted Earnings Per Share <sup>1</sup>	\$2.57 to \$2.73
Interest and other expense, net	\$33 million
Diluted shares outstanding	77 million

<sup>1</sup> Assumes an average tax rate of approximately 23.5% within the 23% to 25% target range.

### Fourth-Quarter 2020 Guidance Reconciliation

	Reported GAAP measure	Intangible amortization expense	Restructuring & integration charges	Non-GAAP measure
Net income per diluted share	\$2.42 - \$2.58	\$.10	\$.05	\$2.57 - \$2.73

## Quarter Closing Dates

Beginning and ending dates may impact comparisons to prior periods

### Quarter Closing Dates

	First	Second	Third	Fourth
2019	Mar. 30	Jun. 29	Sep. 28	Dec. 31
2020	Mar. 28	Jun. 27	Sep. 26	Dec. 31
2021	Apr. 3	Jul. 3	Oct. 2	Dec. 31

## Risk Factors

The discussion of the company's business and operations should be read together with the risk factors contained in Item 1A of its 2019 Annual Report on Form 10-K and the risk factor update in Form 10-Q for the quarter ended September 26, 2020, filed with the Securities and Exchange Commission, which describe various risks and uncertainties to which the company is or may become subject. If any of the described events occur, the company's business, results of operations, financial condition, liquidity, or access to the capital markets could be materially adversely affected.

## Information Relating to Forward-Looking Statements

This press release includes "forward-looking" statements, as the term is defined under the federal securities laws, including but not limited to statements regarding: Arrow's future financial performance, including its outlook on financial results for the fourth quarter of fiscal 2020, such as sales, earnings per share, average tax rate, average diluted shares outstanding, interest expense, non-GAAP net income (loss) per diluted share, average USD-to-EURO exchange rate and expectation regarding market demand. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which could cause actual results or facts to differ materially from such statements for a variety of reasons, including, but not limited to: potential adverse effects of the ongoing global coronavirus pandemic, including actions taken to contain or treat the coronavirus, industry conditions, changes in product supply, pricing and customer demand, competition, other vagaries in the global components and global enterprise computing solutions markets, changes in relationships with key suppliers, increased profit margin pressure, changes in legal and regulatory matters, non-compliance with certain regulations, such as export, anti-trust, and anti-corruption laws, foreign tax and other loss contingencies, and the company's ability to generate cash flow. For a further discussion of these and other factors that could cause the company's future results to differ materially from any forward-looking statements, see the section entitled "Risk Factors" in the company's periodic reports on Form 10-K, the Form 10-Q and subsequent filings made with the Securities and Exchange Commission. Shareholders and other readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The company undertakes no obligation to update publicly or revise any of the forward-looking statements.

For a further discussion of factors to consider in connection with these forward-looking statements, investors should refer to Item 1A Risk Factors of the company's Annual Report on Form 10-K for the year ended December 31, 2019 and Form 10-Q for the quarter ended September 26, 2020.

## Certain Non-GAAP Financial Information

In addition to disclosing financial results that are determined in accordance with accounting principles generally accepted in the United States (“GAAP”), the company also provides certain non-GAAP financial information relating to sales, operating income, net income attributable to shareholders, and net income per basic and diluted share.

The company provides sales, gross profit, and operating income, income before income taxes provision for income taxes, net income and net income per share on a diluted basis which are adjusted GAAP measures for the impact of changes in foreign currencies (referred to as changes in foreign currencies) by re-translating prior-period results at current period foreign exchange rates, the impact of dispositions by adjusting the company's operating results for businesses disposed, as if the dispositions had occurred at the beginning of the earliest period presented (referred to as “dispositions”), the impact of the company's personal computer and mobility asset disposition business (referred to as “wind down”), the impact of inventory write-downs and recoveries related to the digital business (referred to as “digital inventory write-downs and recoveries”), and the impact of notes receivable reserves and recoveries and inventory write-downs and recoveries related to the AFS business (referred to as “AFS notes receivable reserves and recoveries” and “AFS inventory write-downs and recoveries,” respectively). Non-GAAP operating income, net income attributable to shareholders, and net income per basic and diluted share are adjusted to exclude identifiable intangible asset amortization, restructuring, integration, and other charges, loss on disposition of businesses, net, AFS notes receivable reserves and recoveries and inventory write-downs and recoveries, digital inventory write-downs and recoveries, the impact of non-cash charges related to goodwill, trade names, and long-lived assets, and the impact of wind down. Net income attributable to shareholders, and net income per basic and diluted share are also adjusted to exclude net gains and losses on investments, pension settlement gain, and certain tax adjustments. A reconciliation of the company's non-GAAP financial information to GAAP is set forth in the tables below.

The company believes that such non-GAAP financial information is useful to investors to assist in assessing and understanding the company's operating performance and underlying trends in the company's business because management considers these items referred to above to be outside the company's core operating results. This non-GAAP financial information is among the primary indicators management uses as a basis for evaluating the company's financial and operating performance. In addition, the company's Board of Directors may use this non-GAAP financial information in evaluating management performance and setting management compensation.

The presentation of this additional non-GAAP financial information is not meant to be considered in isolation or as a substitute for, or alternative to, operating income, net income attributable to shareholders and net income per basic and diluted share determined in accordance with GAAP. Analysis of results and outlook on a non-GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with GAAP.

**The company believes that such non-GAAP financial information is useful to investors to assist in assessing and understanding the company's operating performance.**

## Third-Quarter 2020 CFO Commentary

# Earnings Reconciliation

(\$ in thousands, except per share data)

Three months ended September 26, 2020

	Reported GAAP measure	Intangible amortization expense	Restructuring & Integration credits	AFS Reserves & Recoveries	Digital Write Downs & Recoveries	Impairments <sup>(1)</sup>	Tax adjustments	Impact of Wind Down	Other <sup>(2)</sup>	Non-GAAP measure	
Sales	\$ 7,231,260	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,231,260	
Gross Profit	788,590	—	—	—	—	—	—	(475)	—	788,115	
Operating income	238,182	9,352	(2,840)	(233)	—	2,305	—	(2,487)	—	244,279	
Income before income taxes	211,103	9,352	(2,840)	(233)	—	2,305	—	(2,478)	(4,495)	212,714	
Provision for income taxes	44,707	2,396	(665)	(56)	—	556	4,887	(583)	(1,090)	50,152	
Consolidated net income	166,396	6,956	(2,175)	(177)	—	1,749	(4,887)	(1,895)	(3,405)	162,562	
Noncontrolling interests	336	146	—	—	—	—	—	—	—	482	
Net income attributable to shareholders	\$ 166,060	\$ 6,810	\$ (2,175)	\$ (177)	\$ —	\$ 1,749	\$ (4,887)	\$ (1,895)	\$ (3,405)	\$ 162,080	
Net income per diluted share <sup>(6)</sup>	\$ 2.13	\$ 0.09	\$ (0.03)	\$ —	\$ —	\$ 0.02	\$ (0.06)	\$ (0.02)	\$ (0.04)	\$ 2.08	
Effective tax rate	21.2	%								23.6	%

Three months ended September 28, 2019

	Reported GAAP measure	Intangible amortization expense <sup>(3)</sup>	Restructuring & Integration charges <sup>(3)</sup>	AFS Reserves & Recoveries	Digital Write Downs & Recoveries	Impairments	Tax adjustments	Impact of Wind Down <sup>(3)</sup>	Other <sup>(4)</sup>	Non-GAAP measure	
Sales	\$ 7,078,118	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (60,130)	\$ —	\$ 7,017,988	
Gross Profit	798,841	—	—	—	1,101	—	—	(3,541)	—	796,401	
Operating income	173,218	10,265	31,087	(664)	1,101	711	—	36,917	—	252,635	
Income before income taxes	122,321	10,265	31,087	(664)	1,101	711	—	36,842	(1,126)	200,537	
Provision for income taxes	29,340	2,860	8,922	(178)	272	—	—	3,753	(249)	44,720	
Consolidated net income	92,981	7,405	22,165	(486)	829	711	—	33,089	(877)	155,817	
Noncontrolling interests	850	138	—	—	—	—	—	—	—	988	
Net income attributable to shareholders	\$ 92,131	\$ 7,267	\$ 22,165	\$ (486)	\$ 829	\$ 711	\$ —	\$ 33,089	\$ (877)	\$ 154,829	
Net income per diluted share	\$ 1.10	\$ 0.09	\$ 0.27	\$ (0.01)	\$ 0.01	\$ 0.01	\$ —	\$ 0.40	\$ (0.01)	\$ 1.86	
Effective tax rate	24.0	%								22.3	%

Three months ended June 27, 2020

	Reported GAAP measure	Intangible amortization expense	Restructuring & Integration charges	AFS Reserves & Recoveries	Digital Write Downs & Recoveries	Impairments <sup>(5)</sup>	Tax adjustments	Impact of Wind Down	Other <sup>(4)</sup>	Non-GAAP measure	
Sales	\$ 6,606,494	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,606,494	
Gross Profit	750,463	—	—	—	—	—	—	(10,696)	—	739,767	
Operating income	196,613	9,734	650	197	—	4,918	—	(11,824)	—	200,288	
Income before income taxes	174,191	9,734	650	197	—	4,918	—	(11,814)	(10,901)	166,975	
Provision for income taxes	40,854	2,501	313	47	—	1,800	—	(2,662)	(2,631)	40,222	
Consolidated net income	133,337	7,233	337	150	—	3,118	—	(9,152)	(8,270)	126,753	
Noncontrolling interests	533	137	—	—	—	—	—	—	—	670	
Net income attributable to shareholders	\$ 132,804	\$ 7,096	\$ 337	\$ 150	\$ —	\$ 3,118	\$ —	\$ (9,152)	\$ (8,270)	\$ 126,083	
Net income per diluted share	\$ 1.68	\$ 0.09	\$ —	\$ —	\$ —	\$ 0.04	\$ —	\$ (0.12)	\$ (0.10)	\$ 1.59	
Effective tax rate	23.5	%								24.1	%

(1) Impairments includes \$2,305 in impairment charges related to various other long-lived assets unrelated to the personal computer and mobility asset disposition business.

(2) Other includes gain on investments, net and pension settlement gain.

(3) Amounts for restructuring, integration, and other charges, identifiable asset amortization, loss on disposition of businesses, net, and impairments related to the personal computer and mobility assets disposition business are included in "impact of wind down" above.

(4) Other includes gain on investments, net.

(5) Impairments includes \$4,918 in impairment charges related to various other long-lived assets unrelated to the personal computer and mobility asset disposition business.

(6) The sum of the components for non-GAAP diluted EPS may not agree to totals, as presented, due to rounding.