Arrow Electronics

Earnings Presentation

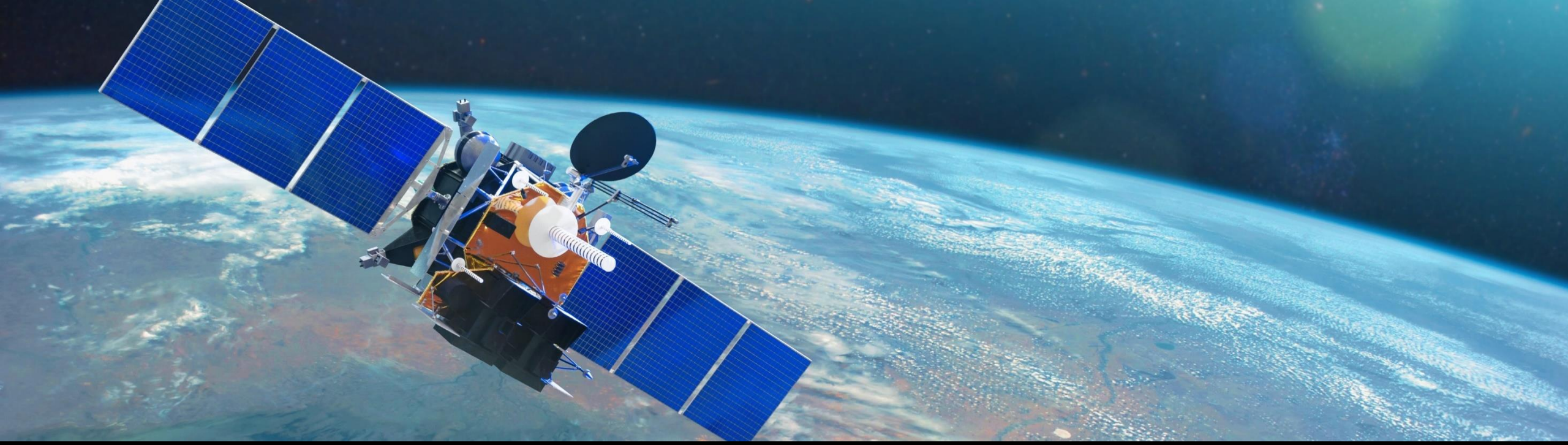
Third Quarter 2023



Safe harbor

This presentation 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 2023 such as sales, net income per diluted share, non-GAAP net income per diluted share, average tax rate, average diluted shares outstanding, interest and other expense, impact to sales due to changes in foreign currencies, intangible amortization expense per diluted share, restructuring and integration charges per diluted share, and expectations regarding market demand and shareholder returns. These and other 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: unfavorable economic conditions; disruptions or inefficiencies in the supply chain; political instability; impacts of military conflict and sanctions; industry conditions; changes in product supply, pricing and customer demand; competition; other vagaries in the global components and the global enterprise computing solutions (“ECS”) markets; deteriorating economic conditions, including economic recession, inflation, tax rates, foreign currency exchange rates, or the availability of capital; the effects of natural or man-made catastrophic events; changes in relationships with key suppliers; increased profit margin pressure; changes in legal and regulatory matters; non-compliance with certain regulations, such as export, antitrust, and anti-corruption laws; foreign tax and other loss contingencies; outbreaks, epidemics, pandemics, or public health crises; and the company's ability to generate positive 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 most recent Quarterly Report on Form 10-Q and the company's most recent Annual Report on Form 10-K, as well as in other filings the company makes 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.

In addition, this presentation includes certain non-GAAP financial measures. These non-GAAP financial measures, which may be different than similarly titled measures used by other companies, are presented to enhance investors’ overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. See "Certain Non-GAAP Financial Information" for more information and a reconciliation between GAAP and non-GAAP measures provided in this presentation.



Sean Kerins

President and CEO

Q3 2023 highlights

CONSOLIDATED SALES	OPERATING MARGIN	DILUTED EARNINGS PER SHARE
$8.0 Billion	4.7 Percent	$4.14

- Revenue in line with guidance and earnings per share at high end of guidance
- Results reflect strong execution amidst correction in semiconductor market and mixed information technology spending environment
- Focused on customers and suppliers with value added services
- Expect to emerge stronger when market conditions improve



Figures, excluding Sales, are Non-GAAP.
See reconciliation to comparable GAAP figures in the tables at the end of this presentation

Global components

- Softer demand across several verticals as customers report elevated inventory levels
- However, some indicators reflect underlying health
    - Lead times are now largely normalized
    - Book to bill, though below parity, continued to hold steady
    - Pricing remains relatively stable
- Focused on margin accretive initiatives
    - Demand creation
    - Interconnects, passives & electromechanical (IP&E)
    - Supply chain services
- Sales down, however, pockets of relative strength in each region
    - Americas – increased traction in design related activity
    - Europe – improvement in IP&E orders
    - Asia – relative momentum in transportation, networking & communications, and computing



Enterprise computing solutions

- Modest year-on-year billings growth with changing product mix – specifically strength in infrastructure software, cybersecurity, and cloud adoption

- Europe – cyber-security and infrastructure software solutions remained healthy
    - Strong software & cloud portfolio
    - Broad exposure to mid-market

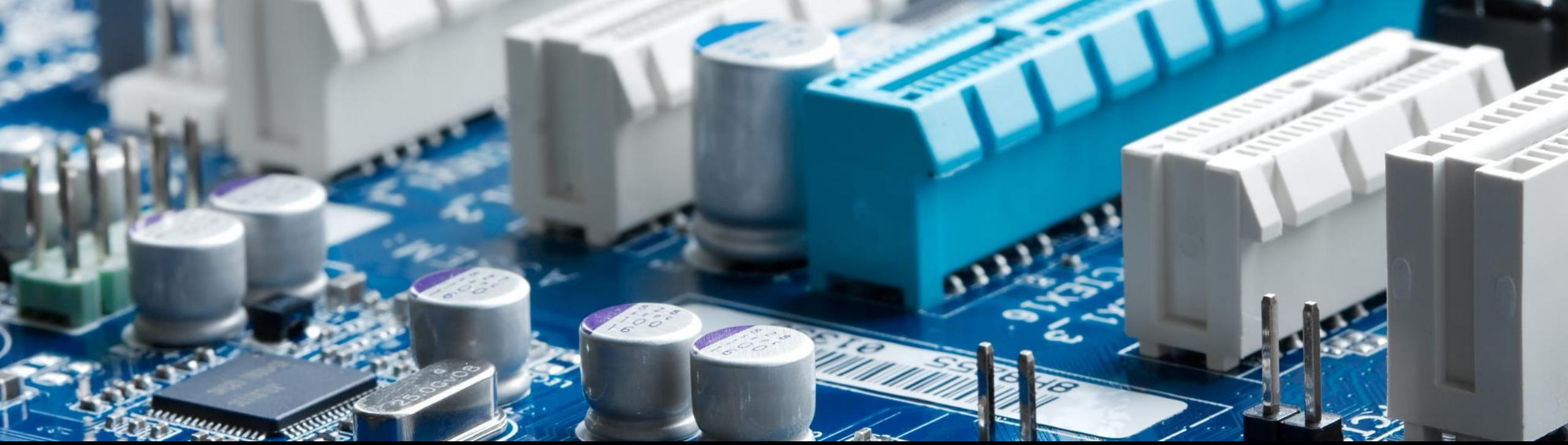
- Americas – relative strength in public sector and in transition to improve line card and customer mix



Closing Thoughts

- Optimistic regarding long-term growth prospects
- Confident in strategy and ability to execute
- Believe we are well positioned as demand conditions improve



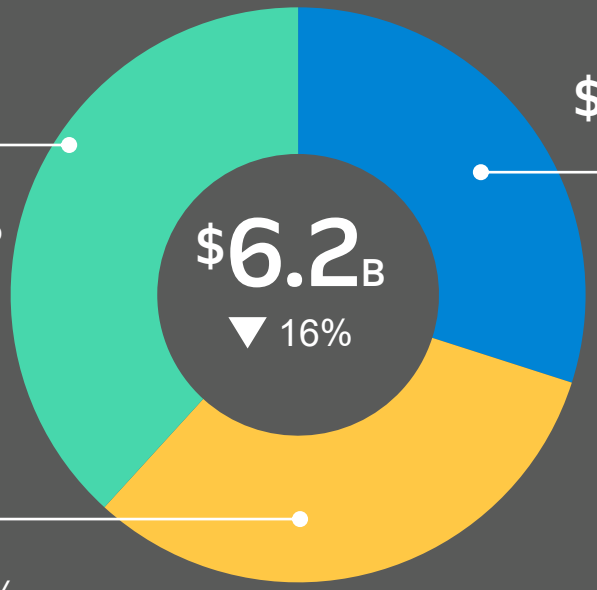


Raj Agrawal

Senior Vice President and CFO

Q3 23 revenue ($8.0B consolidated)

Global Components

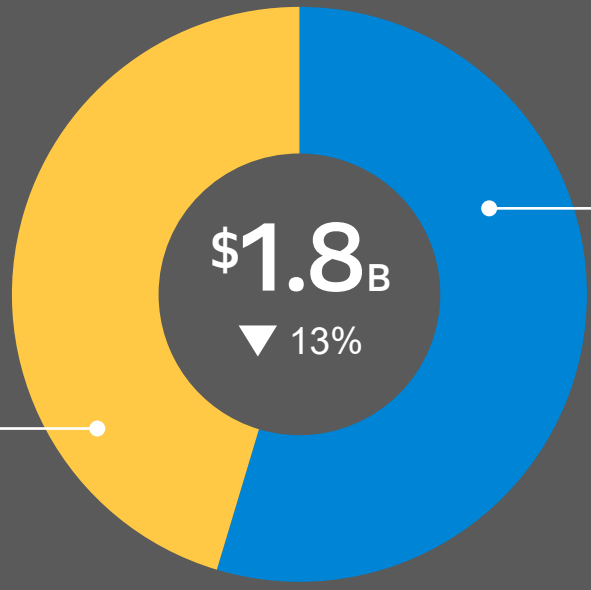


Asia Pacific
$2.4B ▼ 17%

$1.9B ▼ 24%
Americas

EMEA
$2.0B ▼ 4%

Enterprise Computing Solutions



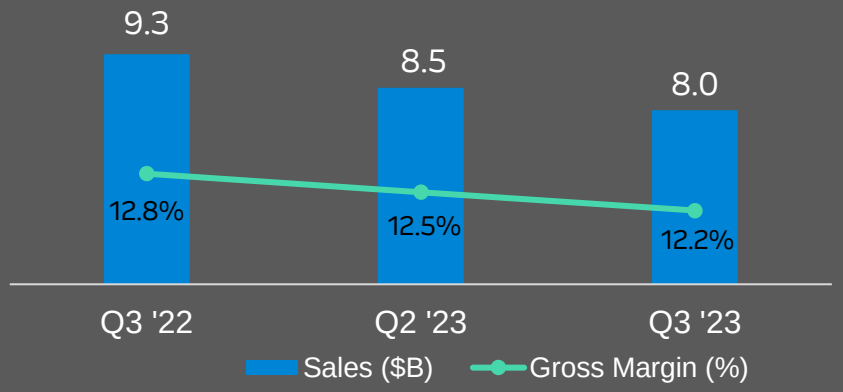
$1.0B ▼ 17%
Americas

EMEA
$0.7B ▼ 5%

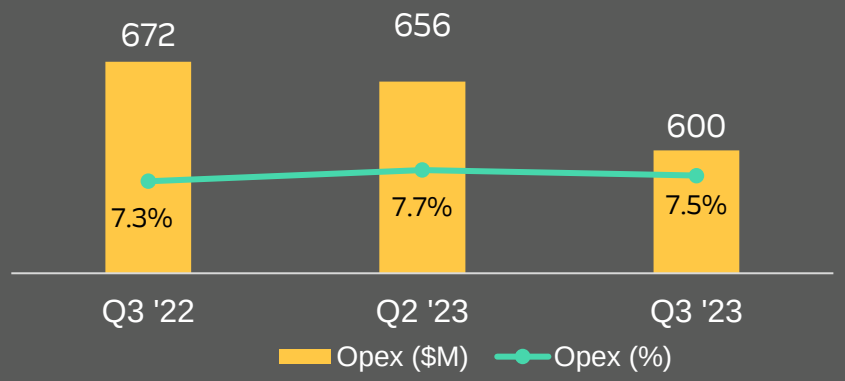
Revenue figures are GAAP and year-on-year performance changes are at constant currency
Amounts may not calculate precisely due to rounding
See reconciliation to comparable GAAP figures in the tables at the end of this presentation

Financial metrics

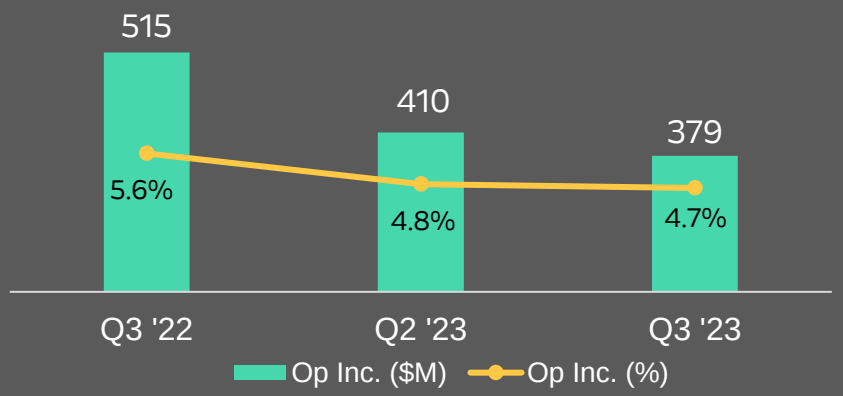
Sales & Gross Margin



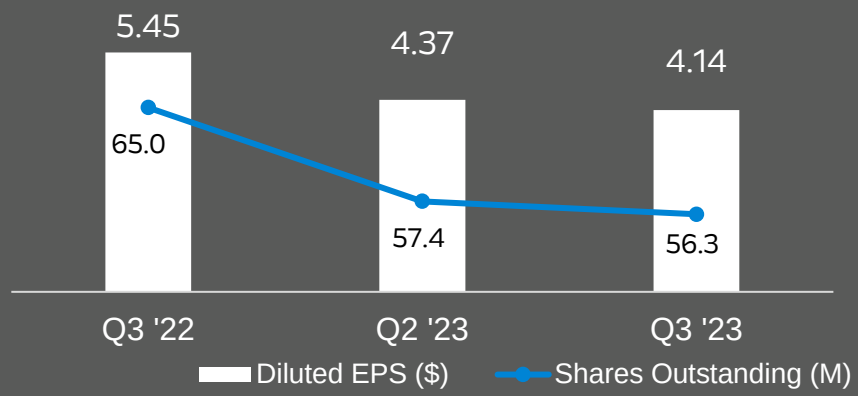
Non-GAAP Operating Expenses[1]



Non-GAAP Operating Income[1]



Non-GAAP Diluted EPS[1]

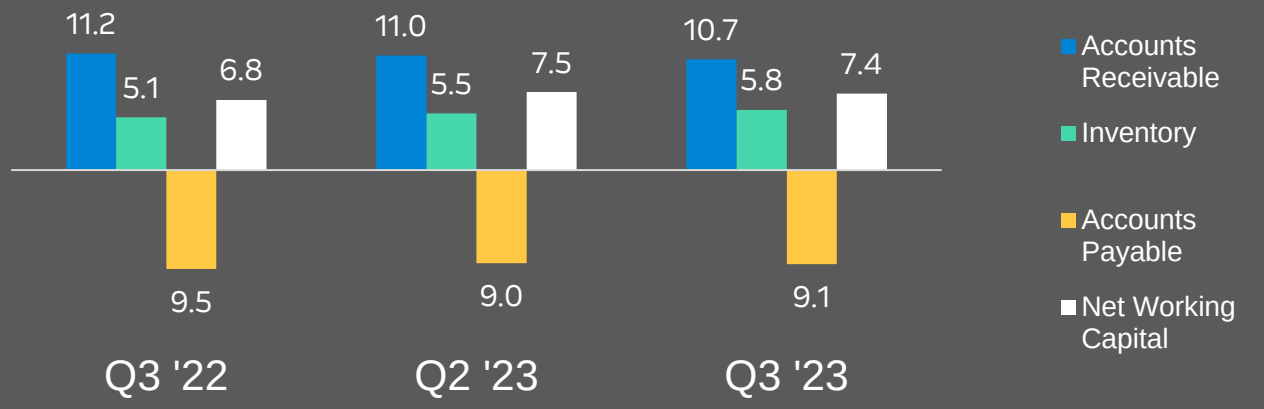


Interest and other expense, net in Q3 '23 was $82 million
Non-GAAP Effective Tax Rate was 21.2%[1]

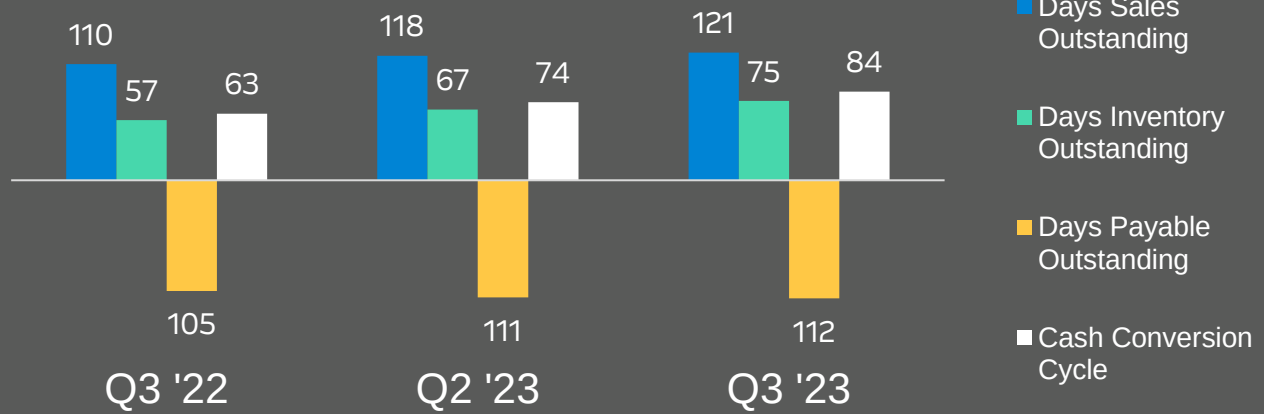
[1] See reconciliation to comparable GAAP figures in the tables at the end of this presentation

Working capital

Net Working Capital ($B)



Cash Conversion (Days)



Inventory Turns:	6.4	5.5	4.8

- **Non-GAAP Return on Working Capital (ROWC)** was 20.6% in the third quarter, down 990 basis points year on year. The decrease in ROWC related primarily to lower operating income due to normalizing market conditions, in addition to higher inventory levels.
- **Non-GAAP Return on Invested Capital (ROIC)** was 12.6% in the third quarter, down 550 basis points year on year. The decrease in ROIC related primarily to higher levels of debt, primarily related to investments in inventory, as well as lower operating income.

See reconciliation to comparable GAAP figures in the tables at the end of this presentation

Balance sheet and cash highlights

Operating Cashflow was $322M in Q3

Net Debt was $3.9B

Total Liquidity was $2.3B including $333M in cash

Repurchased ~$200M in shares



Figures are as of the end of Q3 2023

Q4 23 guidance

Consolidated Sales	$7.50 billion to $8.10 billion
Global Components	$5.40 billion to $5.80 billion
Global ECS	$2.10 billion to $2.30 billion
Diluted Earnings Per Share*	$3.30 to $3.50
Non-GAAP Diluted Earnings Per Share*	$3.61 to $3.81
Interest and Other Expense, Net	Approximately $90 million
Diluted Shares Outstanding	~55 million

* Assumes an average tax rate in the range of 23% to 25%.

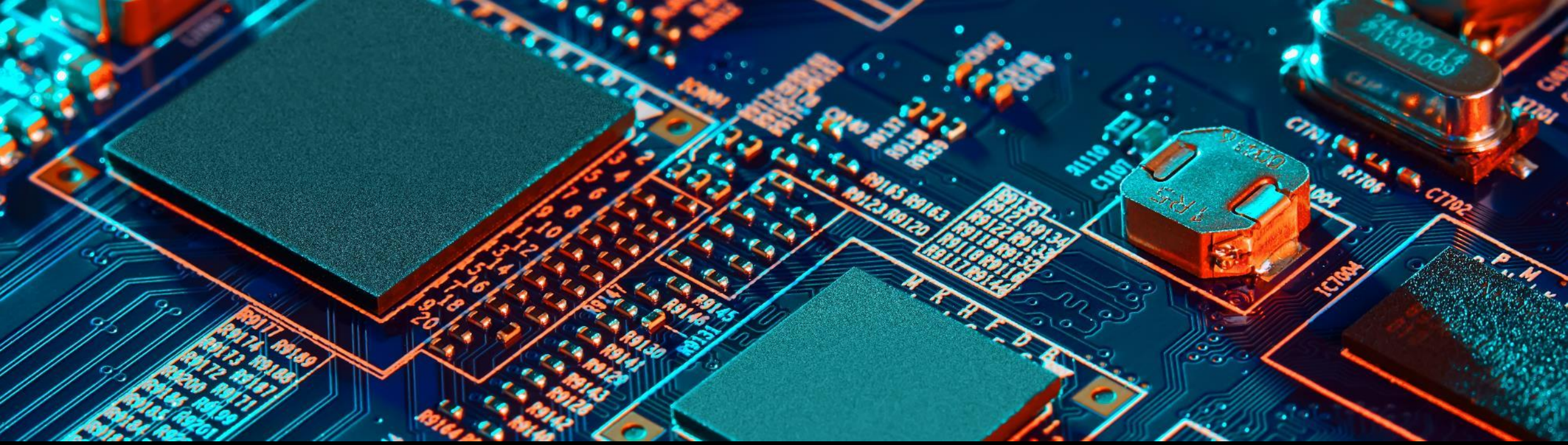
- We estimate changes in foreign currencies to increase year on year growth in sales by $54 million and earnings per share on a diluted basis by $0.02 compared to the fourth quarter of 2022.
- We estimate changes in foreign currencies to decrease quarter on quarter growth in sales by approximately $82 million and earnings per share on a diluted basis by $0.07 compared to the third quarter of 2023.



Refer to the backup section of this presentation for GAAP to non-GAAP reconciliation.



Thank You
Q&A



Additional information and financial tables

Consolidated Overview

($ in millions, except per share data)

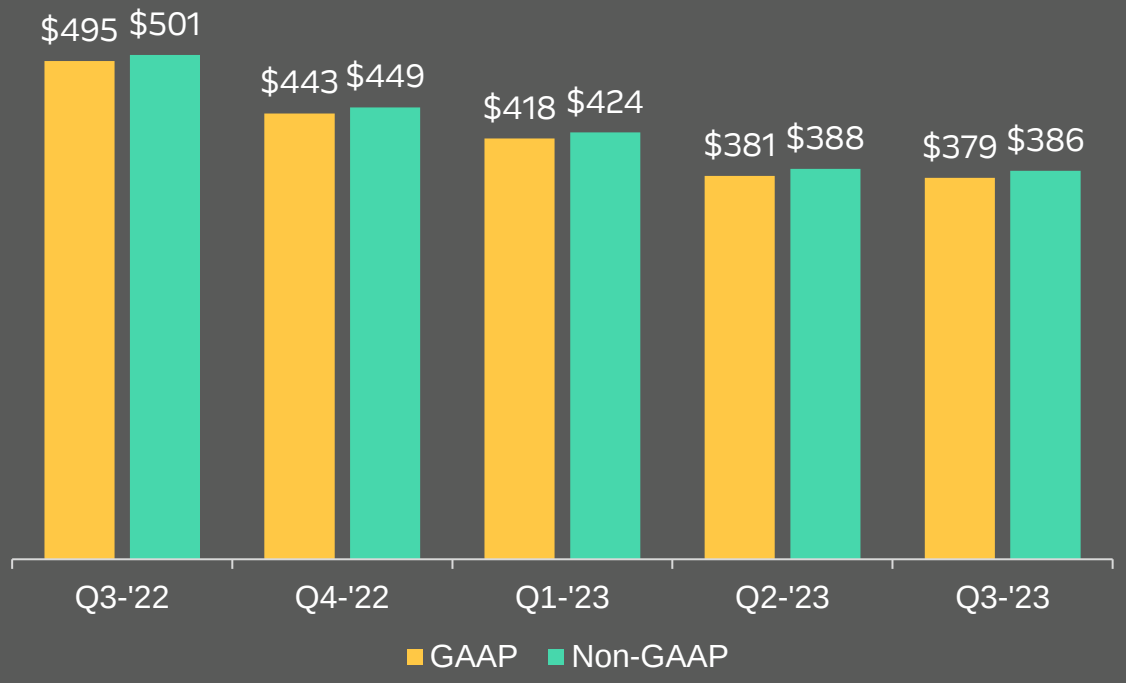
P&L Highlights*	Q3 2023	Y/Y CHANGE	Y/Y CHANGE IN CONSTANT CURRENCY	Q/Q CHANGE
Sales	$8,007	(14)%	(15)%	(6)%
Gross Profit Margin	12.2%	-60 bps	-60 bps	-30 bps
Operating Income	$340	(32)%	(33)%	(13)%
Operating Margin	4.2%	-120 bps	-120 bps	-40 bps
Non-GAAP Operating Income	$379	(26)%	(27)%	(8)%
Non-GAAP Operating Margin	4.7%	-90 bps	-90 bps	-10 bps
Net Income	$199	(42)%	(43)%	(16)%
Diluted EPS	$3.53	(33)%	(34)%	(14)%
Non-GAAP Net Income	$233	(34)%	(35)%	(7)%
Non-GAAP Diluted EPS	$4.14	(24)%	(25)%	(5)%

Revenue History

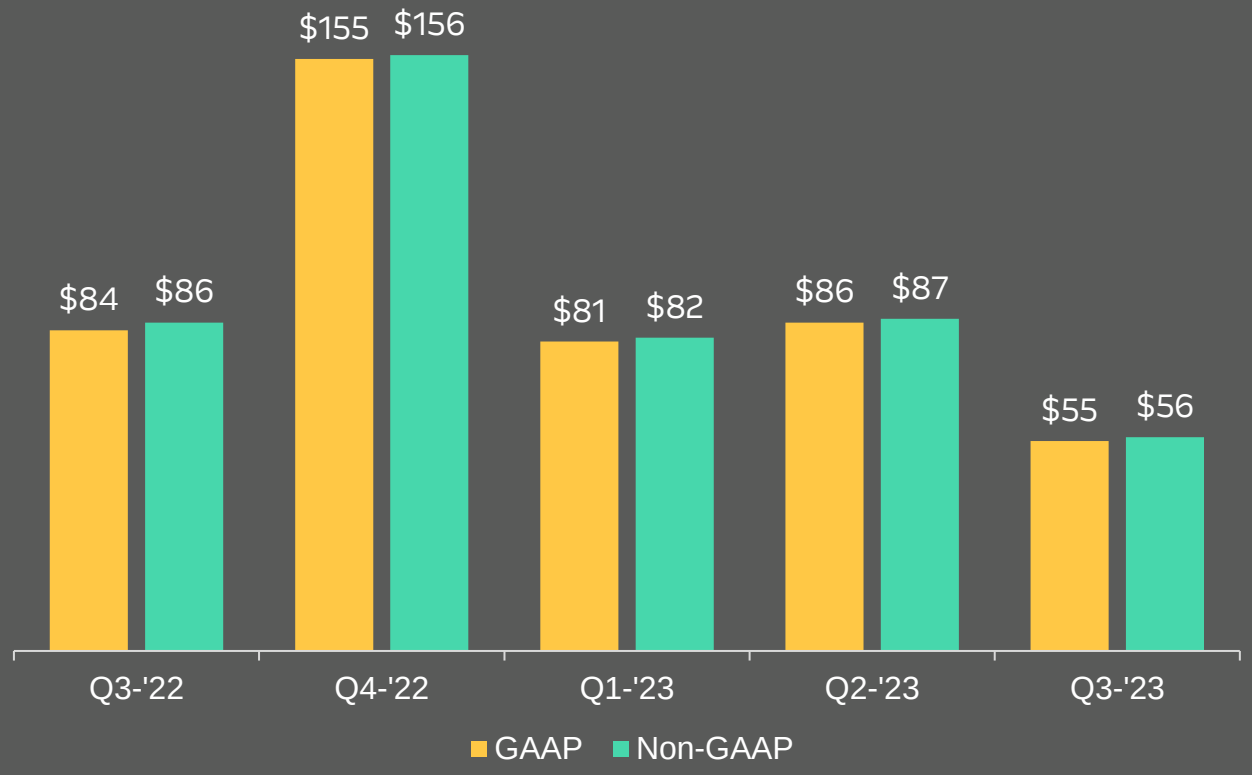
$ in millions; may reflect rounding.	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Y/Y Change	Q/Q Change	Comment
Global Components Total	7,300	6,827	6,856	6,683	6,245	(14)%	(7)%	
Americas	2,446	2,327	2,233	2,067	1,870	(24)%	(10)%	Year on year reduced volumes due to normalizing shortage market, with strength in aerospace & defense
Europe, Middle East & Africa	1,936	1,957	2,246	2,153	1,987	3%	(8)%	Quarter on quarter weakness in most verticals, with improvement in IP&E orders
Asia Pacific	2,919	2,543	2,376	2,463	2,388	(18)%	(3)%	Continued softness across the region
Enterprise Computing Solutions Total	1,966	2,496	1,881	1,832	1,762	(10)%	(4)%	
Europe, Middle East & Africa	732	1,092	883	831	746	2%	(10)%	Year on year healthy demand for cybersecurity solutions and other infrastructure software
Americas	1,234	1,404	998	1,001	1,016	(18)%	2%	Relative strength in public sector year on year
Arrow Electronics Total	9,266	9,323	8,736	8,515	8,007	(14)%	(6)%	

Operating income history

Global Components ($M)



Enterprise Computing Solutions ($M)



Q3-’23 operating income included a legal settlement benefit of $62 million in our global components business and a partially offsetting $22 million charge in our ECS business to increase accounts receivable reserves related to a customer

See the reconciliation to comparable GAAP figures in the tables at the end of this presentation

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, operating margin, operating expense, income before income taxes, provision for income taxes, consolidated net income, noncontrolling interests, net income attributable to shareholders, effective tax rate, net income per share on a diluted basis, return on working capital, and return on invested capital.

These non-GAAP measures are adjusted by certain of the following, as applicable: the impact of changes in foreign currencies (referred to as "changes in foreign currencies" or "on a constant currency basis") by re-translating prior-period results at current-period foreign exchange rates, identifiable intangible asset amortization, restructuring, integration, and other charges, net gains and losses on investments, and impact of tax legislation changes.

Management believes that providing this additional information is useful to the reader to better assess and understand the company's operating performance and future prospects in the same manner as management, especially when comparing results with previous periods. Management typically monitors the business as adjusted for these items, in addition to GAAP results, to understand and compare operating results across accounting periods, for internal budgeting purposes, for short- and long-term operating plans, and to evaluate the company's financial performance. However, analysis of results on a non-GAAP basis should be used as a complement to, in conjunction with, and not as a substitute for, data presented in accordance with GAAP.

For a complete reconciliation between our GAAP and non-GAAP results, please refer to reconciliations found at the end of this document.



Fourth-quarter 2023 GAAP to non-GAAP outlook reconciliation

($ in billions, except per share data)

NON-GAAP SALES RECONCILIATION

	Quarter Ended			Quarter Ended		
	31-Dec-23	31-Dec-22	% Change	31-Dec-23	30-Sep-23	% Change
Global components sales, GAAP	$5.40 - 5.80	$ 6.83	(21%) - (15%)	$5.40 - 5.80	$ 6.25	(14%) - (7%)
Impact of changes in foreign currencies	—	0.03		—	(0.06)	
Global components sales, constant currency	$5.40 - 5.80	$ 6.86	(21%) - (15%)	$5.40 - 5.80	$ 6.19	(13%) - (6%)
Global ECS sales, GAAP	$2.10 - 2.30	$ 2.50	(16%) - (8%)	$2.10 - 2.30	$ 1.76	19% - 31%
Impact of changes in foreign currencies	—	0.02		—	(0.02)	
Global ECS sales, constant currency	$2.10 - 2.30	$ 2.52	(17%) - (9%)	$2.10 - 2.30	$ 1.74	21% - 32%

NON-GAAP EARNINGS RECONCILIATION

	REPORTED GAAP MEASURE	INTANGIBLE AMORTIZATION EXPENSE	RESTRUCTURING & INTEGRATION CHARGES	NON-GAAP MEASURE
Net income per diluted share	$3.30 to $3.50	$0.10	$0.21	$3.61 to $3.81

Non-GAAP sales reconciliation

($ in thousands)

NON-GAAP SALES RECONCILIATION

	Quarter Ended		
	30-Sep-23	1-Oct-22	% Change
Consolidated sales, as reported	$ 8,007,019	$ 9,266,432	-13.6 %
Impact of changes in foreign currencies	—	145,732	
Consolidated sales, constant currency	$ 8,007,019	$ 9,412,164	-14.9 %
Global components sales, as reported	$ 6,245,192	$ 7,300,347	-14.5 %
Impact of changes in foreign currencies	—	96,433	
Global components sales, constant currency	$ 6,245,192	$ 7,396,780	-15.6 %
Americas components sales, as reported	$ 1,869,934	$ 2,445,647	-23.5 %
Impact of changes in foreign currencies	—	32	
Americas components sales, constant currency	$ 1,869,934	$ 2,445,679	-23.5 %
Asia components sales, as reported	$ 2,387,835	$ 2,918,873	-18.2 %
Impact of changes in foreign currencies	—	(27,584)	
Asia components sales, constant currency	$ 2,387,835	$ 2,891,289	-17.4 %
Europe components sales, as reported	$ 1,987,423	$ 1,935,827	2.7 %
Impact of changes in foreign currencies	—	123,985	
Europe components sales, constant currency	$ 1,987,423	$ 2,059,812	-3.5 %
Global ECS sales, as reported	$ 1,761,827	$ 1,966,085	-10.4 %
Impact of changes in foreign currencies	—	49,299	
Global ECS sales, constant currency	$ 1,761,827	$ 2,015,384	-12.6 %
Americas ECS sales, as reported	$ 1,015,924	$ 1,234,158	-17.7 %
Impact of changes in foreign currencies	—	(3,105)	
Americas ECS sales, constant currency	$ 1,015,924	$ 1,231,053	-17.5 %
Europe ECS sales, as reported	$ 745,903	$ 731,927	1.9 %
Impact of changes in foreign currencies	—	52,404	
Europe ECS sales, constant currency	$ 745,903	$ 784,331	-4.9 %

Third-quarter 2023 GAAP to non-GAAP reconciliation

($ in thousands, except per share data)

Three months ended September 30, 2023

	Reported GAAP measure	Intangible Amortization Expense	Restructuring & Integration charges [1]	Non- recurring tax items	Other [2]	Non-GAAP measure
Operating expense	$ 639,514	$ (7,863)	$ (31,359)	$ -	$ -	$ 600,292
Operating income	340,083	7,863	31,359	-	-	379,305
Income before income taxes	252,282	7,863	31,359	-	6,159	297,663
Provision for income taxes	52,241	1,959	7,321	-	1,476	62,997
Consolidated net income	200,041	5,904	24,038	-	4,683	234,666
Noncontrolling interests	1,382	138	-	-	-	1,520
Net income attributable to shareholders	$ 198,659	$ 5,766	$ 24,038	$ -	$ 4,683	$ 233,146
Net income per diluted share [3]	$ 3.53	$ 0.10	$ 0.43	$ -	$ 0.08	$ 4.14
Effective tax rate [4]	20.7%					21.2%

Three months ended October 1, 2022

	Reported GAAP measure	Intangible Amortization Expense	Restructuring & Integration charges [1]	Non- recurring tax items	Other [2]	Non-GAAP measure
Operating expense	$ 684,218	$ (8,674)	$ (3,635)	$ -	$ -	$ 671,909
Operating income	502,694	8,674	3,635	-	-	515,003
Income before income taxes	449,106	8,674	3,635	-	3,480	464,895
Provision for income taxes	105,500	2,219	892	-	841	109,452
Consolidated net income	343,606	6,455	2,743	-	2,639	355,443
Noncontrolling interests	1,207	125	-	-	-	1,332
Net income attributable to shareholders	$ 342,399	$ 6,330	$ 2,743	$ -	$ 2,639	$ 354,111
Net income per diluted share [3]	$ 5.27	$ 0.10	$ 0.04	$ -	$ 0.04	$ 5.45
Effective tax rate [4]	23.5%					23.5%

Three months ended July 1, 2023

	Reported GAAP measure	Intangible Amortization Expense	Restructuring & Integration charges [1]	Non- recurring tax items	Other [2]	Non-GAAP measure
Operating expense	$ 673,799	$ (7,908)	$ (10,333)	$ -	$ -	$ 655,558
Operating income	392,250	7,908	10,333	-	-	410,491
Income before income taxes	310,171	7,908	10,333	-	(497)	327,915
Provision for income taxes	72,380	1,992	2,597	(942)	(119)	75,908
Consolidated net income	237,791	5,916	7,736	942	(378)	252,007
Noncontrolling interests	1,232	136	-	-	-	1,368
Net income attributable to shareholders	$ 236,559	$ 5,780	$ 7,736	$ 942	$ (378)	$ 250,639
Net income per diluted share [3]	$ 4.12	$ 0.10	$ 0.13	$ 0.02	$ (0.01)	$ 4.37
Effective tax rate [4]	23.3%					23.1%

(1) Includes charges to increase the environmental remediation reserves in the amount of $20.9 million and for third quarter of 2023, $1.9 million for the third quarter of 2022, and $2.4 million for second quarter of 2023.

(2) Other includes (gain) loss on investments, net.

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

(4) The items as shown in this table, represent the reconciling items for the tax rate as reported by GAAP measure and as a non-GAAP

Return on working capital reconciliation

($ in thousands)

	Quarter Ended	
	September 30, 2023	October 1, 2022
Numerator:	(unaudited)	(unaudited)
Consolidated operating income, as reported	$ 340,083	$ 502,694
	x 4	x 4
Annualized consolidated operating income	$ 1,360,332	$ 2,010,776
Non-GAAP consolidated operating income	$ 379,305	$ 515,003
	x 4	x 4
Annualized non-GAAP consolidated operating income	$ 1,517,220	$ 2,060,012
Denominator:		
Accounts receivable, net	$ 10,663,164	$ 11,218,611
Inventories	$ 5,805,520	$ 5,083,378
Less: Accounts payable	$ 9,090,554	$ 9,540,449
Working capital	$ 7,378,130	$ 6,761,540
Return on working capital	18.4%	29.7%
Return on working capital (Non-GAAP)	20.6%	30.5%

Return on invested capital reconciliation

($ in thousands)

	Quarter Ended	
	September 30, 2023	October 1, 2022
Numerator:		
Consolidated operating income, as reported	$ 340,083	$ 502,694
Equity in earnings of affiliated companies [(1)]	1,392	1,718
Less: Noncontrolling interests [(1)]	1,382	1,207
Consolidated operating income, as adjusted	340,093	503,205
Less: Tax effect [(2)]	70,704	118,497
After-tax consolidated operating income, as adjusted	269,389	384,708
	x4	x4
Annualized after-tax consolidated operating income, as adjusted	$ 1,077,556	$ 1,538,832
Non-GAAP consolidated operating income	$ 379,305	$ 515,003
Equity in earnings of affiliated companies [(1)]	1,392	1,718
Less: Noncontrolling interests [(1)]	1,520	1,332
Non-GAAP consolidated operating income, as adjusted	379,177	515,389
Less: Tax effect [(3)]	80,600	121,631
After-tax non-GAAP consolidated operating income, as adjusted	298,577	393,758
	x4	x4
Annualized after-tax non-GAAP operating income, as adjusted	$ 1,194,308	$ 1,575,032
Denominator:		
Average short-term borrowings, including current portion of long-term debt [(4)]	$ 1,038,415	$ 615,285
Average long-term debt [(4)]	3,143,915	3,021,758
Average total equity [(4)]	5,603,974	5,350,485
Average cash and cash equivalents	286,838	279,790
Invested capital	$ 9,499,466	$ 8,707,738
Return on invested capital	11.3%	17.7%
Return on invested capital (Non-GAAP)	12.6%	18.1%

(1) Operating income, as reported, and non-GAAP operating income is adjusted for noncontrolling interest and equity in earnings of affiliated companies to include the pro-rata ownership of non-wholly owned subsidiaries.

(2) The tax effect is calculated by applying the effective tax rate for the three months ended September 30, 2023 and October 1, 2022 to consolidated operating income, as adjusted. The tax rate is adjusted to exclude the impacts of interest expense, gain on investments, net, and employee benefit plan expense, net.

(3) The tax effect is calculated by applying the non-GAAP effective tax rate for the three months ended September 30, 2023 and October 1, 2022 to non-GAAP consolidated operating income, as adjusted. The tax rate is adjusted to exclude the impacts of interest expense and employee benefit plan expense, net.

(4) The quarter ended average is based on the addition of the account balance at the end of the most recently-ended quarter to the account balance at the end of the prior quarter and dividing by two.

Non-GAAP segment reconciliation

($ in thousands)

	Quarter Ended				
	10/1/2022	12/31/2022	4/1/2022	7/1/2023	9/30/2023
Global components operating income, as reported	$ 494,587	$ 442,702	$ 417,539	$ 381,314	$ 379,053
Intangible assets amortization expense	6,691	6,702	6,745	6,679	6,640
Global components non-GAAP operating income	$ 501,278	$ 449,404	$ 424,284	$ 387,993	$ 385,693
Global ECS operating income, as reported	$ 83,976	$ 154,775	$ 81,099	$ 86,228	$ 54,624
Intangible assets amortization expense	1,983	1,468	1,235	1,229	1,223
Global ECS non-GAAP operating income	$ 85,959	$ 156,243	$ 82,334	$ 87,457	$ 55,847