



# Component Distribution Supply Chain

## Component Insights – September 2023

Important Disclosures in the Appendix

**Inventory Overhang Remains Persistent and Burn Progressing Slower than Expected, Arrow Appears to be Losing Share NT on TI Moving Business Direct & Potential Customer Disruptions Stemming from NCNR Enforcement**

**Note: This is not the full Insights report, if you are interested in receiving the full report, please reach out to schedule a call to discuss the requirements**

### Key Takeaways:

1. 3Q POS tracking in-line, down mid-single digits Q/Q, with weaker China, seasonal Europe and in-line Americas.
2. TI seen accelerating shift direct from Arrow in 2H, particularly in 4Q. We estimate ~65% of TI sales through Arrow are in Asia.
3. 3Q inventory progress viewed as uneven and slow on STMicro, Infineon and other European semis driving inventory up by enforcing NCNRs.
4. Arrow seen angering tier 1 EMS with aggressive tactics on receivables/NCNRs; Foxconn threatening to cut ties, move to Avnet/others.

### Other Key Takeaways:

5. Bookings remain weak with B2B<1 globally; semis B2B/orders cont. to decline; IP&E more stable with green shoots in China.
6. 4Q POS projected down LSD-MSD Q/Q with flattish APAC/China and declines in EMEA and Americas.
7. Future Electronics sale seen as having limited industry impact NT as WT planning limited change to Future's biz model and GTM. MT, the supply chain sees potential Arrow/Avnet gains as some end customers/suppliers seen expressing uneasiness re. the new owner.
8. Distributors seen expressing concern about slow inventory progress. Arrow seen aiming to cut inventory by 30-40%, or ~\$2B.
9. NCNR enforcement, ongoing customer pushouts seen limiting disti's ability to reduce inventory. Receivables collection also noted as incrementally more challenging. Combined those dynamics seen constraining WC improvement and FCF generation near term.
10. Inventory digestion seen through 1Q24 (at least). Feedback suggests inventory progress at catalog disti, including Farnell also slow.
11. High volume SKUs (particularly semis) noted seeing increasing pricing pressure in distis; high end/custom pricing more stable.
12. Distis noted seeking sizable ship and debit support; suppliers largely seen unwilling to meet such requests. Distis in Asia seen as more aggressive discounting without supplier support, in large part due to increased pressure from brokers selling below the market.
13. First cut to official list prices seen in catalog distis from TI/STMicro/Analog Devices. Cuts seen as a potential leading indicator for volume distis.

### Conclusion:

Distribution fundamentals remain challenged, and we remain cautious on the pace and the duration of the digestion taking longer than supply chain expectations and likely lasting through at least 1H24. Adding to our near-term caution, we have started to see the 1<sup>st</sup> signs of pricing aggression from suppliers, which also has the potential to further pressure sales growth near-term.

## APPENDIX

We, Kevin Rottinghaus, Sean Muir, Dennis Reed, and Nik Todorov hereby certify that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities referred to in this research report. We certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report. The analyst(s) responsible for the preparation of this report have no ownership stake in this company. Edgewater Research Company provides no investment banking services on this or any company.

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### Kevin Rottinghaus

Sr. Research Analyst – Partner  
[Kevin@EdgewaterRC.com](mailto:Kevin@EdgewaterRC.com)  
216.426.6272

### Sean Muir

Sr. Research Analyst – Partner  
[Sean@EdgewaterRC.com](mailto:Sean@EdgewaterRC.com)  
216.426.6277

### Dennis Reed

Sr. Research Analyst  
[Dennis@EdgewaterRC.com](mailto:Dennis@EdgewaterRC.com)  
216.426.6279

### Nik Todorov

Sr. Research Analyst  
[Todorov@EdgewaterRC.com](mailto:Todorov@EdgewaterRC.com)  
216.206.6103