AVNET INC
Form 10-K
August 17, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 1, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-4224

Avnet, Inc.

(Exact name of registrant as specified in its charter)

New York	11-1890605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2211 South 47th Street,	85034

Phoenix, Arizona	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code (480) 643-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value (approximate) of the registrant's common equity held by non-affiliates based on the closing price of a share of the registrant's common stock for New York Stock Exchange composite transactions on December 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter) was $6,069,247,576.

As of July 28, 2017, the total number of shares outstanding of the registrant's Common Stock was 123,063,587 shares, net of treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement (to be filed pursuant to Reg. 14A) relating to the Annual Meeting of Shareholders anticipated to be held on November 9, 2017, are incorporated herein by reference in Part III of this Report.

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PART I

Item 1. Business

Avnet, Inc., founded in 1921 and incorporated in New York in 1955, together with its consolidated subsidiaries (the "Company" or "Avnet"), is a global value-added distributor of electronic components. Avnet creates a vital link in the technology supply chain that connects the world's leading electronic component manufacturers with a global customer base primarily comprised of original equipment manufacturers ("OEMs"), electronic manufacturing services ("EMS") providers and original design manufacturers ("ODMs"). Avnet distributes electronic components, as received from its suppliers or through a customized integrated solution, and offers assembly and other value-added services.

Avnet supports customers of all types and sizes at each stage of the product lifecycle with a comprehensive portfolio of design and supply chain services. With deep expertise in design and engineering, broad line distribution, integration and services, Avnet is uniquely positioned to meet critical time-to-market needs for customers globally.

Organizational Structure

At the end of fiscal 2017, Avnet had two primary operating groups — Electronic Components ("EC") and Premier Farnell ("PF"). Both operating groups have operations in each of the three major economic regions of the world: the Americas; Europe, the Middle East and Africa ("EMEA"); and Asia/Pacific, consisting of Asia, Australia and New Zealand ("Asia"). Each operating group has its own management team that includes senior executives and leadership both at the global and regional levels, who manage various functions within such businesses. Each operating group also has distinct financial reporting that is evaluated at the executive level on which operating decisions and strategic planning and resource allocation for the Company as a whole are made. Divisions ("business units") exist within each operating group that serve primarily as sales and marketing units to further streamline the sales efforts within each operating group and enhance each operating group's ability to work with its customers and suppliers, generally along more specific product lines or geographies. However, each business unit relies heavily on the support services provided by the operating groups as well as centralized support at the corporate level.

A description of each operating group is presented below. Further financial information by operating group is provided in Note 17 "Segment information" to the consolidated financial statements appearing in Item 15 of this Annual Report on Form 10-K.

Avnet's foreign operations are subject to a variety of risks. These risks are discussed further under Risk Factors in Item 1A and under Quantitative and Qualitative Disclosures About Market Risk in Item 7A of this Report. Additionally, the specific translation impacts of foreign currency fluctuations, most notably the Euro and the British Pound, on the Company's consolidated financial statements are further discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Report.

Electronic Components

EC markets and sells semiconductors, electronic components, including interconnect, passive and electromechanical ("IP&E") devices, and other integrated components from the world's leading electronic component manufacturers. With a global reach that extends to more than 100 countries, EC's products and services cater to a diverse customer base serving many end-markets including automotive, communications, computer hardware and peripherals, industrial and manufacturing, medical equipment, and defense and aerospace. EC also offers an array of customer support that helps customers evaluate, design-in, and procure electronic components throughout the lifecycle of their technology products and systems.

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Integrated Solutions

EC provides integrated solutions including technical design, integration and assembly of embedded products, systems and solutions primarily for industrial applications. EC also provides integrated solutions for intelligent embedded and innovative display solutions, including touch and passive displays. In addition, EC develops and manufactures standard board and industrial subsystems and application-specific devices that enable it to produce specialized systems tailored to specific customer requirements. EC serves OEMs that require embedded systems and solutions, including engineering, product prototyping, integration and other value-added services in the medical, telecommunications, industrial and digital editing markets.

Design Chain Solutions

EC offers design chain support that provides engineers with a host of technical design solutions, which help make it economically viable for EC's suppliers to reach a customer segment that seeks complex products and technologies. With access to a suite of design tools and engineering support from any point in the design cycle, customers can get product specifications along with evaluation kits and reference designs that enable a broad range of applications from concept through detailed design including new product introduction. EC also offers engineering and technical resources deployed globally to support product design, bill of materials development, and technical education and training. By utilizing EC's design chain support, customers can optimize their component selection and accelerate their time to market. EC's extensive product line card provides customers access to a diverse range of products from a complete spectrum of electronic component manufacturers.

Supply Chain Solutions

EC's supply chain solutions provides support and logistical services to OEMs, EMS providers and electronic component manufacturers, enabling them to optimize supply chains on a local, regional or global basis. By combining internal competencies in global warehousing and logistics, finance, information technology and asset management with its global footprint and extensive partner relationships, EC's supply chain solutions provide for a deeper level of engagement with its customers. These customers can manage their supply chains to meet the demands of a competitive global environment without a commensurate investment in physical assets, systems and personnel. With supply chain planning tools and a variety of inventory management solutions, EC provides solutions that meet a customer's just-in-time requirements and minimize risk in a variety of scenarios including lean manufacturing, demand flow and outsourcing.

Premier Farnell

PF globally distributes a comprehensive portfolio of electronic components, typically in small order quantities, primarily to support design engineers, maintenance and test engineers, makers and entrepreneurs as they develop technology products. PF brings together the latest products, services and development software, all connected to an industry-leading online engineering community, element14, comprised of more than 500,000 active user members. Through the PF community, purchasers and engineers can access peers and experts, a wide range of independent technical information and proprietary tools.

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Acquisitions

Avnet has historically pursued business acquisitions to further its strategic objectives and support key business initiatives, completing 100 acquisitions since 1991. This acquisition program was a significant factor in Avnet becoming one of the largest value-added distributors of electronic components including integrated products and solutions. In fiscal 2017, this trend continued with the acquisitions of Premier Farnell, a global distributor of electronic components that utilizes a digital platform to provide innovators and engineers with the latest products, services and development software, and Hackster.io, an online community that helps users learn how to design, create and program internet-connected hardware. Avnet expects to continue to pursue strategic acquisitions to expand its market presence, increase its scale and scope, and extend its product and service offerings throughout all stages of the technology product lifecycle.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II of this Annual Report on Form 10-K for additional information on acquisitions completed during fiscal 2017.

Discontinued Operations

During fiscal 2017, the Company sold the Technology Solutions operating group (the "TS Business") or "TS", which was historically a reportable operating segment. With the sale of the TS Business, the Company is focused on providing design and supply chain solutions specific to the electronic components industry.

See Note 3 to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for further discussion on the sale of the TS Business.

Major Products

One of Avnet's competitive strengths is the breadth and quality of the suppliers whose products it distributes. Texas Instruments products accounted for approximately 11% of the Company's consolidated sales from continuing operations during fiscal 2017, 2016 and 2015, and was the only supplier from which sales of its products, software and services exceeded 10% of consolidated sales. Listed in the table below are the major product categories and the Company's approximate sales of each during the past three fiscal years. Fiscal 2016 contained 53 weeks compared to 52 weeks in the other fiscal years presented.

	Years Ended		
	July 1, 2017	July 2, 2016	June 27, 2015
	(Millions)		
Semiconductors	$ 13,537.9	$ 13,978.0	$ 14,886.3
Interconnect, passive & electromechanical (IP&E)	3,397.9	2,539.9	2,594.7
Other	504.2	222.7	174.3
Sales	$ 17,440.0	$ 16,740.6	$ 17,655.3

Competition & Markets

The electronic components industry continues to be extremely competitive. The Company's major competitors include: Arrow Electronics, Inc., Future Electronics, World Peace Group, Mouser Electronics and Digi-Key Electronics. There are also certain smaller, specialized competitors who generally focus on narrower regions, markets, products or

particular sectors. In addition, the Company may compete with its own suppliers that maintain a direct salesforce and with contract manufacturers and EMS providers that purchase directly from suppliers. As a result of these factors, Avnet must remain competitive in its pricing of products and services.

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A key competitive factor in the electronic component distribution industry is the need to carry a sufficient amount of inventory to meet customers' rapid delivery requirements. To minimize its exposure related to inventory on hand, the majority of the Company's products are purchased pursuant to non-exclusive distributor agreements, which typically provide certain protections for product obsolescence and price erosion. These agreements are generally cancelable upon 30 to 180 days' notice and, in most cases, provide for or require inventory return privileges upon cancellation. In fiscal 2017, certain suppliers terminated their distribution agreements with the Company, which did not result in any significant inventory write-downs as a result of such terminations. In addition, the Company enhances its competitive position by offering a variety of value-added services, which entail the performance of services and/or customer support tailored to individual customer specifications and business needs, such as point of use replenishment, testing, assembly, supply chain management and materials management.

A competitive advantage is the breadth of the Company's supplier product line card. Because of the number of Avnet's suppliers, many customers can simplify their procurement process and make all of their required purchases from Avnet, rather than purchasing from several different distributors or other vendors.

Seasonality

Historically, Avnet's business and continuing operations has not been materially impacted by seasonality, with the exception of a relatively minor impact on consolidated results from shifts in regional sales trends from Asia in the first half of a fiscal year to the western regions of the Americas and EMEA in the second half of a fiscal year.

Number of Employees

At July 1, 2017, Avnet had approximately 15,700 employees compared to 17,700 employees at July 2, 2016, and 18,800 at June 27, 2015.

Available Information

The Company files its annual report on Form 10-K, quarterly reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other documents with the U.S. Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. A copy of any document the Company files with the SEC is available for review at the SEC's public reference room, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the public reference room by calling the SEC at 1-800-SEC-0330. The Company's SEC filings are also available to the public on the SEC's website at http://www.sec.gov and through the New York Stock Exchange ("NYSE"), 20 Broad Street, New York, New York 10005, on which the Company's common stock is listed.

A copy of any of the Company's filings with the SEC, or any of the agreements or other documents that constitute exhibits to those filings, can be obtained by request directed to the Company at the following address and telephone number:

Avnet, Inc.

2211 South 47th Street

Phoenix, Arizona 85034

(480) 643-2000

Attention: Corporate Secretary

The Company also makes these filings available, free of charge, through its website (see “Avnet Website” below).

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Avnet Website

In addition to the information about Avnet contained in this Report, extensive information about the Company can be found at http://www.avnet.com, including information about its management team, products and services and corporate governance practices.

The corporate governance information on the Avnet website includes the Company's Corporate Governance Guidelines, the Code of Conduct and the charters for each of the committees of Avnet's Board of Directors. In addition, amendments to the Code of Conduct, committee charters and waivers granted to directors and executive officers under the Code of Conduct, if any, will be posted in this area of the website. These documents can be accessed at http://www.avnet.com under the "Company — Investor Relations — Documents & Charters" caption. Printed versions of the Corporate Governance Guidelines, Code of Conduct and charters of the Board committees can be obtained, free of charge, by writing to the Company at the address listed above in "Available Information."

In addition, the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, if any, filed or furnished pursuant to Section 13(a) or 15(d) of Securities Exchange Act of 1934, as well as Section 16 filings made by any of the Company's executive officers or directors with respect to Avnet common stock, are available on the Company's website (http://www.avnet.com under the "Company — Investor Relations — SEC Filings" caption) as soon as reasonably practicable after the report is electronically filed with, or furnished to, the Securities and Exchange Commission.

These details about Avnet's website and its content are only for information. The contents of the Company's website are not, nor shall they be deemed to be, incorporated by reference in this Report.

Item 1A. Risk Factors

Forward-Looking Statements and Risk Factors

This Report contains forward-looking statements with respect to the financial condition, results of operations and business of Avnet. These statements are generally identified by words like "believes," "plans," "expects," "anticipates," "should," "will," "may," "estimates" or similar expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties. Except as required by law, Avnet does not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contained in the forward-looking statements include those discussed below.

The factors discussed below make the Company's operating results for future periods difficult to predict and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the below factors, or any other factors discussed elsewhere in this Report, may have an adverse effect on the Company's financial results, operations, prospects and liquidity. The Company's operating results have fluctuated in the past and likely will continue to do so. If the Company's operating results fall below its forecasts and the expectations of public market analysts and investors, the trading price of the Company's common stock will likely decrease.

Economic weakness and geopolitical uncertainty could adversely affect the Company's results and prospects.

The Company's financial results, operations and prospects depend significantly on worldwide economic and geopolitical conditions, the demand for its products and services, and the financial condition of its customers and

suppliers. Economic weakness and geopolitical uncertainty have in the past resulted, and may result in the future, in decreased sales, margins and earnings. Economic weakness and geopolitical uncertainty may also lead the Company to impair assets, including goodwill, intangible assets and other long-lived assets, take restructuring actions and reduce

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expenses in response to decreased sales or margins. The Company may not be able to adequately adjust its cost structure in a timely fashion, which may adversely impact its profitability. Uncertainty about economic conditions may increase foreign currency volatility in markets in which the Company transacts business, which may negatively impact the Company's results. Economic weakness and geopolitical uncertainty also make it more difficult for the Company to manage inventory levels and/or collect customer receivables, which may result in provisions to create reserves, write-offs, reduced access to liquidity and higher financing costs.

The Company experiences significant competitive pressure, which may negatively impact its results.

The market for the Company's products and services is very competitive and subject to rapid technological advances, new market entrants, non-traditional competitors, changes in industry standards and changes in customer needs and consumption models. Not only does the Company compete with other global distributors, it also competes for customers with regional distributors and some of the Company's own suppliers that maintain direct sales efforts. In addition, as the Company expands its offerings and geographies, the Company may encounter increased competition from current or new competitors. The Company's failure to maintain and enhance its competitive position could adversely affect its business and prospects. Furthermore, the Company's efforts to compete in the marketplace could cause deterioration of gross profit margins and, thus, overall profitability.

The size of the Company's competitors vary across market sectors, as do the resources the Company has allocated to the sectors and geographic areas in which it does business. Therefore, some competitors may have greater resources or a more extensive customer or supplier base than the Company has in one or more of its market sectors and geographic areas, which may result in the Company not being able to effectively compete in certain markets which could impact the Company's profitability and prospects.

Changes in customer needs and consumption models could significantly affect the Company's operating results.

Changes in customer needs and consumption models may cause a decline in the Company's billings, which would have a negative impact on the Company's financial results. While the Company attempts to identify changes in market conditions as soon as possible, the dynamics of these industries make prediction of and timely reaction to such changes difficult. Future downturns in the semiconductor and embedded solutions industries could adversely affect the Company's operating results and negatively impact the Company's ability to maintain its current profitability levels. In addition, the semiconductor industry has historically experienced periodic fluctuations in product supply and demand, often associated with changes in economic conditions, technology and manufacturing capacity. During fiscal years 2017, 2016, and 2015, sales of semiconductors represented approximately 78%, 83%, and 84% of the Company's consolidated sales, respectively, and the Company's sales, closely follow the strength or weakness of the semiconductor industry.

Due to the Company's increased online sales, system interruptions and delays that make its websites and services unavailable or slow to respond may reduce the attractiveness of its products and services to its customers. If the Company is unable to continually improve the efficiency of its systems, it could cause systems interruptions or delays and adversely affect the Company's operating results.

Failure to maintain or add relationships with key suppliers could adversely affect the Company's sales.

One of the Company's competitive strengths is the breadth and quality of the suppliers whose products the Company distributes. However, billings of products and services from one of the Company's suppliers, Texas Instruments ("TI"), accounted for approximately 11% of the Company's consolidated billings in fiscal 2017. Management expects TI's products and services to continue to account for roughly a similar percentage of the Company's consolidated billings in fiscal 2018. The Company's contracts with its suppliers vary in duration and are generally terminable by either party at

will upon notice. To the extent any primary suppliers terminate or significantly

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reduce their volume of business with the Company in the future, because of a product shortage, an unwillingness to do business with Avnet, changes in strategy or otherwise, the Company's business and relationships with its customers could be negatively affected because its customers depend on the Company's distribution of technology hardware and software from the industry's leading suppliers. In addition, suppliers' strategy shifts or performance issues may negatively affect the Company's financial results. The competitive landscape has also experienced a consolidation among suppliers, which could negatively impact the Company's profitability and customer base. Further, to the extent that any of the Company's key suppliers modify the terms of their contracts including, without limitation, the terms regarding price protection, rights of return, rebates or other terms that protect or enhance the Company's gross margins, it could negatively affect the Company's results of operations, financial condition or liquidity.

The Company's non-U.S. locations represent a significant portion of its sales and, consequently, the Company is exposed to risks associated with operating internationally that could adversely affect the Company's operating results.

During fiscal 2017, 2016 and 2015 approximately 72%, 73% and 73%, respectively, of the Company's sales came from its operations outside the United States. As a result of the Company's international operations, in particular those in emerging and developing economies, the Company's operations are subject to a variety of risks that are specific to international operations, including, but not limited to, the following:

- potential restrictions on the Company's ability to repatriate funds from its foreign subsidiaries;
- foreign currency and interest rate fluctuations and the impact on the Company's results of operations;
- import and export duties and value-added taxes;
- compliance with foreign and domestic import and export regulations, data privacy regulations, business licensing requirements, environmental regulations and anti-corruption laws, the failure of which could result in severe penalties including monetary fines, criminal proceedings and suspension of import or export privileges;
- complex and changing tax laws and regulations;
- regulatory requirements and prohibitions that differ between jurisdictions;
- economic and political instability (including the uncertainty caused by the United Kingdom's exit from the European Union), terrorism and potential military conflicts or civilian unrest;
- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure;
- natural disasters and health concerns;
- differing environmental regulations and employment practices and labor issues; and
- the risk of non-compliance with local laws.

In addition to the cost of compliance, the potential criminal penalties for violations of import or export regulations and anti-corruption laws by the Company or its third-party agents create heightened risks for the Company's international operations. In the event that a governing regulatory body determines that the Company has violated applicable import or export regulations or anti-corruption laws, the Company could be fined significant sums, incur sizable legal defense costs and/or its import or export capabilities could be restricted, which could have a material and adverse effect on the Company's business. Additionally, allegations that the Company has violated a governmental regulation may negatively impact the Company's reputation, which may result in customers or suppliers being unwilling to do business with the

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Company. While the Company has adopted measures and controls designed to ensure compliance with these laws, the Company cannot be assured that such measures will be adequate or that its business will not be materially and adversely impacted in the event of an alleged violation.

The Company transacts sales, pays expenses, owns assets and incurs liabilities in countries using currencies other than the U.S. Dollar. Because the Company's consolidated financial statements are presented in U.S. Dollars, the Company must translate sales, income and expenses, as well as assets and liabilities, into U.S. Dollars at exchange rates in effect during each reporting period. Therefore, increases or decreases in the exchanges rates between the U.S. Dollar and other currencies affect the Company's reported amounts of sales, operating income, assets and liabilities denominated in foreign currencies. In addition, unexpected and dramatic changes in foreign currency exchange rates may negatively affect the Company's earnings from those markets. While the Company may use derivative financial instruments to further reduce its net exposure to foreign currency exchange rate fluctuations, there can be no assurance that fluctuations in foreign currency exchange rates will not materially affect the Company's financial results. Further, foreign currency instability and disruptions in the credit and capital markets may increase credit risks for some of the Company's customers and may impair its customers' ability to repay existing obligations.

If the Company's internal information systems fail to function properly, or if the Company is unsuccessful in the implementation, integration or upgrade of information systems, its business operations could suffer.

The Company is dependent on its information systems to facilitate the day-to-day operations of the business and to produce timely, accurate and reliable information on financial and operational results. Currently, the Company's global operations are tracked with multiple information systems. The Company is in the process of implementing a new global enterprise resource planning ("ERP") platform to meet the current, emerging and future needs of Avnet. This global ERP implementation is extremely complex, in part, because of a wide range of processes, the multiple legacy systems used and the Company's business operations. There is no guarantee that the Company will be successful in implementing this ERP and other information systems or that there will not be implementation or integration difficulties that will adversely affect the Company's ability to complete business transactions and ensure accurate recording and reporting of financial data. In addition, the Company may be unable to achieve the expected efficiencies and cost savings as a result of the ERP implementation projects, thus negatively impacting the Company's financial results. A failure of any of these information systems in a way described above or material difficulties in upgrading these information systems could have an adverse effect on the Company's business, internal controls and reporting obligations under federal securities laws.

The Company's acquisition strategy may not produce the expected benefits, which may adversely affect the Company's results of operations.

Avnet has made, and expects to continue to make, strategic acquisitions or investments in companies around the world to further its strategic objectives and support key business initiatives. Acquisitions and investments involve risks and uncertainties, some of which may differ from those associated with Avnet's historical operations. The risks relating to such acquisitions and investments include, but are not limited to, risks relating to expanding into emerging markets and business areas, adding additional product lines and services, impacting existing customer and supplier relationships, incurring costs or liabilities associated with the companies acquired and diverting management's attention from existing business operations. As a result, the Company's profitability may be negatively impacted. In addition, the Company may not be successful in integrating the acquired businesses or the integration may be more difficult, costly or time-consuming than anticipated. Further, any litigation relating to a potential acquisition will result in an increase in the expenses associated with the acquisition or cause a delay in completing the acquisition, thereby impacting the Company's profitability. The Company may experience disruptions that could, depending on the size of the acquisition, have an adverse effect on its business, especially where an acquisition target may have pre-existing compliance issues or pre-existing deficiencies or material weaknesses in internal controls over financial reporting.

Furthermore, the Company

may not realize all of the anticipated benefits from its acquisitions, which could adversely affect the Company's financial performance.

Major disruptions to the Company's logistics capability could have an adverse impact on the Company's operations.

The Company's global logistics services are operated through specialized, centralized or outsourced distribution centers around the globe. The Company also depends almost entirely on third-party transportation service providers for the delivery of products to its customers. A major interruption or disruption in service at one or more of its distribution centers for any reason (such as information technology issues, natural disasters, pandemics, or significant disruptions of services from the Company's third-party transportation providers) could cause cancellations or delays in a significant number of shipments to customers and, as a result, could have an adverse impact on the Company's business partners, and on the Company's business, operations and financial performance.

If the Company sustains cyber attacks or other privacy or data security incidents that result in security breaches, it could suffer a loss of sales and increased costs, exposure to significant liability, reputational harm and other negative consequences.

The Company's information technology may be subject to cyber attacks, security breaches or computer hacking. Experienced computer programmers and hackers may be able to penetrate the Company's security controls and misappropriate or compromise sensitive personal, proprietary or confidential information, create system disruptions or cause shutdowns. They also may be able to develop and deploy malicious software programs that attack the Company's systems or otherwise exploit any security vulnerabilities. The Company's systems and the data stored on those systems may also be vulnerable to security incidents or security attacks, acts of vandalism or theft, coordinated attacks by activist entities, misplaced or lost data, human errors, or other similar events that could negatively affect the Company's systems and its data, as well as the data of the Company's business partners. Further, third parties, such as hosted solution providers, that provide services to the Company, could also be a source of security risk in the event of a failure of their own security systems and infrastructure.

The costs to eliminate or address the foregoing security threats and vulnerabilities before or after a cyber incident could be significant. The Company's remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential suppliers or customers. In addition, breaches of the Company's security measures and the unauthorized dissemination of sensitive personal, proprietary or confidential information about the Company, its business partners or other third parties could expose the Company to significant potential liability and reputational harm. As threats related to cyber attacks develop and grow, the Company may also find it necessary to make further investments to protect its data and infrastructure, which may impact the Company's profitability. Although the Company has insurance coverage for protecting against cyber attacks, it may not be sufficient to cover all possible claims, and the Company may suffer losses that could have a material adverse effect on its business. As a global enterprise, the Company could also be negatively impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, data privacy, data localization and data protection.

Declines in the value of the Company's inventory or unexpected order cancellations by the Company's customers could adversely affect its business, results of operations, financial condition and liquidity.

The electronic components and integrated products industries are subject to rapid technological change, new and enhanced products, changes in customer needs and changes in industry standards and regulatory requirements, which can contribute to a decline in value or obsolescence of inventory. Regardless of the general economic environment, it is possible that prices will decline due to a decrease in demand or an oversupply of products and, as a result of the price declines, there may be greater risk of declines in inventory value. Although it is the policy of many of the

Company’s

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suppliers to offer certain protections from the loss in value of inventory (such as price protection and limited rights of return), the Company cannot be assured that such policies will fully compensate for the loss in value, or that the suppliers will choose to, or be able to, honor such agreements, some of which are not documented and, therefore, subject to the discretion of the supplier. In addition, the majority of the Company's sales are made pursuant to individual purchase orders, rather than through long-term sales contracts. Where there is a contract, such contract is generally terminable at will upon notice. The Company cannot be assured that unforeseen new product developments, declines in the value of the Company's inventory or unforeseen order cancellations by its customers will not adversely affect the Company's business, results of operations, financial condition or liquidity.

Substantial defaults by the Company's customers or suppliers on its accounts receivable or the loss of significant customers could have a significant negative impact on the Company's business, results of operations, financial condition or liquidity.

A significant portion of the Company's working capital consists of accounts receivable. If entities responsible for a significant amount of accounts receivable were to cease doing business, direct their business elsewhere, become insolvent or unable to pay the amount they owe the Company, or were to become unwilling or unable to make such payments in a timely manner, the Company's business, results of operations, financial condition or liquidity could be adversely affected. An economic or industry downturn could adversely affect the collectability of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults in excess of management's expectations. A significant deterioration in the Company's ability to collect on accounts receivable in the United States could also impact the cost or availability of financing under its accounts receivable securitization program.

The Company may not have adequate or cost-effective liquidity or capital resources which could adversely affect the Company's operations.

The Company's ability to satisfy its cash needs and implement its capital allocation strategy depends on its ability to generate cash from operations and to access the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company's control.

The Company may need to satisfy its cash needs through external financing. However, external financing may not be available on acceptable terms or at all. As of July 1, 2017, Avnet had total debt outstanding of approximately $1.78 billion under various notes, secured borrowings and committed and uncommitted lines of credit with financial institutions. The Company needs cash to make interest payments on, and to repay, this indebtedness and for general corporate purposes, such as funding its ongoing working capital and capital expenditure needs. Under the terms of any external financing, the Company may incur higher than expected financing expenses and become subject to additional restrictions and covenants. Any material increase in the Company's financing costs could have an adverse effect on its profitability.

Under certain of its credit facilities, the Company is required to maintain certain specified financial ratios and pass certain financial tests. If the Company fails to meet these financial ratios and/or pass these tests, it may be unable to continue to utilize these facilities. If the Company is unable to utilize these facilities, it may not have sufficient cash available to make interest payments, to repay indebtedness or for general corporate needs. General economic or business conditions, domestic and foreign, may be less favorable than management expects and could adversely impact the Company's sales or its ability to collect receivables from its customers, which may impact access to the Company's accounts receivable securitization program.

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In order to be successful, the Company must attract, retain, train, motivate and develop key employees, and failure to do so could adversely impact the Company's results and strategic initiatives.

Identifying, developing internally or hiring externally, training and retaining qualified employees are critical to the Company's future, and competition for experienced employees in the Company's industry can be intense. Changing demographics and labor work force trends may result in a loss of knowledge and skills as experienced workers leave the Company. In addition, as global opportunities and industry demand shifts, and as the Company expands its offerings, realignment, training and hiring of skilled personnel may not be sufficiently rapid. From time to time the Company has effected restructurings, which eliminate a number of positions. Even if such personnel are not directly affected by the restructuring effort, such terminations can have a negative impact on morale and the Company's ability to attract and hire new qualified personnel in the future. If the Company loses existing qualified personnel or is unable to hire new qualified personnel, as needed, the Company's business, financial condition and results of operations could be seriously harmed.

The agreements governing some of the Company's financings contain various covenants and restrictions that limit management's discretion in operating the business and could prevent management from engaging in some activities that may be beneficial to the Company's business.

The agreements governing the Company's financing, including its credit facility, accounts receivable securitization program and the indentures governing the Company's outstanding notes, contain various covenants and restrictions that, in certain circumstances, limit the Company's ability, and the ability of certain subsidiaries, to:

- grant liens on assets;
- make restricted payments (including, under certain circumstances, paying dividends on common stock or redeeming or repurchasing common stock);
- make certain investments;
- merge, consolidate or transfer all or substantially all of the Company's assets;
- incur additional debt; or
- engage in certain transactions with affiliates.

As a result of these covenants and restrictions, the Company may be limited in the future in how it conducts its business and may be unable to raise additional debt, repurchase common stock, pay a dividend, compete effectively or make further investments.

The Company may become involved in intellectual property disputes that could cause it to incur substantial costs, divert management's efforts or require it to pay substantial damages or licensing fees.

From time to time, the Company receives notifications alleging infringements of intellectual property rights allegedly held by others relating to the Company's business or the products or services it sells. Litigation with respect to patents or other intellectual property matters could result in substantial costs and diversion of management's efforts and other resources and could have an adverse effect on the Company's operations. Further, the Company may be obligated to indemnify and defend its customers if the products or services the Company sells are alleged to infringe any third party's intellectual property rights. While the Company may be able to seek indemnification from its suppliers for itself and its customers against such claims, there is no assurance that it will be successful in realizing such indemnification or that the Company will be fully protected against such claims. In addition, the Company is exposed to potential liability for technology that it develops for which it has no indemnification protections. If an infringement claim against the

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Company is successful, the Company may be required to pay damages or seek royalty or license arrangements, which may not be available on commercially reasonable terms. The Company may have to stop selling certain products or services, which could affect its ability to compete effectively.

Changes in tax rules and regulations, changes in interpretation of tax rules and regulations, changes in business performance or unfavorable assessments from tax audits could adversely affect the Company's effective tax rates, deferred taxes, financial condition and results of operations.

As a multinational corporation, the Company is subject to the tax laws and regulations of the United States and many foreign jurisdictions. From time to time, regulations may be enacted that could adversely affect the Company's tax positions. There can be no assurance that the Company's cash flow, and in some cases the effective tax rate, will not be adversely affected by these potential changes in regulations or by changes in the interpretation of existing tax law and regulations. The tax laws and regulations of the various countries where the Company has operations are extremely complex and subject to varying interpretations. Although the Company believes that its historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that the Company would be successful in defending against any such challenge.

The Company's future income tax expense could also be favorably or adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes to its operating structure.

If the Company fails to maintain effective internal controls, it may not be able to report its financial results accurately or timely, or prevent or detect fraud, which could have an adverse effect on the Company's business or the market price of the Company's securities.

Effective internal controls over financial reporting are necessary for the Company to provide reliable financial reports and to effectively prevent or detect fraud. If the Company cannot provide reliable financial reports and effectively prevent or detect fraud, its brand and operating results could be harmed. Internal controls over financial reporting may not prevent or detect misstatements because such controls are inherently limited; such limitations include the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls cannot provide absolute assurance with respect to the preparation and fair presentation of financial statements. In addition, if not properly maintained and updated, internal controls over financial reporting may become inadequate. If the Company fails to maintain the adequacy of its internal controls, including any failure to implement required new or improved internal controls, or if the Company experiences difficulties in their implementation, the Company's business and operating results could be harmed. Additionally, the Company may be subject to sanctions or investigations by regulatory authorities, and the Company could fail to meet its reporting obligations, all of which could have an adverse effect on its business or the market price of the Company's securities.

Failure to comply with the requirements of environmental regulations could adversely affect the Company's business.

The Company is subject to various federal, state, local and foreign laws and regulations addressing environmental and other impacts from product disposal, use of hazardous materials in products, recycling of products at the end of their useful life and other related matters. While the Company strives to ensure it is in full compliance with all applicable regulations, certain of these regulations impose liability without fault. Additionally, the Company may be held responsible for the prior activities of an entity it acquired. Failure to comply with these regulations could result in substantial costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury. Further, environmental laws may become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company owns and leases approximately 2.5 million and 4.4 million square feet of space, respectively, of which approximately 30% is located in the United States. The following table summarizes certain of the Company's key facilities:

Location	Approximate Square Footage	Leased or Owned	Primary Use
Poing, Germany	570,000	Owned	EC warehousing, value-added operations and offices
Chandler, Arizona	400,000	Owned	EC warehousing and value-added operations
Tongeren, Belgium	390,000	Owned	EC warehousing and value-added operations
Leeds, United Kingdom	280,000	Owned	PF warehousing, sales and marketing
Chandler, Arizona	230,000	Leased	EC warehousing, integration and value-added operations
Gaffney, South Carolina	220,000	Owned	PF warehousing
Hong Kong, China	180,000	Leased	EC warehousing and value-added operations
Phoenix, Arizona	180,000	Leased	Corporate and EC Americas headquarters
Liege, Belgium	140,000	Leased	PF warehousing

Item 3. Legal Proceedings

As a result primarily of certain former manufacturing operations, Avnet has incurred and may have future liability under various federal, state and local environmental laws and regulations, including those governing pollution and exposure to, and the handling, storage and disposal of, hazardous substances. For example, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA") and similar state laws, Avnet is and may be liable for the costs of cleaning up environmental contamination on or from certain of its current or former properties, and at off-site locations where the Company disposed of wastes in the past. Such laws may impose joint and several liability. Typically, however, the costs for clean up at such sites are allocated among potentially responsible parties based upon each party's relative contribution to the contamination, and other factors.

Pursuant to SEC regulations, including but not limited to Item 103 of Regulation S-K, the Company regularly assesses the status of and developments in pending environmental and other compliance related legal proceedings to determine whether any such proceedings should be identified specifically in this discussion of legal proceedings, and has concluded that no particular pending legal proceeding requires public disclosure. Based on the information known to date, management believes that the Company has appropriately accrued in its consolidated financial statements for its

share of the estimable costs of environmental and other compliance related matters.

The Company is also currently subject to various pending and potential legal matters and investigations relating to compliance with governmental laws and regulations, including import/export and environmental matters. The Company currently believes that the resolution of such matters will not have a material adverse effect on the Company’s financial position or liquidity, but could possibly be material to its results of operations in any one reporting period.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market price per share

The Company's common stock is listed on the New York Stock Exchange under the symbol AVT. Quarterly high and low stock closing prices (as reported for the New York Stock Exchange composite transactions) and dividends declared for the last two fiscal years were:

	2017			2016		
Fiscal Quarters	High	Low	Dividends Declared	High	Low	Dividends Declared
1st	$ 42.06	$ 38.80	$ 0.17	$ 44.04	$ 38.63	$ 0.17
2nd	48.84	40.50	0.17	46.95	42.84	0.17
3rd	47.61	44.01	0.18	44.80	37.78	0.17
4th	44.96	35.96	0.18	44.75	38.92	0.17

The declaration and payment of future dividends will be at the discretion of the Board of Directors and will be dependent upon the Company's financial condition, results of operations, capital requirements, and other factors the Board of Directors considers relevant. In addition, certain of the Company's debt facilities may restrict the declaration and payment of dividends, depending upon the Company's then current compliance with certain covenants.

Record Holders

As of July 28, 2017, there were 2,112 registered holders of record of Avnet's common stock.

Equity Compensation Plan Information as of July 1, 2017

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans	
Equity compensation plans approved by security holders	4,192,578	(1)	$ 40.51	6,222,481	(2)

(1) Includes 2,714,506 shares subject to options outstanding, 1,016,028 restricted stock units and 462,044 performance share units awarded but not yet vested as of the end of the fiscal year.

(2) Does not include 145,987 shares available for future issuance under the Employee Stock Purchase Plan, which is a non-compensatory plan.

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Stock Performance Graphs and Cumulative Total Returns

The graph below compares the cumulative 5-year total return of holders of Avnet, Inc.’s common stock with the cumulative total returns of the S&P 500 index and certain of Avnet’s peer companies (“peer group”). The graph tracks the performance of a hypothetical $100 investment in Avnet’s common stock, in the peer group, and the S&P 500 index (with the reinvestment of all dividends) from June 30, 2012 to July 1, 2017. The companies comprising the peer group are: Agilysys, Inc., Anixter International, Inc., Arrow Electronics, Inc., Inc., Insight Enterprises, Inc., Scansource, Inc., Synnex Corp. and Tech Data Corp. Ingram Micro, Inc. was acquired in fiscal 2017 and terminated its registration with the SEC and, therefore, is no longer included in the graph below.

	6/30/2012	6/29/2013	6/28/2014	6/27/2015	7/2/2016	7/1/2017
Avnet, Inc.	$ 100	$ 108.88	$ 143.70	$ 140.37	$ 136.48	$ 133.98
S&P 500	100	120.60	150.27	161.43	167.87	197.92
Peer Group	100	118.48	173.54	159.97	169.80	224.08

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The stock price performance included in this graph is not necessarily indicative of future stock price performance. The Company does not make or endorse any predictions as to future stock performance. The performance graph is furnished solely to accompany this Report and is not being filed for purposes of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Issuer Purchases of Equity Securities

In February 2017, the Company's Board of Directors amended the Company's existing share repurchase program to authorize the repurchase of up to $1.75 billion of common stock in the open market or through privately negotiated transactions. The timing and actual number of shares repurchased will depend on a variety of factors such as share price, corporate and regulatory requirements, and prevailing market conditions. The following table includes the Company's monthly purchases of Avnet's common stock during the fourth fiscal quarter ended July 1, 2017, under the share repurchase program, which is part of a publicly announced plan:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs
April	1,910,445	$ 44.47	1,910,445	$ 449,833,000
May	900,000	$ 37.01	900,000	$ 416,527,000
June	469,859	$ 37.17	469,859	$ 399,062,000

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Item 6. Selected Financial Data

The following selected financial data has been derived from the Company's consolidated financial statements. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto.

	Years Ended July 1, 2017	July 2, 2016	June 27, 2015	June 28, 2014	June 29, 2013
	(Millions, except for per share and ratio data)				
Consolidated Statement of Operations: (a)					
Sales (b)	$ 17,440.0	$ 16,740.6	$ 17,655.3	$ 16,804.9	$ 15,460.0
Gross profit	2,369.4	2,077.9	2,210.1	2,199.6	2,005.7
Operating income (c)(d)	461.4	572.9	653.1	599.6	453.6
Income tax expense	47.1	87.1	86.1	84.6	43.3
Income from continuing operations	263.4	390.9	485.4	445.4	344.3
Income from discontinued operations	261.9	115.6	86.5	100.2	105.7
Net income(e)	525.3	506.5	571.9	545.6	450.1
Per Share:					
Earnings - diluted:					
Earnings from continuing operations	2.05	2.93	3.50	3.18	2.46
Earnings from discontinued operations	2.03	0.87	0.62	0.71	0.75
Earnings per share - diluted	4.08	3.80	4.12	3.89	3.21
Cash dividends declared	0.70	0.68	0.64	0.60	—
Book value per diluted share	40.28	35.23	33.80	34.90	30.64
Consolidated Balance Sheets:					
Working capital(f)	5,080.0	4,061.5	4,312.6	3,907.6	3,443.0
Total assets	9,699.6	11,239.8	10,800.0	11,250.7	10,466.3
Long-term debt	1,729.2	1,339.2	1,646.5	1,209.0	1,198.6
Shareholders' equity	5,182.1	4,691.3	4,685.0	4,890.2	4,289.1
Ratios:					
Operating income as a percentage of sales	2.6 %	3.4 %	3.7 %	3.6 %	2.9 %
Net income as a percentage of sales	3.0 %	3.0 %	3.2 %	3.2 %	2.9 %
Quick ratio	1.8:1	0.8:1	0.9:1	0.8:1	0.8:1
Current ratio	3.1:1	1.8:1	2.0:1	1.8:1	1.7:1
Total debt to capital	25.6 %	34.7 %	29.7 %	29.8 %	32.2 %

(a) In February 2017, the Company completed the sale of its TS Business and as such, the results of that business are classified as discontinued operations in all periods presented.
(b) Fiscal 2016 contained 53 weeks compared to 52 weeks in the other fiscal years presented.
(c) All fiscal years presented include restructuring, integration and other expenses, which totaled $137.4 million in fiscal 2017, $44.8 million in fiscal 2016, $41.8 million in fiscal 2015, $66.8 million in fiscal 2014, and $97.2 million in fiscal 2013.
(d) All fiscal years presented include amortization of acquired intangible assets and other, which totaled $54.5 million in fiscal 2017, $9.8 million in fiscal 2016, $18.1 million in fiscal 2015, $17.7 million in fiscal 2014, and $14.3 million in fiscal 2013.

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(e) Certain fiscal years presented were impacted by other expense or income amounts that impact the comparability between years including a gain on disposal of the TS Business of $222.4 million after tax in fiscal 2017, a gain on legal settlement of $13.5 million after tax in fiscal 2014, and a gain on bargain purchase and other of $31.0 million after tax in fiscal 2013.

(f) This calculation of working capital is defined as current assets less current liabilities. See the "Liquidity" section contained in Item 7 of this Annual Report on Form 10-k for further discussion on liquidity.

Summary of quarterly results:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year(a)
	(Millions, except per share amounts)				
2017(b)					
Sales	$ 4,118.1	$ 4,273.6	$ 4,441.9	$ 4,606.4	$ 17,440.0
Gross profit	522.6	586.2	630.0	630.6	2,369.4
Net income	68.9	103.2	271.8	81.4	525.3
Diluted earnings per share	0.53	0.79	2.10	0.65	4.08
2016(c)					
Sales	$ 4,528.6	$ 4,161.1	$ 4,081.9	$ 3,969.0	$ 16,740.6
Gross profit	556.1	505.1	520.9	495.8	2,077.9
Net income	130.3	156.0	123.4	96.8	506.5
Diluted earnings per share	0.96	1.16	0.94	0.75	3.80

(a) Quarters may not total to the fiscal year due to rounding.

(b) First quarter of fiscal 2017 net income was impacted by restructuring, integration and other expenses of $20.2 million after tax and an income tax benefit of $1.4 million. Second quarter results were impacted by restructuring, integration and other expenses of $23.0 million after tax and an income tax expense of $9.4 million. Third quarter results were impacted by restructuring, integration and other expenses of $23.1 million after tax, the gain on sale of the TS Business of $217.1 million after tax, a gain on marketable securities of $8.4 million after tax and an income tax benefit of $7.7 million. Fourth quarter results were impacted by restructuring, integration and other expenses of $25.7 million after tax, a loss on a marketable securities hedge of $7.8 million after tax, and an income tax benefit of $15.0 million.

(c) First quarter of fiscal 2016 results were impacted by restructuring, integration and other expenses of $8.1 million after tax and an income tax expense of $0.9 million. Second quarter results were impacted by restructuring, integration and other expenses of $9.5 million after tax and an income tax benefit of $12.0 million. Third quarter results were impacted by restructuring, integration and other expenses of $5.8 million after tax and an income tax benefit of $8.5 million. Fourth quarter results were impacted by restructuring, integration and other expenses of $5.9 million after tax and an income tax benefit of $4.0 million.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For an understanding of Avnet and the significant factors that influenced the Company's performance during the past three fiscal years, the following discussion should be read in conjunction with the description of the business appearing in Item 1 of this Report and the consolidated financial statements, including the related notes and schedule, and other information appearing in Item 15 of this Report. The Company operates on a "52/53 week" fiscal year. Fiscal 2017 and 2015 both contained 52 weeks, and fiscal 2016 contained 53 weeks. The extra week impacts the year-over-year analysis of fiscal 2016 compared to fiscal 2017 and fiscal 2015 in this MD&A.

There are references to the impact of foreign currency translation in the discussion of the Company's results of operations. When the U.S. Dollar strengthens and the stronger exchange rates of the current year are used to translate the results of operations of Avnet's subsidiaries denominated in foreign currencies, the resulting impact is a decrease in U.S. Dollars of reported results. Conversely, when the U.S. Dollar weakens and the weaker exchange rates of the current year are used to translate the results of operations of Avnet's subsidiaries denominated in foreign currencies, the resulting impact is an increase in U.S. Dollars of reported results. In the discussion that follows, results excluding this impact, primarily for subsidiaries in Europe, the Middle East and Africa ("EMEA") and Asia/Pacific, are referred to as "excluding the translation impact of changes in foreign currency exchange rates" or "constant currency."

In addition to disclosing financial results that are determined in accordance with generally accepted accounting principles in the U.S. ("GAAP"), the Company also discloses certain non-GAAP financial information, including:

- Sales adjusted for certain items that impact the year-over-year analysis, which includes the impact of certain acquisitions by adjusting Avnet's prior periods to include the sales of acquired businesses, as if the acquisitions had occurred at the beginning of the earliest period presented. In addition, the prior year sales are adjusted for divestitures by adjusting Avnet's prior periods to exclude the sales of divested businesses as if the divestitures had occurred at the beginning of the earliest period presented. Fiscal 2016 sales are adjusted for the estimated impact of the extra week of sales in fiscal 2016 as discussed above. Sales taking into account these adjustments are referred to as "organic sales."
- Operating income excluding (i) restructuring, integration and other expenses (see Restructuring, Integration and Other Expenses in this MD&A), and (ii) amortization of acquired intangible assets and other. Operating income excluding such amounts is referred to as "adjusted operating income." Adjusted operating income excludes the TS Business, which is reported within discontinued operations for all periods presented.

The reconciliation of operating income to adjusted operating income is presented in the following table:

	Years Ended July 1, 2017	July 2, 2016	June 27, 2015
	(Thousands)		
Operating income	$ 461,400	$ 572,912	$ 653,146
Restructuring, integration and other expenses	137,415	44,761	41,848
Amortization of acquired intangible assets and other	54,526	9,784	18,130
Adjusted operating income	$ 653,341	$ 627,457	$ 713,124

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Management believes that providing this additional information is useful to readers to better assess and understand operating performance, especially when comparing results with prior periods or forecasting performance for future periods, primarily because management typically monitors the business both including and excluding these adjustments to GAAP results. Management also uses these non-GAAP measures to establish operational goals and, in many cases, for measuring performance for compensation purposes. However, any analysis of results on a non-GAAP basis should be used as a complement to, and in conjunction with, results presented in accordance with GAAP.

Results of Operations

Executive Summary

Sales for fiscal 2017 were $17.44 billion, an increase of 4.2% from fiscal 2016 sales of $16.74 billion primarily due to the acquisition of Premier Farnell (“PF”). Organic sales in constant currency increased 1.0% year over year. Electronic Components (“EC”) sales of $16.47 billion decreased 1.6% and EC organic sales in constant currency increased approximately 1.0% year over year.

Gross profit margin of 13.6% increased 117 basis points from fiscal 2016 primarily as a result of gross profit margin improvements from the acquisition of PF.

Operating income margin was 2.6% in fiscal 2017 and 3.4% in fiscal 2016. Excluding restructuring, integration and other expenses and amortization expense associated with acquired intangible assets from both periods, adjusted operating income margin was 3.7% in both fiscal 2017 and fiscal 2016. EC operating income margin of 4.0% decreased 34 basis points year over year primarily due to declines in the Americas region.

Sales

Items Impacting Year-over-Year Sales Comparisons

During fiscal 2017, the Company acquired PF. There were no acquisitions in fiscal 2016 and fiscal 2015. To facilitate more meaningful year-over-year comparisons, the discussions that follow include organic sales as well as sales on a reported basis. Unless otherwise noted, amounts relate to Avnet’s continuing operations for all periods presented.

The table below compares Avnet sales by geographic region for fiscal 2017, fiscal 2016 and fiscal 2015.

	Years Ended						Percent Change	
	July 1, 2017	% of Total	July 2, 2016	% of Total	June 27, 2015	% of Total	2017 to 2016	2016 to 2015
	(Dollars in millions)							
Sales by Geographic Region:								
Americas	$ 5,163.9	29.6 %	$ 4,801.3	28.7 %	$ 5,154.5	29.2 %	7.6 %	(6.9) %

EMEA	5,912.9	33.9	5,103.0	30.5	5,053.0	28.6	15.9	1.0
Asia/Pacific	6,363.2	36.5	6,836.3	40.8	7,447.8	42.2	(6.9)	(8.2)
Total Avnet	$ 17,440.0		$ 16,740.6		$ 17,655.3			

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Fiscal 2017 Comparison to Fiscal 2016

The table below provides the comparison of reported and organic fiscal 2017 sales to fiscal 2016 sales to allow readers to better assess and understand the Company’s sales performance.

	Sales as Reported	Sales from Acquisitions(1)/ Estimated Extra Week	Organic Sales	2017 to 2016 Organic Sales Change	Organic Sales Constant Currency
	(Dollars in millions)				
Fiscal 2017	$ 17,440.0	$ 378.3	$ 17,818.3	0.1 %	1.0 %
EC	16,474.1	—	16,474.1	0.2	0.8
PF	965.9	378.3	1,344.2	(1.3)	2.7
Fiscal 2016	$ 16,740.6	$ 1,061.4	$ 17,802.0		
EC	16,740.6	(300.0)	16,440.6		
PF	—	1,361.4	1,361.4		

(1) Includes Premier Farnell acquired on October 17, 2016, which has operations in each Avnet region.

Sales for fiscal 2017 were $17.44 billion, an increase of 4.2%, or $699.4 million, from fiscal 2016 sales of $16.74 billion. Organic sales were flat year over year and increased 1.0% in constant currency. The organic sales increase in constant currency was primarily due to organic growth in the EC EMEA region and organic growth in the PF business, offset by declines in the EC Asia region.

As a result of certain supplier losses, as well as changes to supplier programs that negatively impact gross profit, the Company may experience lower sales and gross profit in the future. The Company is implementing strategic initiatives designed to mitigate these conditions.

Fiscal 2016 Comparison to Fiscal 2015

The table below provides the comparison of reported and organic fiscal 2016 sales to fiscal 2015 sales to allow readers to better assess and understand the Company’s sales performance.

	Sales as Reported	Sales from Estimated Extra Week	Organic Sales	2015 to 2016 Organic Sales Change	Organic Sales Constant Currency
	(Dollars in millions)				
Fiscal 2016	$ 16,740.6	$ (300.0)	$ 16,440.6	(6.9) %	(4.4) %

Fiscal 2015	17,655.3	—	17,653.3

Sales of $16.74 billion for fiscal 2016 decreased 5.2% from fiscal 2015 sales of $17.66 billion and organic sales in constant currency decreased 4.4% year over year. These decreases were due to declines in sales in the EC Americas and EC Asia regions, partially offset by an increase in sales in the EC EMEA region. Sales in the Americas decreased 6.9% due to lower overall demand in the industrial markets served by EC Americas and from disruptions in customer delivery and service capabilities resulting from an ERP implementation in the fourth quarter of fiscal 2016. In EMEA, organic sales in constant currency increased 7.0% due to strong demand in the industrial markets served across the region. Asia organic sales decreased 9.5% year over year in constant currency, which was primarily due to decreased select high volume supply chain engagements in fiscal 2016 compared to fiscal 2015.

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Gross Profit and Gross Profit Margins

Gross profit in fiscal 2017 was $2.37 billion, an increase of $291.5 million, or 14.0%, from fiscal 2016 primarily due to the acquisition of PF. Gross profit margin of 13.6% increased 117 basis points year over year primarily due to the acquisition of PF and from the impact of deselecting lower margin high volume supply chain engagements in EC Asia, partially offset by declines in the EC western regions primarily due to the Americas region as a result of declines due to supplier program changes, a higher mix of lower margin fulfillment sales and inefficiencies related to the ERP system.

Gross profit in fiscal 2016 was $2.08 billion, a decrease of $132.2 million, or 6.0%, from fiscal 2015. Gross profit margin of 12.4% decreased 11 basis points year over year primarily related to declines in the EC operating group primarily due to the Americas region as a result of declines due to the go-live of an ERP system in the fourth quarter of fiscal 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A expenses") were $1.77 billion in fiscal 2017, an increase of $310.4 million, or 21.3%, from fiscal 2016. The year-over-year increase in SG&A expenses was primarily due to the acquisition of PF including the impact of additional amortization of intangible asset expense, partially offset by the impact of prior restructuring actions and favorable changes in foreign currency exchange rates between years. In fiscal 2017, SG&A expenses as a percentage of sales were 10.2% and as a percentage of gross profit were 74.7%, as compared with 8.7% and 70.3%, respectively, in fiscal 2016. SG&A expenses as a percentage of gross profit increased over 400 basis points year over year due primarily to the impact of the PF acquisition.

SG&A expenses were $1.46 billion in fiscal 2016, a decrease of $54.9 million, or 3.6%, from fiscal 2015. The year-over-year decrease in SG&A expenses was primarily due to reductions as a result of favorable changes in foreign currency exchange rates between years, and the impact of prior restructuring actions partially offset by an increase in SG&A expenses for other costs, including employee merit compensation increases that took place in January 2016. In fiscal 2016, SG&A expenses as a percentage of sales were 8.7% and as a percentage of gross profit were 70.3%, as compared with 8.6% and 68.6%, respectively, in fiscal 2015. SG&A expenses as a percentage of gross profit increased 172 basis points year over year due primarily to lower sales and the related impact on gross profit, partially offset by lower SG&A expenses as described above.

Restructuring, Integration and Other Expenses

During fiscal 2017, the Company took certain actions in an effort to reduce future operating expenses in response to current market and Company specific conditions, including restructuring actions related to the acquisition of PF. In addition, the Company incurred integration, acquisition/divestiture, accelerated depreciation and other costs. Integration costs are primarily related to costs incurred to integrate acquired businesses, the integration of certain regional and global businesses including Avnet after the TS divestiture, and incremental costs incurred as part of the consolidation, relocation, and closure of warehouse and office facilities. Acquisition/divestiture costs consist primarily of professional fees and other costs incurred related to the acquisition, divestiture and closure of businesses including the acquisition of PF and the divestiture of TS. Accelerated depreciation relates to the incremental depreciation expense incurred related to the shortening of the estimated useful life of the Company's ERP system in the Americas compared to depreciation expense based on the original useful life of such ERP system. Other costs consist primarily of any ongoing facilities' operating costs associated with the consolidation, relocation and closure of facilities once such facilities have been vacated or substantially vacated, and other miscellaneous costs that relate to restructuring, integration and other expenses.

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During fiscal 2017, the Company recorded restructuring, integration and other expenses of $137.4 million. The Company recorded $41.7 million for restructuring costs, and expects to realize approximately $45.0 million in incremental annualized operating costs savings as a result of such restructuring actions. Restructuring expenses consisted of $36.1 million for severance, $0.6 million for facility exit costs, $3.5 million for asset impairments, and $1.5 million for other restructuring expenses. Integration, accelerated depreciation and other costs including acquisition/divestiture costs were $37.9 million, $16.0 million and $44.9 million, respectively. The Company also recorded a net benefit of $3.1 million for changes in estimates for restructuring liabilities established in prior years. The after tax impact of restructuring, integration and other expenses were $92.0 million and $0.73 per share on a diluted basis.

During fiscal 2016, the Company incurred restructuring expenses related to certain actions intended to reduce future operating expenses. These actions included activities related to an initiative that was focused on creating long-term operational efficiencies. In addition, the Company incurred integration and other costs primarily associated with the integration of acquired businesses, the integration of certain global and regional businesses, the integration of significant information technology systems and other costs associated with the acquisition of and the closure or divestiture of certain businesses. As a result, during fiscal 2016 the Company recorded restructuring, integration and other expenses of $44.8 million. The Company recorded $31.5 million for restructuring costs, and expects to realize approximately $24.0 million in incremental annualized operating cost savings as a result of such restructuring actions. Restructuring expenses consisted of $29.4 million for severance, $1.6 million for facility exit costs, $0.1 million for asset impairments, and $0.4 million for other restructuring expenses. Integration and other costs including acquisition costs were $6.8 million and $7.9 million, respectively. The Company also recorded a net benefit of $1.4 million for changes in estimates for restructuring liabilities established in prior years. The after tax impact of restructuring, integration and other expenses were $29.3 million and $0.22 per share on a diluted basis.

During fiscal 2015, the Company took certain restructuring actions in an effort to reduce future operating costs including restructuring activities for certain regional and global businesses. In addition, the Company incurred integration and other costs primarily associated with acquired businesses and certain global and regional businesses. As a result, during fiscal 2015 the Company recorded restructuring, integration and other expenses of $41.8 million. The Company recorded $26.0 million for restructuring costs, which consisted of $15.8 million for severance, $4.7 million for facility exit costs, $4.3 million for asset impairments, and $1.2 million for other restructuring expenses. Integration and other costs including acquisition costs were $12.1 million and $2.9 million, respectively. The Company also recorded a net expense of $0.9 million for changes in estimates for restructuring liabilities established in prior years. The after tax impact of restructuring, integration and other expenses were $30.4 million and $0.22 per share on a diluted basis.

See Note 18, “Restructuring expenses” to the Company’s consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for additional information related to restructuring expenses.

Operating Income

During fiscal 2017, the Company had operating income of $461.4 million, representing a 19.5% decrease as compared with fiscal 2016 operating income of $572.9 million. Operating income margin was 2.6% in fiscal 2017 compared to 3.4% in fiscal 2016. Both years included restructuring, integration and other expenses and the amortization of acquired intangible assets. Excluding these amounts from both years, adjusted operating income was $653.3 million, or 3.7% of sales, in fiscal 2017 as compared with $627.5 million, or 3.7% of sales, in fiscal 2016. Although operating income margin was flat year over year, there was an increase as a result of the acquisition of PF, substantially offset by a reduction at EC primarily in the Americas region.

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During fiscal 2016, the Company had operating income of $572.9 million, representing a 12.3% decrease as compared with fiscal 2015 operating income of $653.1 million. Operating income margin was 3.4% in fiscal 2016 compared to 3.7% in fiscal 2015. Both years included restructuring, integration and other expenses and the amortization of acquired intangible assets. Excluding these amounts from both years, adjusted operating income was $627.5 million, or 3.7% of sales, in fiscal 2016 representing a 12.0% decrease as compared with $713.1 million, or 4.0% of sales, in fiscal 2015. The decrease in adjusted operating income was primarily the result of lower sales in fiscal 2016 compared to fiscal 2015.

Interest Expense

Interest expense for fiscal 2017 was $106.7 million, an increase of $14.8 million, or 16.0%, compared with fiscal 2016. The increase in interest expense was primarily related to new debt outstanding during portions of fiscal 2017 including debt incurred to finance the acquisition of PF.

Interest expense for fiscal 2016 was $91.9 million, an increase of $4.9 million, or 5.6%, compared with fiscal 2015. The increase in interest expense was primarily due to the issuance of $550.0 million of 4.625% Notes in March 2016 and a corresponding increase in average borrowings during the fourth quarter, partially offset by repayment at maturity of $250.0 million of 6.00% Notes in September 2015.

Other Expense, net

During fiscal 2017, the Company incurred $44.3 million of other expense as compared with $3.0 million in fiscal 2016. The increase in other expense in fiscal 2017 is primarily attributable to the foreign currency hedging and other costs associated with the PF acquisition.

During fiscal 2016, the Company incurred $3.0 million of other expense as compared with $5.4 million of other income in fiscal 2015. Amounts in both years are primarily attributable to foreign currency remeasurement including the corresponding costs incurred to purchase forward foreign currency exchange contracts in order to economically hedge such foreign currency exposures.

Income Tax Expense

Avnet's effective tax rate on income before income taxes from continuing operations was 15.2% in fiscal 2017 as compared with an effective tax rate of 18.2% in fiscal 2016. The fiscal 2017 effective tax rate is lower than the fiscal 2016 effective tax rate due primarily to a favorable mix of income in lower tax jurisdictions, partially offset by tax expense from the establishment of valuation allowances and contingency reserves in fiscal 2017 as compared with a tax benefit from valuation allowances released in fiscal 2016.

Avnet's effective tax rate on income before income taxes was 18.2% in fiscal 2016 as compared with an effective tax rate of 15.1% in fiscal 2015. The fiscal 2016 effective tax rate is higher than the fiscal 2015 effective tax rate primarily due to a lesser tax benefit from the valuation allowance released in fiscal 2016 as compared with the amount released in fiscal 2015.

Avnet's effective tax rate is primarily a function of the tax rates in the numerous jurisdictions in which it does business applied to the mix of income before taxes. The effective tax rate may vary year over year as a result of changes in tax requirements in these jurisdictions, management's evaluation of its ability to recognize its net deferred tax assets and the establishment of liabilities for unfavorable outcomes of tax positions taken on certain matters that are common to

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multinational enterprises and the actual outcome of those matters, including the elimination of existing liabilities for favorable outcomes of tax positions or the expiration of statutes of limitations related to such liabilities.

See Note 10, "Income taxes" to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for additional information related to income taxes.

Income from Discontinued Operations

Income from discontinued operations increased $146.3 million to $261.9 million in fiscal 2017 compared to $115.6 million in fiscal 2016. Excluding the gain on sale of $222.4 million net of tax, income from discontinued operations decreased $76.1 million in fiscal 2017, which only contained 34 weeks as a result of the sale of TS being completed on February 27, 2017.

Income from discontinued operations increased $29.1 million to $115.6 million in fiscal 2016 compared to $86.5 million in fiscal 2015. The year over year improvement was primarily driven by lower operating expenses, partially offset by lower sales year over year.

See Note 3, "Discontinued operations" to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for additional information and detail on the financial results of discontinued operations.

Net Income

As a result of the factors described in the preceding sections of this MD&A, the Company's net income in fiscal 2017 was $525.3 million, or $4.08 per share on a diluted basis, compared with net income of $506.5 million, or $3.80 per share on a diluted basis, in fiscal 2016 and $571.9 million, or $4.12 per share on a diluted basis, in fiscal 2015.

Liquidity and Capital Resources

Cash Flows

Cash Flows from Operating Activities

The Company generated $221.0 million of cash from its operating activities for continuing operations in fiscal 2017 as compared to a cash usage of $48.9 million in fiscal 2016. These operating cash flows from continuing operations are comprised of: (i) cash flows generated from net income, adjusted for the impact of non-cash and other items, which includes depreciation and amortization expenses, deferred income taxes, stock-based compensation expense and other non-cash items (including provisions for doubtful accounts and periodic pension costs); and (ii) cash flows used for, or generated from, working capital and other, excluding cash and cash equivalents. Cash used for working capital and other was $256.7 million during fiscal 2017, including an increase in accounts receivable of $371.8 million primarily due to the increase in fourth quarter sales year over year and a decrease in accrued expenses and other of $132.9 million, partially offset by a decrease in inventory of $84.4 million and an increase in accounts payable of $163.6 million primarily due to improved working capital management year over year in the EC Asia region. Cash used for operating activities of discontinued operations was $589.7 million in fiscal 2017 compared to a cash generation of $273.2 million in fiscal 2016. The decrease was primarily the result of the sale of the TS Business being completed in February 2017, prior to such business completing the cash conversion cycle from its second fiscal quarter compared to fiscal 2016, which reflected a full fiscal year of operations and cash flows for the TS Business.

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During fiscal 2016, the Company used $48.9 million of cash from operating activities for continuing operations as compared with a cash generation of $317.9 million in fiscal 2015. Cash used for working capital and other was $713.2 million during fiscal 2016, including increases in inventories of $416.6 million, and decreases in accounts payable and accrued expenses and other, net of $326.2 million and $161.6 million, respectively, partially offset by decreases in receivables of $191.2 million. Inventory days on hand has increased and receivables days on hand has remained flat from the end of fiscal 2015. Inventories increases year over year were primarily in the EC Americas business to support the conversion of its ERP system in the fourth quarter of fiscal 2016. Cash generated from operating activities for discontinued operations was $273.2 million in fiscal 2016 compared to $266.0 million in fiscal 2015.

Cash Flows from Financing Activities

During fiscal 2017, the Company received net proceeds of $296.4 million as a result of the issuance of $300.0 million of 3.75% Notes due December 2021. Additionally, the Company received net proceeds of $530.8 million under a term loan and $27.9 million from borrowings of bank credit facilities and other debt. During fiscal 2017, the Company repaid $530.8 million of notes and acquired debt, $511.4 million from borrowings under a term loan, $50.0 million under the Company's senior unsecured credit facility and made net repayments of $588.0 million under the Company's accounts receivable securitization program. In addition, during fiscal 2017, the Company used $88.7 million and $275.9 million of cash to pay quarterly cash dividends on common stock and to repurchase common stock under the Company's share repurchase program, respectively.

During fiscal 2016, the Company received net proceeds of $541.5 million as a result of the issuance of $550.0 million of 4.625% Notes due April 2026, $18.7 million from borrowings of bank credit facilities and other debt, $101.2 million under the Company's senior unsecured credit facility and $80.0 million under the Company's accounts receivable securitization program. During fiscal 2016, the Company repaid upon maturity the $250.0 million of 6.00% Notes due September 2015. In addition, during fiscal 2016, the Company used $88.6 million and $380.9 million of cash to pay quarterly cash dividends on common stock and to repurchase common stock under the Company's share repurchase program, respectively.

During fiscal 2015, the Company received net proceeds of $34.4 million under Company's accounts receivable securitization program, $38.0 million under the Company's senior unsecured credit facility and made net repayments of $108.5 million for bank credit facility and other debt. In addition, during fiscal 2015, the Company used $87.3 million and $160.0 million of cash to pay quarterly cash dividends on common stock and to repurchase common stock under the Company's share repurchase program, respectively.

Cash Flows from Investing Activities

During fiscal 2017, the Company used $802.7 million of cash for acquisitions, which is net of cash acquired, and used $120.4 million for capital expenditures primarily related to information system development costs, computer hardware and software purchases and facilities costs. During fiscal 2017, with the sale of the TS Business, the Company received $2.24 billion of proceeds from the sale of TS, net of cash divested, which is reflected as an investing activity from discontinued operations.

During fiscal 2016, the Company used $137.4 million for capital expenditures primarily related to information system development costs, computer hardware and software purchases and facilities costs. Additionally, the Company used $30.7 million for investing activities related to discontinued operations primarily related to acquisitions and capital expenditures for the TS Business.

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During fiscal 2015, the Company used $133.4 million for capital expenditures primarily related to information system development costs and computer hardware and software purchases and facilities costs and used $41.3 million for investing activities related to discontinued operations, primarily for capital expenditures of the TS Business.

Financing Transactions

The Company uses a variety of financing arrangements, both short-term and long-term, to fund its operations in addition to cash generated from operating activities. The Company also uses several sources of funding so that it does not become overly dependent on one source and to achieve a lower cost of funding through these different alternatives. These financing arrangements include public debt, short-term and long-term bank loans, a revolving credit facility (the "Credit Facility") and an accounts receivable securitization program (the "Program").

The Company has small lines of credit and other forms of bank debt in the U.S. and various foreign locations to fund the short-term working capital, foreign exchange, overdraft and letter of credit needs of its wholly owned subsidiaries globally. Avnet generally guarantees its subsidiaries' obligations under such debt facilities. Outstanding borrowings under such forms of debt at the end of fiscal 2017 was $10.8 million.

See Note 8, "Debt" to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for additional information on financing transactions including the Credit Facility, the Program and the outstanding Notes as of July 1, 2017.

Covenants and Conditions

The Program requires the Company to maintain certain minimum interest coverage and leverage ratios in order to continue utilizing the Program. The Program also contains certain covenants relating to the quality of the receivables sold. If these conditions are not met, the Company may not be able to borrow any additional funds and the financial institutions may consider this an amortization event, as defined in the Program agreements, which would permit the financial institutions to liquidate the accounts receivables sold to cover any outstanding borrowings. Circumstances that could affect the Company's ability to meet the required covenants and conditions of the Program include the Company's ongoing profitability and various other economic, market and industry factors. Management does not believe that the covenants under the Program limit the Company's ability to pursue its intended business strategy or its future financing needs. The Company was in compliance with all covenants of the Program as of July 1, 2017.

The Credit Facility contains certain covenants with various limitations on debt incurrence, share repurchases, dividends, investments and capital expenditures and also includes financial covenants requiring the Company to maintain minimum interest coverage and leverage ratios. Management does not believe that the covenants in the Credit Facility limit the Company's ability to pursue its intended business strategy or its future financing needs. The Company was in compliance with all covenants of the Credit Facility as of July 1, 2017.

See Liquidity below for further discussion of the Company's availability under these various facilities.

Liquidity

The Company had cash and cash equivalents of $836.4 million as of July 1, 2017, of which $619.5 million was held outside the U.S. As of July 2, 2016, the Company had cash and cash equivalents of $1.03 billion, of which $972.7 million was held outside of the U.S.

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As of July 1, 2017, there were $100.0 million in borrowings outstanding and $3.1 million in letters of credit issued under the Credit Facility and $142.0 million outstanding under the Program. During fiscal 2017, the Company had an average daily balance outstanding under the Credit Facility of approximately $475.4 million and $504.0 million under the Program. During fiscal 2016, the Company had an average daily balance outstanding under the Credit Facility of approximately $306.8 million and $745.2 million under the Program. The Company also expects to renew or replace the Program on similar terms, subject to market conditions, before its maturity in August 2018. The Company can use cash on hand and availability under the Credit Facility to repay borrowings due under the Program in the event it cannot be renewed or replaced. As of July 1, 2017, the combined availability under the Credit Facility and the Program was $1.35 billion.

During periods of weakening demand in the electronic components industry, the Company typically generates cash from operating activities. Conversely, the Company is more likely to use operating cash flows for working capital requirements during periods of higher growth. During fiscal 2017, the Company generated $221.0 million from operating activities for continuing operations.

Liquidity is subject to many factors, such as normal business operations as well as general economic, financial, competitive, legislative, and regulatory factors that are beyond the Company’s control. Foreign cash balances are generally used for ongoing working capital and capital expenditure needs and to support acquisitions, and are currently expected to be permanently reinvested outside the United States. If these funds were needed for general corporate use in the United States, the Company may incur significant income taxes. Under certain circumstances the U.S. Internal Revenue Code may permit the distribution of foreign cash and unremitted earnings to be tax-free depending on the nature of the distribution. In addition, local government regulations may restrict the Company’s ability to move funds among various locations under certain circumstances. Management does not believe such restrictions would limit the Company’s ability to pursue its intended business strategy. Management believes that Avnet’s available borrowing capacity, its current cash on hand including marketable securities obtained from the sale of the TS Business and the Company’s expected ability to generate operating cash flows in the future will be sufficient to meet its future liquidity needs. The Company also may issue debt or equity securities in the future and management believes the Company will have adequate access to the capital markets, if needed.

During fiscal 2017, the Company utilized $802.7 million of cash, net of cash acquired, for acquisitions, repaid $242.8 million of assumed debt relating to the acquisition of PF and repaid approximately $1.46 billion of debt primarily with the proceeds from the sale of TS. The Company has made, and expects to continue to make, strategic investments through acquisition activity to the extent the investments strengthen Avnet’s competitive position and meet management’s return on capital thresholds.

In addition to continuing to make investments in acquisitions, as of July 1, 2017, the Company may repurchase up to an aggregate of $399.1 million of the Company’s common stock through a $1.75 billion share repurchase program approved by the Board of Directors. The Company plans to repurchase stock from time to time at the discretion of management, subject to strategic considerations, market conditions and other factors. The Company may terminate or limit the share repurchase program at any time without prior notice. The timing and actual number of shares repurchased will depend on a variety of factors such as share price, corporate and regulatory requirements, and prevailing market conditions. Additionally, the Company currently expects to pay quarterly cash dividends on shares of its common stock, subject to approval of the Board of Directors. During fiscal 2017, the Company paid cash dividends of $88.7 million on its common stock or approximately $0.18 per share on a quarterly basis.

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The Company also expects to make capital expenditures, including between $75 million and $125 million over the next two fiscal years, to implement a global ERP system. Additionally, as the Company integrates PF and restructures to transform Avnet into an electronic components focused business, the Company expects to use cash for future restructuring, integration and other expenses.

See Item 6, Selected Financial Data in Part II of this Annual Report on Form 10-K for additional information on the Company's liquidity and related ratios.

Long-Term Contractual Obligations

The Company has the following contractual obligations outstanding as of July 1, 2017 (in millions):

		Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	$ 1,792.7	$ 50.1	$ 542.5	$ 300.1	$ 900.0
Interest expense on long-term debt obligations(2)	429.1	77.5	147.1	100.9	103.6
Operating lease obligations	286.9	66.5	93.4	58.3	68.7

(1) Excludes unamortized discount and issuance costs on debt.
(2) Represents interest expense due on debt by using fixed interest rates for fixed rate debt and assuming the same interest rate at the end of fiscal 2017 for variable rate debt.

At July 1, 2017, the Company had an estimated liability for income tax contingencies of $106.8 million, which is not included in the above table. Cash payments associated with the settlement of these liabilities that are expected to be paid within the next 12 months is $8.4 million. The settlement period for the remaining amount of the unrecognized tax benefits, including related accrued interest and penalties, cannot be determined and therefore was not included in the table.

The Company does not currently have any material long-term commitments for purchases of inventories from suppliers or for capital expenditures.

Critical Accounting Policies

The Company's consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses. These estimates and assumptions are based upon the Company's continuous evaluation of available information including historical results and anticipated future events. Actual results may differ materially from these estimates.

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of the Company's financial condition and results of operations and that require significant judgments and estimates. Management believes the Company's most critical accounting policies at the end of fiscal 2017 relate to:

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Valuation of Receivables

The Company maintains an allowance for doubtful accounts for estimated losses primarily resulting from customer defaults. Bad debt expense and the related allowance for doubtful accounts is determined based upon historic customer default experience as well as the Company's regular assessment of the current and historical financial condition of its customers. Therefore, if actual collection experience or the financial condition of customers were to change, management would evaluate whether adjustments to the allowance for doubtful accounts might be necessary.

Valuation of Inventories

Inventories are recorded at the lower of cost or estimated net realizable value. The Company's inventories include electronic components sold into changing, cyclical and competitive markets wherein such inventories may be subject to declines in market value or obsolescence.

The Company regularly evaluates inventories for obsolescence, current market prices and other factors that may render inventories less marketable. Write-downs are recorded so that inventories reflect the approximate net realizable value and take into account the Company's contractual provisions with its suppliers, which may provide certain protections to the Company for product obsolescence and price erosion in the form of rights of return, stock rotation rights, obsolescence allowances and price protections. Because of the large number of products and suppliers and the complexity of managing the process around price protections and stock rotations, estimates are made regarding the realizable value of inventories. Additionally, assumptions about future demand, market conditions and decisions to discontinue certain product lines impact the evaluation of whether to write-down inventories. If assumptions about future demand change or actual market conditions are less favorable than those assumed by management, management would evaluate whether additional write-downs of inventories are required. In any case, actual net realizable values could be different from those currently estimated.

Accounting for Income Taxes

Management's judgment is required in determining income tax expense, unrecognized tax benefits and in measuring deferred tax assets and liabilities and the valuation allowances recorded against net deferred tax assets. The recoverability of the Company's net deferred tax assets is dependent upon its ability to generate sufficient future taxable income in certain jurisdictions. In addition, the Company considers historic levels and types of income, expectations and risk associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances. Should the Company determine that it is not able to realize all or part of its deferred tax assets in the future, additional valuation allowances may be recorded against the deferred tax assets with a corresponding increase to income tax expense in the period such determination is made. Similarly, should the Company determine that it is able to realize all or part of its deferred tax assets that have an associated valuation allowance established, the Company may release a valuation allowance with a corresponding benefit to income tax expense in the period such determination is made.

The Company establishes contingent liabilities for potentially unfavorable outcomes of positions taken on certain tax matters. These liabilities are based on management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. There may be differences between the anticipated and actual outcomes of these matters that may result in changes in estimates to such liabilities. To the extent such changes in estimates are necessary, the Company's effective tax rate may potentially fluctuate as a result. In accordance with the Company's accounting policy, accrued interest and penalties related to unrecognized tax benefits are recorded as a component of income tax expense.

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In determining the Company's income tax expense, management considers current tax regulations in the numerous jurisdictions in which it operates, and exercises judgment for interpretation and application. Changes to such tax regulations or disagreements with the Company's interpretation or application by tax authorities in any of the Company's major jurisdictions may have a significant impact on the Company's income tax expense.

See Note 1 and Note 10 to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for further discussion on valuation allowances and unrecognized tax benefits.

Goodwill and Intangible Asset Impairment

The Company has a significant amount of goodwill and long-lived assets, created through historical acquisitions that are subject to the risk of impairment.

In assessing goodwill for impairment, the Company is required to make significant judgments related to the fair value of its reporting units including assumptions about the future operating performance of such reporting units. The Company is also required to make judgments regarding the evaluation of changes in events or circumstances that would more likely than not reduce the fair value of any of its reporting units below their carrying value, the results of which would determine whether an interim goodwill impairment test must be performed. Should these assumptions or judgments change in the future based upon market conditions or should the structure of the Company's reporting units change based upon changes in business strategy or structure, the Company may be required to perform an interim impairment test which may result in goodwill impairment expense.

During fiscal 2017, 2016 and 2015, the Company performed its annual goodwill impairment test and determined there was no goodwill impairment at any of its reporting units. In fiscal 2017, there was one reporting unit for which the estimated fair value was not substantially in excess of the carrying value of such reporting unit. The percentage by which the estimated fair value exceeded carrying value was approximately 8% for the Electronic Components Americas reporting unit, which has approximately 22% of the Company's total goodwill.

In order to estimate the fair value of its reporting units, the Company uses a combination of an income approach, specifically a discounted cash flow methodology, and a market approach. The discounted cash flow methodology includes market participant assumptions for, among other factors, forecasted sales, gross profit margins, operating expenses, cash flows, perpetual growth rates and long-term discount rates, all of which require judgments and estimates by management which are inherently uncertain. The market approach methodology requires significant assumptions related to comparable transactions, market multiples, capital structure and control premiums. These assumptions, judgments and estimates may change in the future based upon market conditions or other events and could result in goodwill impairment expense.

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, which requires the Company to use judgment. For purposes of recognition and measurement of an impairment loss, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities ("asset group"). An impairment is recognized when the estimated undiscounted future cash flows expected by management from the use of the asset group including its eventual disposition is less than its carrying amount. An impairment is measured as the amount by which an asset group's net book value exceeds its estimated fair value. The determination of fair value requires the Company to make certain judgments and assumptions. The Company considers a long-lived asset to be abandoned when it has ceased use of such abandoned asset and if the Company has no intent to use or repurpose the asset in the future. The Company

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continually evaluates the carrying value and the remaining economic useful life of all long-lived assets and will adjust the carrying value and remaining useful life if and when appropriate.

See Note 1 and Note 7 to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for further discussion on the goodwill and long-lived asset impairment test evaluations.

Contingencies and Litigation

From time to time, the Company may become a party to, or otherwise be involved in, various lawsuits, claims, investigations and other legal proceedings in the ordinary course of conducting its business. While litigation is subject to inherent uncertainties, management does not anticipate that any such matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations.

The Company also is currently subject to various pending and potential legal matters and investigations relating to compliance with governmental laws and regulations, including import/export and environmental matters. For certain of these matters it is not possible to determine the ultimate outcome, and the Company cannot reasonably estimate the maximum potential exposure or the range of possible loss for such matters due primarily to being in the preliminary stages of the related proceedings and investigations. The Company currently believes that the resolution of such matters will not have a material adverse effect on the Company's financial position or liquidity, but could possibly be material to its results of operations in any one reporting period.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements — In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, as amended ("ASU 2014-09"), to supersede nearly all-existing revenue recognition guidance under GAAP. The core principles of ASU 2014-09 are to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Application of the guidance in ASU 2014-09 is expected to require more judgment and estimates within the revenue recognition process compared to existing GAAP. ASU 2014-09 is required to be adopted by the Company in the first quarter of fiscal 2019. The Company expects to adopt the requirements of ASU 2014-09 using retrospective adoption to each prior reporting period presented. The Company also expects that disclosures related to revenue recognition including judgments made will increase compared to existing GAAP. The Company is currently evaluating the impact of the future adoption of ASU 2014-09 on its consolidated financial statements and does not currently expect significant changes in revenue recognition practices for continuing operations compared to existing GAAP.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). The update requires a lessee to recognize assets and liabilities on the consolidated balance sheets for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The update will be effective for the Company in the first quarter of fiscal 2020, using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

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In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The update amends accounting guidance for intra-entity transfers of assets other than inventory to require the recognition of income tax consequences when the transfer occurs. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. A modified retrospective approach should be applied. The Company is currently evaluating the impact of the adoption of ASU 2016-16 on its consolidated financial statements.

In March 2017, the FASB issued Accounting Standards Update 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). The new guidance requires the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and allows only the service cost component eligible for capitalization in assets. Other components of the net periodic benefit cost are to be presented separately from the line item that includes the service cost and outside of any subtotal of operating income and the line item must be appropriately described. If a separate line item is not used, the line item used in the income statement to present the other components of net benefit cost must be disclosed. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within that annual period, with early adoption permitted. The amendment is to be applied retrospectively. The new guidance primarily impacts the income statement presentation of net periodic benefit cost and the Company does not believe adoption of this standard will have a material impact on its consolidated financial statements including income before income taxes, but the reported amount of operating income will decrease compared to existing presentation.

In May 2017, the FASB issued Accounting Standards Update 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). The update provides guidance as to which changes to the terms or conditions of a share-based payment award should be accounted for as a modification under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of an award as an equity or liability instrument are the same immediately before and after the modification. The standard is effective for the Company for annual periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. The Company is currently evaluating the impact of the adoption of ASU 2017-09 on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company seeks to reduce earnings and cash flow volatility associated with changes in interest rates and foreign currency exchange rates by entering into financial arrangements, from time to time, which are intended to provide an economic hedge against all or a portion of the risks associated with such volatility. The Company continues to have exposure to such risks to the extent they are not economically hedged.

The following table sets forth the scheduled maturities of the Company's debt outstanding at July 1, 2017 (dollars in millions):

	Fiscal Year						
	2018	2019	2020	2021	2022	Thereafter	Total

Liabilities:							
Fixed rate debt(1)	$ 0.5	$ 0.3	$ 300.2	$ 0.1	$ 300.0	$ 900.0	$ 1,501.1
Floating rate debt	$ 49.6	$ 242.0	$ —	$ —	$ —	$ —	$ 291.6

(1) Excludes unamortized discounts and issuance costs.

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The following table sets forth the carrying value and fair value of the Company's debt and the average interest rates at July 1, 2017, and July 2, 2016 (dollars in millions):

	Carrying Value at July 1, 2017	Fair Value at at July 1, 2017	Carrying Value at July 2, 2016	Fair Value at July 2, 2016
Liabilities:				
Fixed rate debt(1)	$ 1,501.1	$ 1,576.5	$ 1,502.7	$ 1,596.9
Average interest rate	4.8 %		5.3 %	
Floating rate debt	$ 291.6	$ 291.6	$ 1,001.5	$ 1,001.5
Average interest rate	2.1 %		1.5 %	

(1) Excludes unamortized discounts and issuance costs. Fair value was estimated primarily based upon quoted market prices for the Company's public long-term notes.

Many of the Company's subsidiaries purchase and sell products in currencies other than their functional currencies. This subjects the Company to the risks associated with fluctuations in foreign currency exchange rates. The Company reduces this risk by utilizing natural hedging (i.e., offsetting receivables and payables) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign currency exchange contracts typically with maturities of less than sixty days ("economic hedges"). The Company continues to have exposure to foreign currency risks to the extent they are not hedged. The Company adjusts any economic hedges to fair value through the consolidated statements of operations primarily within "other expense, net." Therefore, the changes in valuation of the underlying items being economically hedged are offset by the changes in fair value of the forward foreign currency exchange contracts. The Company did not have material gains or losses related to the forward foreign currency exchange contracts during fiscal 2017, 2016 and 2015. A hypothetical 10% change in foreign currency exchange rates under the forward foreign currency exchange contracts outstanding at July 1, 2017, would result in an increase or decrease of approximately $10.0 million to the fair value of the forward foreign currency exchange contracts, which would generally be offset by an opposite effect on the underlying exposure being economically hedged. See Note 4 to the Company's consolidated financial statements included in Item 15 of this Annual Report on Form 10-K for further discussion on derivative financial instruments.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data are listed under Item 15 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the reporting period covered by this report on Form 10-K. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report on Form 10-K, the Company's disclosure controls and procedures are effective such that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Company's management, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of July 1, 2017. In making this assessment, management used the 2013 framework established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and concluded that the Company maintained effective internal control over financial reporting as of July 1, 2017.

The Company acquired Premier Farnell Plc. ("PF") on October 17, 2016. Management excluded PF from its assessment of the effectiveness of the Company's internal control over financial reporting as of July 1, 2017. PF represented approximately 15% of the Company's total consolidated assets as of July 1, 2017, and approximately 5% of the Company's total consolidated sales for the fiscal year ended July 1, 2017.

The Company's independent registered public accounting firm, KPMG LLP, has audited the effectiveness of the Company's internal controls over financial reporting as of July 1, 2017, as stated in its audit report which is included herein.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of fiscal 2017, there were no changes to the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information called for by Item 10 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Stockholders anticipated to be held on November 9, 2017.

Item 11. Executive Compensation

The information called for by Item 11 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Stockholders anticipated to be held on November 9, 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by Item 12 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Stockholders anticipated to be held on November 9, 2017.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by Item 13 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Shareholders anticipated to be held on November 9, 2017.

Item 14. Principal Accounting Fees and Services

The information called for by Item 14 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Stockholders anticipated to be held on November 9, 2017.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

a. The following documents are filed as part of this Report:

	Page
1. Consolidated Financial Statements:	
Report of Independent Registered Public Accounting Firm	41
Avnet, Inc. and Subsidiaries Consolidated Financial Statements:	