UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 28, 2019

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

For the transition period from _____ to _____

Commission File #1-4224

AVNET, INC.

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	**11-1890605** (IRS Employer Identification No.)
2211 South 47th Street, Phoenix, Arizona (Address of principal executive offices)	**85034** (Zip Code)

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

N/A
(Former name, former address and former fiscal year, if changed since last report.)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which registered:
Common stock, par value $1.00 per share	AVT	Nasdaq Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☑ No ☐

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 ☐	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

As of October 17, 2019, the total number of shares outstanding of the registrant's Common Stock was100,962,258 shares, net of treasury shares.

AVNET, INC. AND SUBSIDIARIES
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PART I

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 28, 2019	June 29, 2019
	(Thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 664,108	$ 546,105
Receivables, less allowances of $50,541 and $53,499, respectively	3,129,387	3,168,369
Inventories	3,025,980	3,008,424
Prepaid and other current assets	169,471	153,438
Total current assets	6,988,946	6,876,336
Property, plant and equipment, net	437,467	452,171
Goodwill	858,656	876,728
Intangible assets, net	120,139	143,520
Operating lease assets (Note 5)	278,570	—
Other assets	229,559	215,801
Total assets	$ 8,913,337	$ 8,564,556
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 638,402	$ 300,538
Accounts payable	2,025,518	1,864,342
Accrued expenses and other	418,230	413,696
Short-term operating lease liabilities (Note 5)	55,149	—
Total current liabilities	3,137,299	2,578,576
Long-term debt	1,191,975	1,419,922
Long-term operating lease liabilities (Note 5)	245,406	—
Other liabilities	380,586	425,585
Total liabilities	4,955,266	4,424,083
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock $1.00 par; authorized 300,000,000 shares; issued 101,470,636 shares and 104,037,769 shares, respectively	101,471	104,038
Additional paid-in capital	1,580,706	1,573,005
Retained earnings	2,678,266	2,767,469
Accumulated other comprehensive loss	(402,372)	(304,039)
Total shareholders' equity	3,958,071	4,140,473
Total liabilities and shareholders' equity	$ 8,913,337	$ 8,564,556

See notes to consolidated financial statements.

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands, except per share amounts)	
Sales	$ 4,630,009	$ 5,089,879
Cost of sales	4,086,170	4,453,129
Gross profit	543,839	636,750
Selling, general and administrative expenses	456,503	475,146
Restructuring, integration and other expenses	24,598	14,788
Operating income	62,738	146,816
Other income (expense), net	4,931	(1,892)
Interest and other financing expenses, net	(33,631)	(30,093)
Income from continuing operations before taxes	34,038	114,831
Income tax (benefit) expense	(7,714)	31,302
Income from continuing operations, net of tax	41,752	83,529
Income from discontinued operations, net of tax	—	195
Net income	41,752	83,724
Earnings per share - basic:		
Continuing operations	$ 0.40	$ 0.73
Discontinued operations	—	—
Net income per share basic	0.40	0.73
Earnings per share - diluted:		
Continuing operations	$ 0.40	$ 0.72
Discontinued operations	—	—
Net income per share diluted	0.40	0.72
Shares used to compute earnings per share:		
Basic	103,130	115,260
Diluted	104,377	116,471
Cash dividends paid per common share	$ 0.21	$ 0.20

See notes to consolidated financial statements.

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Net income	$ 41,752	$ 83,724
Other comprehensive (loss) income, net of tax:		
Foreign currency translation and other	(102,146)	8,801
Pension adjustments, net	3,813	756
Total comprehensive (loss) income	$ (56,581)	$ 93,281

See notes to consolidated financial statements.

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

	Common Stock-Shares	Common Stock-Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
			(Thousands)			
Balance, June 29, 2019	104,038	$ 104,038	$ 1,573,005	$ 2,767,469	$ (304,039)	$ 4,140,473
Net income	—	—	—	41,752	—	41,752
Other comprehensive loss	—	—	—	—	(98,333)	(98,333)
Cash dividends	—	—	—	(21,451)	—	(21,451)
Repurchases of common stock	(2,631)	(2,631)	—	(109,504)	—	(112,135)
Stock-based compensation	64	64	7,701	—	—	7,765
Balance, September 28, 2019	101,471	$ 101,471	$ 1,580,706	$ 2,678,266	$ (402,372)	$ 3,958,071

	Common Stock-Shares	Common Stock-Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
			(Thousands)			
Balance, June 30, 2018	115,825	$ 115,825	$ 1,528,713	$ 3,235,894	$ (195,351)	$ 4,685,081
Net income	—	—	—	83,724	—	83,724
Other comprehensive income	—	—	—	—	9,557	9,557
Cash dividends	—	—	—	(22,932)	—	(22,932)
Repurchases of common stock	(3,315)	(3,315)	—	(153,582)	—	(156,897)
Effects of new accounting principles	—	—	—	(3,832)	—	(3,832)
Stock-based compensation	521	521	25,851	—	—	26,372
Balance, September 29, 2018	113,031	$ 113,031	$ 1,554,564	$ 3,139,272	$ (185,794)	$ 4,621,073

See notes to consolidated financial statements.

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Cash flows from operating activities:		
Net income	$ 41,752	$ 83,724
Less: Income from discontinued operations, net of tax	—	195
Income from continuing operations	41,752	83,529
Non-cash and other reconciling items:		
Depreciation	24,669	25,389
Amortization	19,911	20,810
Amortization of operating lease asset	15,839	—
Deferred income taxes	(3,970)	36,830
Stock-based compensation	7,218	9,044
Other, net	8,034	14,994
Changes in (net of effects from businesses acquired and divested):		
Receivables	(6,703)	(19,292)
Inventories	(64,194)	(269,649)
Accounts payable	189,746	95,119
Accrued expenses and other, net	(36,660)	(81,753)
Net cash flows provided (used) for operating activities - continuing operations	195,642	(84,979)
Net cash flows provided (used) for operating activities	195,642	(84,979)
Cash flows from financing activities:		
Borrowings (repayments) under accounts receivable securitization, net	110,800	(40,000)
Repayments under senior unsecured credit facility, net	(1,100)	(1,217)
Repayments under bank credit facilities and other debt, net	(745)	(50,330)
Repurchases of common stock	(110,805)	(149,094)
Dividends paid on common stock	(21,451)	(22,932)
Other, net	548	17,328
Net cash flows used for financing activities - continuing operations	(22,753)	(246,245)
Net cash flows used for financing activities	(22,753)	(246,245)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(29,864)	(41,007)
Other, net	(12,515)	65
Net cash flows used for investing activities - continuing operations	(42,379)	(40,942)
Net cash flows provided by investing activities - discontinued operations	—	120,000
Net cash flows (used) provided by investing activities	(42,379)	79,058
Effect of currency exchange rate changes on cash and cash equivalents	(12,507)	(3,107)
Cash and cash equivalents:		
— increase (decrease)	118,003	(255,273)
— at beginning of period	546,105	621,125
— at end of period	$ 664,108	$ 365,852

See notes to consolidated financial statements.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and new accounting pronouncements

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments necessary to present fairly Avnet, Inc. and its consolidated subsidiaries' (collectively, the "Company" or "Avnet") financial position, results of operations, comprehensive income and cash flows. All such adjustments are of a normal recurring nature.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results may differ from these estimates.

Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2019.

Certain reclassifications have been made in prior periods to conform to the current period presentation.

Recently adopted accounting pronouncements

The Company adopted Accounting Standards Update ("ASU") No. 2016-02, *"Leases (Topic 842),"* and its related amendments (collectively "ASC 842") on June 30, 2019 (the first day of fiscal 2020) using the modified transition approach without restating the comparative period consolidated financial statements. The standard requires lessees to recognize a right-of-use ("ROU") asset and lease liability for all leases.

The adoption of ASC 842 did not have a material impact on the Company's consolidated statements of operations or retained earnings. The Company elected the package of practical expedients permitted under the transition guidance that allowed, among other things, the historical lease classification to be carried forward without reassessment and the hindsight practical expedient. The Company elected to not separate lease and non-lease components for its real estate leases. Refer to Note 5 for additional disclosures related to leases.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities"* and its related amendments (collectively "ASC 815"), which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and makes certain targeted improvements to simplify the qualification and application of hedge accounting compared to current GAAP. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption of ASC 815 in the first quarter of fiscal 2020 did not have any impact on the Company's consolidated financial statements.

Recently issued accounting pronouncements

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* ("ASU No. 2018-15"). ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop internal-use software. ASU No. 2018-15 is effective for the Company in the first quarter of fiscal 2021, with early adoption permitted, and is to be applied either retrospectively or prospectively. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2018-15.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In August 2018, the FASB issued Accounting Standards Update No. 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU No. 2018-14"). The new guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including removing certain previous disclosure requirements, adding certain new disclosure requirements, and clarifying certain other disclosure requirements. The ASU will be effective for the Company in the first quarter of fiscal 2022, and early adoption is permitted. The Company's planned adoption of ASU 2018-14 is not expected to have an impact on the Company's consolidated financial statements.

2. Discontinued operations

In February 2017, the Company completed the sale of its Technology Solutions business ("TS business") to Tech Data Corporation (the "Buyer"). The TS business and the financial impacts of the divestiture are classified as discontinued operations in all periods presented. In August 2018, the Company executed a settlement agreement with the Buyer resulting in a final adjustment of $120.0 million and a final geographic allocation of the TS business sales price for tax reporting purposes. This incremental consideration received from the sale of the TS business as well as cash settlements from the resolution of indemnification claims and other cash reimbursements have been classified as cash flow from discontinued operations investing activities. Income tax payments related to the gain on sale of the TS business have been classified as cash flow from discontinued operations operating activities.

Under the contractual terms of the sale of the TS business, the Company has indemnified the Buyer for certain liabilities including tax related matters, which may result in future indemnification expenses and indemnification payments to the Buyer depending upon the outcome of those matters subject to indemnification.

3. Goodwill and intangible assets

Goodwill

The following table presents the change in goodwill by reportable segment for the three months ended September 28, 2019.

	Electronic Components	Farnell	Total
		(Thousands)	
Carrying value at June 29, 2019[1]	$ 390,896	$ 485,832	$ 876,728
Additions from acquisitions	—	—	—
Foreign currency translation	(5,108)	(12,964)	(18,072)
Carrying value at September 28, 2019[1]	$ 385,788	$ 472,868	$ 858,656

(1) Includes accumulated impairment of $1,045,110 from fiscal 2009, $181,440 from fiscal 2018 and $137,396 from fiscal 2019

The Company evaluates each quarter if facts and circumstances indicate that it is more likely than not that the fair value of its reporting units is less than their carrying value, which would require the Company to perform an interim goodwill impairment test. Indicators the Company evaluates to determine whether an interim goodwill impairment test is necessary include, but are not limited to, (i) a sustained decrease in share price or market capitalization as of any fiscal quarter end, (ii) changes in the macroeconomic or industry environments, (iii) the results of and the amount of time passed since the last goodwill impairment test and (iv) the long-term expected financial performance of its reporting units. During the first quarter of fiscal 2020, the Company concluded that an interim goodwill impairment test was not required.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Intangible Assets

The following table presents the Company's acquired intangible assets at September 28, 2019, and June 29, 2019, respectively.

	September 28, 2019			June 29, 2019		
	Acquired Amount	Accumulated Amortization	Net Book Value	Acquired Amount	Accumulated Amortization	Net Book Value
	(Thousands)					
Customer related	$ 284,993	$ (218,402)	$ 66,591	$ 292,266	$ (208,329)	$ 83,937
Trade name	51,323	(26,107)	25,216	52,760	(24,752)	28,008
Technology and other	62,255	(33,923)	28,332	63,753	(32,178)	31,575
	$ 398,571	$ (278,432)	$ 120,139	$ 408,779	$ (265,259)	$ 143,520

Intangible asset amortization expense from continuing operations was $19.9 million and $20.8 million for the first quarters of fiscal 2020 and 2019, respectively. Intangible assets have a weighted average remaining useful life of approximately two years. The following table presents the estimated future amortization expense for the remainder of fiscal 2020 and the next five fiscal years (in thousands):

Fiscal Year	
Remainder of fiscal 2020	$ 59,212
2021	39,439
2022	14,132
2023	5,864
2024	1,492
2025	—
Total	$ 120,139

4. Debt

Short-term debt consists of the following (in thousands):

	September 28, 2019	June 29, 2019	September 28, 2019	June 29, 2019
	Interest Rate		Carrying Balance	
Bank credit facilities and other	1.08 %	1.02 %	$ 302	$ 538
Accounts receivable securitization program	2.80 %	—	338,100	—
Public notes due June 2020	5.88 %	5.88 %	300,000	300,000
Short-term debt			$ 638,402	$ 300,538

Bank credit facilities and other consists primarily of various committed and uncommitted lines of credit and other forms of bank debt with financial institutions utilized primarily to support the working capital requirements of the Company including its foreign operations.

The Company has an accounts receivable securitization program (the "Securitization Program") in the United States with a group of financial institutions to allow the Company to transfer, on an ongoing revolving basis, an undivided interest in a designated pool of trade accounts receivable, to provide security or collateral for borrowings up to a maximum of $500 million. The Securitization Program does not qualify for off balance sheet accounting treatment and any borrowings under the Securitization Program are recorded as debt in the consolidated balance sheets. Under the Securitization Program, the Company legally sells and isolates certain U.S. trade accounts receivable into a wholly owned and consolidated bankruptcy remote special purpose entity. Such receivables, which are recorded within "Receivables" in the consolidated balance sheets, totaled $839.6 million and $857.3 million at September 28, 2019, and June 29, 2019, respectively. The Securitization Program contains certain covenants relating to the quality of the receivables sold. The Securitization Program also requires the Company to maintain certain minimum interest coverage and leverage ratios, which the Company was in compliance with as of September 28, 2019, and June 29, 2019. The Securitization Program expires in August 2020 and as a result the Company has classified outstanding balances as short-term debt as of September 28, 2019. Interest on borrowings is calculated using a one-month LIBOR rate plus a spread of 0.75%. The facility fee on the unused balance of the facility is up to 0.35%.

Long-term debt consists of the following (in thousands):

	September 28, 2019	June 29, 2019	September 28, 2019	June 29, 2019
	Interest Rate		Carrying Balance	
Revolving credit facilities:				
Accounts receivable securitization program	—	3.15 %	$ —	$ 227,300
Credit Facility	—	5.68 %	—	1,100
Public notes due:				
December 2021	3.75 %	3.75 %	300,000	300,000
December 2022	4.88 %	4.88 %	350,000	350,000
April 2026	4.63 %	4.63 %	550,000	550,000
Other long-term debt	1.12 %	1.00 %	348	403
Long-term debt before discount and debt issuance costs			1,200,348	1,428,803
Discount and debt issuance costs – unamortized			(8,373)	(8,881)
Long-term debt			$ 1,191,975	$ 1,419,922

The Company has a five-year $1.25 billion senior unsecured revolving credit facility (the "Credit Facility") with a syndicate of banks, consisting of revolving credit facilities and the issuance of up to $200.0 million of letters of credit and up to $300.0 million of loans in certain approved currencies, which expires in June 2023. Subject to certain conditions, the Credit Facility may be increased up to $1.50 billion. Under the Credit Facility, the Company may select from various interest rate options, currencies and maturities. The Credit Facility contains certain covenants including various limitations on debt incurrence, share repurchases, dividends, investments and capital expenditures. The Credit Facility also includes financial covenants requiring the Company to maintain minimum interest coverage and leverage ratios, which the Company was in compliance with as of September 28, 2019 and June 29, 2019. As of September 28, 2019, and June 29, 2019, there were $4.2 million and $4.0 million, respectively, in letters of credit issued under the Credit Facility.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of September 28, 2019, the carrying value and fair value of the Company's total debt was $1.83 billion and $1.91 billion, respectively. At June 29, 2019, the carrying value and fair value of the Company's total debt was $ 1.72 billion and $1.78 billion, respectively. Fair value for the public notes was estimated based upon quoted market prices and for other forms of debt fair value approximates carrying value due to the market based variable nature of the interest rates on those debt facilities.

5. Leases

Substantially all the Company's leases are classified as operating leases and are predominately related to real property for distribution centers, office space and integration facilities with a remaining lease term of up to 19 years. The Company's equipment leases are primarily for automobiles and equipment and are not material to the consolidated financial statements.

The Company determines if an arrangement contains a lease at inception based on whether it conveys the right to control the use of an identified asset in exchange for consideration. Lease right-of-use assets ("operating lease assets") and associated liabilities ("operating lease liabilities") are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. Certain lease agreements may include one or more options to extend or terminate a lease. Lease terms are inclusive of these options if it is reasonably certain that the Company will exercise such options.

The Company's leases generally do not provide a readily determinable implicit borrowing rate, as such, the discount rate used to calculate present value is the Company's incremental secured borrowing rate. The incremental secured borrowing rates used at the date of adoption for each lease varies in accordance with the remaining lease term and the currency of the lease payments. Lease cost is recognized on a straight-line basis over the lease term and is included as a component of "Selling, general, and administrative expenses" in the consolidated statements of operations. Lease payments are primarily fixed; however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the measurement of operating lease assets and liabilities.

The components of lease cost related to the Company's operating leases were as follows (in thousands):

	First Quarter Ended September 28, 2019
Operating lease cost	$ 18,802
Variable lease cost	5,268
Total lease cost	$ 24,070

Future minimum operating lease payments as of September 28, 2019 are as follows (in thousands):

Fiscal Year	
Remainder of fiscal 2020	$ 49,441
2021	53,034
2022	42,442
2023	36,932
2024	29,215
Thereafter	158,895
Total future operating lease payments	369,959
Total imputed interest on operating lease liabilities	(69,404)
Total operating lease liabilities	$ 300,555

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Prior to the Company’s adoption of ASC 842, future minimum operating lease payments as of June 29, 2019, were as follows (in thousands) on an undiscounted basis and excluding non-lease components:

Fiscal Year	
2020	$ 68,710
2021	52,225
2022	42,069
2023	32,245
2024	23,305
Thereafter	85,196
Total lease payments	$ 303,750

Other information pertaining to operating leases consists of the following:

Operating Lease Term and Discount Rate	
Weighted-average remaining lease term in years	9.6
Weighted-average discount rate	3.8 %

Supplemental cash flow information related to the Company’s operating leases for the three months ended September 28, 2019 was as follows (in thousands):

Supplemental Cash Flow Information:	
Cash paid for operating lease liabilities	$ 15,322
Operating lease assets obtained from new operating lease liabilities	6,404

6. Derivative financial instruments

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 (e.g., offsetting receivables and payables in the same foreign currency) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts typically with maturities of less than 60 days (“economic hedges”), but no longer than one year. The Company continues to have exposure to foreign currency risks to the extent they are not economically hedged. The Company adjusts any economic hedges to fair value through the consolidated statements of operations primarily within “Other income (expense), net.” The fair value of forward foreign exchange contracts, which are based upon Level 2 criteria under the ASC 820 fair value hierarchy, are classified in the captions “Prepaid and other current assets” or “Accrued expenses and other,” as applicable, in the accompanying consolidated balance sheets as of September 28, 2019 and June 29, 2019. The Company’s master netting and other similar arrangements with various financial institutions related to derivative financial instruments allow for the right of offset. The Company’s policy is to present derivative financial instruments with the same counterparty as either a net asset or liability when the right of offset exists.

The Company generally does not hedge its investments in its foreign operations. The Company does not enter into derivative financial instruments for trading or speculative purposes and monitors the financial stability and credit standing of its counterparties.

The Company’s foreign currency exposure relates primarily to international transactions where the currency collected from customers can be different from the currency used to purchase from suppliers. The Company’s foreign operations transactions are denominated primarily in the following currencies: U.S. Dollar, Euro, British Pound, Japanese Yen, Chinese Yuan, Taiwan Dollar, Canadian Dollar and Mexican Peso. The Company also, to a lesser extent, has foreign operations transactions in other European and Asia/Pacific foreign currencies.

The fair values of forward foreign currency exchange contracts not receiving hedge accounting treatment recorded in the Company's consolidated balance sheets are as follows:

	September 28, 2019	June 29, 2019
	(Thousands)	
Prepaid and other current assets	$ 4,058	$ 5,511
Accrued expenses and other	5,705	6,154

The amounts recorded to other income (expense), net, related to derivative financial instruments for economic hedges are as follows:

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Net derivative financial instrument gain	$ 9,500	$ 2,792

Under the Company's economic hedging policies, gains and losses on the derivative financial instruments are classified within the same line item in the consolidated statements of operations as the underlying assets or liabilities being economically hedged.

7. Commitments and contingencies

From time to time, the Company may become a party to, or be otherwise involved in various lawsuits, claims, investigations and other legal proceedings arising 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 effect on the Company's financial condition, liquidity or results of operations.

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. 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 early 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.

As of September 28, 2019, and June 29, 2019, the Company had aggregate estimated liabilities of $14.7 million classified within accrued expenses and other for such compliance-related matters that were reasonably estimable as of such dates.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. Income taxes

The Company's effective tax rate on its income from continuing operations before taxes was (22.7)% in the first quarter of fiscal 2020 as compared with 27.3% in the first quarter of fiscal 2019. During the first quarter of fiscal 2020, the Company's effective tax rate was favorably impacted primarily by (i) the release of unrecognized tax benefit reserves and (ii) the mix of income in lower tax jurisdictions. During the first quarter of fiscal 2019, the Company's effective tax rate was unfavorably impacted primarily by (i) an adjustment to the provisional estimate for the one-time mandatory deemed repatriation tax liability recorded under the requirements of recent tax law changes in the United States (the "Act") and (ii) increases in unrecognized tax benefits, partially offset by (iii) an adjustment to the provisional deferred tax impacts of the Act and (iv) the mix of income in lower tax jurisdictions.

The Company's effective tax rates in fiscal years 2019 and 2020 are based on the Company's interpretation of tax regulations under the Act including the computation of Global Intangible Low Taxed Income ("GILTI"). The Company has made a policy election to account for any impacts of the GILTI tax as a period expense. The Company's effective tax rate may change in future periods due to changes in U.S. tax regulations and the issuance of additional guidance related to the Act.

9. Pension plan

The Company has a noncontributory defined benefit pension plan that covers substantially all current or former U.S. employees (the "Plan"). Components of net periodic pension cost for the Plan were as follows:

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Service cost	$ 3,786	$ 3,734
Total net periodic pension cost within selling, general and administrative expenses	3,786	3,734
Interest cost	5,638	6,614
Expected return on plan assets	(12,668)	(13,301)
Amortization of prior service cost (credit)	534	(393)
Recognized net actuarial loss	3,637	2,535
Total net periodic pension benefit within other income (expense), net	(2,859)	(4,545)
Net periodic pension cost (benefit)	$ 927	$ (811)

The Company expects to make contributions to the Plan of $8.0 million during fiscal 2020. There were no contributions made during the first quarter of fiscal 2020.

Amounts reclassified out of accumulated other comprehensive income, net of tax, to other income (expense), net during the first quarters of fiscal 2020 and fiscal 2019 were not material and substantially all related to net periodic pension costs including recognition of actuarial losses and amortization of prior service costs and credits.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

10. Shareholders' equity

Share repurchase program

In August 2019, the Company's Board of Directors authorized a $500 million increase in the Company's existing share repurchase program, increasing the cumulative total of authorized share repurchases to $2.95 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. During the three months ended September 28, 2019, the Company repurchased 2.6 million shares under this program for a total cost of $112.1 million. As of September 28, 2019, the Company had $593.3 million remaining under its share repurchase authorization.

Common stock dividend

In August 2019, the Company's Board of Directors approved a dividend of $0.21 per common share and dividend payments of $21.5 million were made in September 2019.

11. Earnings per share

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands, except per share data)	
Numerator:		
Income from continuing operations	$ 41,752	$ 83,529
Income from discontinued operations	—	195
Net income	$ 41,752	$ 83,724
Denominator:		
Weighted average common shares for basic earnings per share	103,130	115,260
Net effect of dilutive stock based compensation awards	1,247	1,211
Weighted average common shares for diluted earnings per share	104,377	116,471
Basic earnings per share - continuing operations	$ 0.40	$ 0.73
Basic earnings per share - discontinued operations	—	—
Basic earnings per share	$ 0.40	$ 0.73
Diluted earnings per share - continuing operations	$ 0.40	$ 0.72
Diluted earnings per share - discontinued operations	—	—
Diluted earnings per share	$ 0.40	$ 0.72
Stock options excluded from earnings per share calculation due to anti-dilutive effect	388	1,113

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

12. Additional cash flow information

Non-cash investing and financing activities and supplemental cash flow information were as follows:

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	$ 7,500	$ 9,690
Non-cash Financing Activities:		
Unsettled share repurchases	$ 2,734	$ 11,228
Supplemental Cash Flow Information:		
Interest	$ 19,214	$ 13,826
Income tax (refunds) payments - continuing and discontinued operations	(5,192)	54,519

Included in cash and cash equivalents as of September 28, 2019 and June 29, 2019 was $16.1 million and $9.4 million, respectively, of cash equivalents, which was primarily comprised of investment grade money market funds and overnight time deposits.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

13. Segment information

Electronic Components ("EC") and Farnell ("Farnell") are the Company's reportable segments ("operating groups"). EC markets and sells semiconductors and interconnect, passive and electromechanical devices and integrated components to a diverse customer base serving many end-markets. Farnell distributes electronic components and related products to the electronic system design community utilizing multi-channel sales and marketing resources.

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Sales:		
Electronic Components	$ 4,294,187	$ 4,710,825
Farnell	335,822	379,054
	4,630,009	5,089,879
Operating income:		
Electronic Components	$ 112,286	$ 161,913
Farnell	21,805	40,793
	134,091	202,706
Corporate (1)	(26,677)	(20,175)
Restructuring, integration and other expenses	(24,598)	(14,788)
Amortization of acquired intangible assets and other	(20,078)	(20,927)
Operating income	$ 62,738	$ 146,816
Sales, by geographic area:		
Americas (2)	$ 1,215,757	$ 1,271,793
EMEA (3)	1,470,924	1,714,917
Asia/Pacific (4)	1,943,328	2,103,169
Sales	$ 4,630,009	$ 5,089,879

(1) Corporate is not a reportable segment and represents certain centrally incurred overhead expenses and assets that are not included in the EC and Farnell measures of profitability or assets. Corporate amounts represent a reconciling item between segment measures of profitability or assets and total Avnet amounts reported in the consolidated financial statements.

(2) Includes sales from the United States of $1.14 billion and $1.18 billion for the first quarters ended September 28, 2019 and September 29, 2018, respectively.

(3) Includes sales from Germany and Belgium of $580.3 million and $277.8 million, respectively, for the first quarter ended September 28, 2019. Includes sales from Germany and Belgium of $685.7 million and $280.1 million, respectively, for the first quarter ended September 29, 2018.

(4) Includes sales from China (including Hong Kong), Taiwan and Singapore of $623.5 million, $870.4 million and $239.6 million, respectively, for the first quarter ended September 28, 2019. Includes sales from China (including Hong Kong), Taiwan and Singapore of $693.1 million, $888.7 million and $280.4 million, respectively, for the first quarter ended September 29, 2018.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	September 28, 2019	June 29, 2019
	(Thousands)	
Property, plant, and equipment, net, by geographic area:		
Americas [1]	$ 208,925	$ 213,802
EMEA [2]	192,338	200,379
Asia/Pacific	36,204	37,990
Property, plant, and equipment, net	$ 437,467	$ 452,171

(1) Includes property, plant and equipment, net, of $205.4 million and $209.9 million as of September 28, 2019, and June 29, 2019, respectively, in the United States.

(2) Includes property, plant and equipment, net, of $87.3 million, $72.0 million and $23.5 million in Germany, the UK and Belgium, respectively, as of September 28, 2019; and $95.2 million, $70.5 million and $25.2 million in Germany, the UK and Belgium, respectively, as of June 29, 2019.

14. Restructuring expenses

Fiscal 2020

During fiscal 2020, the Company undertook restructuring actions in order to improve operating efficiencies and further integrate the acquisition of Farnell. Restructuring expenses are included as a component of restructuring, integration and other expenses in the consolidated statements of operations. The activity related to the restructuring liabilities and assets established during fiscal 2020 is presented in the following table:

	Severance	Asset Impairments	Total
		(Thousands)	
Fiscal 2020 restructuring expenses	$ 11,576	$ 6,711	$ 18,287
Cash payments	(5,730)	—	(5,730)
Non-cash amounts	—	(6,711)	(6,711)
Other, principally foreign currency translation	(115)	—	(115)
Balance at September 28, 2019	$ 5,731	$ —	$ 5,731

Severance expense recorded in the first quarter of fiscal 2020 related to the reduction, or planned reduction, of over 200 employees, primarily in executive management, operations, information technology, warehouse, sales and business support functions. Asset impairments relate primarily to software assets that were impaired as a result of the restructuring of information technology operations including the re-prioritization of information technology initiatives and resources. Of the $18.3 million in restructuring expenses recorded during the first quarter of fiscal 2020, $15.1 million related to EC and $3.2 million related to Farnell. The Company expects the majority of the remaining severance amounts to be paid by the end of fiscal 2020.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fiscal 2019 and prior

During fiscal 2019 and prior, the Company incurred restructuring expenses related to various restructuring actions intended to achieve planned synergies from acquired businesses and to reduce future operating expenses. The following table presents the activity during the first quarter of fiscal 2020 related to the remaining restructuring liabilities from continuing operations established during fiscal 2019 and prior:

	Severance	Facility and Contract Exit Costs	Total
		(Thousands)	
Balance at June 29, 2019	$ 21,537	$ 5,381	$ 26,918
Cash payments	(7,231)	(2,055)	(9,286)
Changes in estimates, net	(1,455)	618	(837)
Other, principally foreign currency translation	(63)	(124)	(187)
Balance at September 28, 2019	$ 12,788	$ 3,820	$ 16,608

The Company expects the majority of the remaining amounts to be paid by the end of fiscal 2020.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

For a description of the Company's critical accounting policies and an understanding of the significant factors that influenced the Company's performance during the quarter ended September 28, 2019, this *Management's Discussion and Analysis of Financial Condition and Results of Operations* ("MD&A") should be read in conjunction with the consolidated financial statements, including the related notes, appearing in Item 1 of this Quarterly Report on Form 10-Q, as well as the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2019.

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 "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. 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), (ii) goodwill impairment expense and (iii) amortization of acquired intangible assets and other. Operating income excluding such amounts is referred to as "adjusted operating income."

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

	First Quarters Ended	
	September 28, 2019	September 29, 2018
	(Thousands)	
Operating income	$ 62,738	$ 146,816
Restructuring, integration and other expenses	24,598	14,788
Amortization of acquired intangible assets and other	20,078	20,927
Adjusted operating income	$ 107,414	$ 182,531

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.

OVERVIEW

Organization

Avnet, Inc. (the "Company" or "Avnet"), is a global technology solutions company with an extensive ecosystem delivering design, product, marketing and supply chain expertise for customers at every stage of the product lifecycle. Avnet transforms ideas into intelligent solutions, reducing the time, cost and complexities of bringing products to market around the world. Founded in 1921 and incorporated in New York in 1955, the Company works with over 1,400 technology suppliers to serve 2.1 million customers in more than 140 countries.

Avnet has two primary operating groups — Electronic Components ("EC") and Farnell ("Farnell"). Both operating groups have operations in each of the three major economic regions of the world: (i) the Americas, (ii) Europe, Middle East and Africa ("EMEA") and (iii) Asia/Pacific ("Asia"). A summary of each operating group is provided in Note 13, "Segment information" to the Company's consolidated financial statements included in this Quarterly Report on Form 10-Q.

Results of Operations

Executive Summary

Sales of $4.63 billion were down 9.0% year over year and 7.8% in constant currency as compared to prior year first quarter sales of $5.09 billion. Both operating groups in all three regions contributed to the year-over-year decline in sales as the global industry-wide slowdown resulted in weaker year over year demand.

Gross profit margin of 11.7% decreased 76 basis points compared to 12.5% in the first quarter of fiscal 2019 primarily due to gross profit declines at both EC and Farnell.

Operating income of $62.7 million decreased $84.1 million or 57.3% as compared to the first quarter of fiscal 2019. Operating income margin was 1.4% in the first quarter of fiscal 2020 as compared with a 2.9% in the first quarter of fiscal 2019. Both periods included amortization and restructuring, integration and other expenses. Excluding these expenses from both periods, adjusted operating income margin was 2.3% in the first quarter of fiscal 2020 as compared to 3.6% in the first quarter of fiscal 2019, a decline of 127 basis points. The decrease in operating income and operating income margin is primarily due to the decrease in sales and gross profit margin, partially offset by reductions in operating expenses from the Company's restructuring and integration efforts.

Sales

The following table presents reported and organic sales growth rates between fiscal 2020 and fiscal 2019 for the first quarter of fiscal 2020.

	First Quarters Ended			
	Sales as Reported and Organic Fiscal 2020	Sales as Reported and Organic Fiscal 2019	As Reported and Organic Year-Year % Change	As Reported and Organic Year-Year % Change in Constant Currency
	(Dollars in thousands)			
Avnet	$ 4,630,009	$ 5,089,879	(9.0)%	(7.8)%
Avnet by region				
Americas	$ 1,215,757	$ 1,271,793	(4.4)%	(4.4)%
EMEA	1,470,924	1,714,917	(14.2)	(10.5)
Asia	1,943,328	2,103,169	(7.6)	(7.7)
Avnet by segment				
EC	$ 4,294,187	$ 4,710,825	(8.8)%	(7.7)%
Farnell	335,822	379,054	(11.4)	(9.0)

Sales for the first quarter of fiscal 2020 were down $459.9 million, or 9.0%, from the prior year first quarter sales of $5.09 billion. Sales in constant currency decreased 7.8% over the prior year first quarter with all three regions of both operating groups contributing to the decline. These decreases are primarily due to the current industry-wide economic downturn.

EC sales of $4.29 billion in the first quarter of fiscal 2020 decreased $416.6 million or 8.8% from the prior year first quarter sales of $4.71 billion. EC sales in constant currency declined 7.7% in constant currency year over year. Farnell sales for the first quarter of fiscal 2020 were $335.8 million, a decrease of $43.2 million or 11.4% from the prior year first quarter sales of $379.1 million. Farnell sales in constant currency declined 9.0% year over year.

On a regional basis, sales declined 4.4% in the Americas, 10.5% in EMEA in constant currency and 7.7% in Asia in constant currency. All the regional declines are primarily due to the industry-wide economic downturn impacting the demand for electronic components.

As a result of the recent notification the Company received from Texas Instruments ("TI") related to the termination of the Company's distribution agreement, the Company may experience lower sales and gross profit in the future if the impact of the termination is not offset by sales growth, gross margin improvements or operating cost reductions from strategic initiatives designed to mitigate such impacts. Sales from TI products represented approximately 10% of total sales in fiscal 2019.

Gross Profit and Gross Profit Margins

Gross profit for the first quarter of fiscal 2020 was $543.8 million, a decrease of $92.9 million, or 14.6%, from the first quarter of fiscal 2019 gross profit of $636.8 million driven primarily by the decline in sales. Gross profit margin decreased 76 basis points to 11.7% from the first quarter of fiscal 2019 gross profit margin of 12.5% driven by declines in gross profit margin in both operating segments, most predominately in the Company's Farnell segment. The declines in gross profit margin in both operating groups are primarily due to a combination of product and customer mix, geographical market mix and overall declines in gross profit margin due to current market conditions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A expenses") were $456.5 million in the first quarter of fiscal 2020, a decrease of $18.6 million, or 3.9%, from the first quarter of fiscal 2019. The year-over-year decrease in SG&A expenses was primarily due to a reduction of expenses resulting from management's restructuring programs, the impact of changes in foreign currency translation rates year over year and from the decline in sales.

Metrics that management monitors with respect to its operating expenses are SG&A expenses as a percentage of sales and as a percentage of gross profit. In the first quarter of fiscal 2020, SG&A expenses as a percentage of sales were 9.9% and as a percentage of gross profit were 83.9%, as compared with 9.3% and 74.6%, respectively, in the first quarter of fiscal 2019. The increase in SG&A expenses as a percentage of both sales and gross profit is primarily the result of the decrease in sales and gross profit margin, partially offset by the decline in SG&A expenses.

Restructuring, Integration and Other Expenses

As a result of management's focus on improving operating efficiencies and further integrating the acquisition of Farnell, the Company has incurred certain restructuring costs. These costs also related to the continued transformation of the Company's information technology, distribution center footprint and business operations including the re-prioritization of its information technology initiatives and resources. In addition, the Company incurred integration, accelerated depreciation and other costs. Integration costs are primarily related to the integration of acquired businesses including Farnell, the integration of certain regional and global businesses, and incremental costs incurred as part of the consolidation, relocation, sale and closure of distribution centers and office facilities. Accelerated depreciation relates to the incremental depreciation expense incurred related to the shortening of the estimated useful life for certain information technology assets. Other costs consist primarily of any other miscellaneous costs that relate to restructuring, integration and other expenses including acquisition related costs.

The Company recorded restructuring, integration and other expenses of $24.6 million during the first quarter of fiscal 2020. The Company recorded $18.3 million of restructuring costs in the first quarter of fiscal 2020, which are expected to provide approximately $20.0 million in annual operating expense savings once such restructuring actions are completed. Included in the restructuring costs was severance costs of $11.6 million and a $6.7 million non-cash impairment expense related to information technology software. During the first quarter of fiscal 2020, the Company also incurred integration costs of $1.7 million, accelerated depreciation expense of $2.7 million, other costs of $2.1 million and a reversal of $0.2 million for changes in estimates for costs associated with prior year restructuring actions. The after-tax impact of restructuring, integration and other expenses were $18.4 million and $0.18 per share on a diluted basis.

Comparatively, in the first quarter of fiscal 2019, restructuring, integration and other expenses were $14.8 million. The after-tax impact of restructuring, integration, and other expenses was $11.5 million and $0.10 per share on a diluted basis.

See Note 14 "Restructuring expenses" to the Company's consolidated financial statements included in this Quarterly Report on Form 10-Q.

Operating Income

Operating income for the first quarter of fiscal 2020 was $62.7 million, a decrease of $84.1 million, or 57.3%, from the first quarter of fiscal 2019 of $146.8 million. The year over year decrease in operating income was primarily driven by the decline in sales and gross profit margin partially offset by the reduction in SG&A expenses as compared to the first quarter of fiscal 2019. Adjusted operating income for the first quarter of fiscal 2020 was $107.4 million, a decrease of $75.1 million, or 41.2%, from the first quarter of fiscal 2019. The year over year decrease in adjusted operating income was primarily driven by the decline in sales and gross profit margin, partially offset by the reduction in SG&A expenses.

EC operating income margin decreased 83 basis points year over year to 2.6% and Farnell operating income margin decreased 427 basis points year over year to 6.5%.

Interest and Other Financing Expenses, Net and Other Income (Expense), Net

Interest and other financing expenses in the first quarter of fiscal 2020 was $33.6 million, an increase of $3.5 million or 11.8%, as compared with interest and other financing expenses of $30.1 million in the first quarter of fiscal 2019. The increase in interest and other financing expenses in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019 was primarily related to increased expenses in foreign regions to finance working capital needs.

During the first quarter of fiscal 2020, the Company had $4.9 million of other income as compared with $1.9 million of other expense in the first quarter of fiscal 2019. The increase in other income was primarily due to favorable foreign currency gains in the first quarter of fiscal 2020 as compared to foreign currency losses in the first quarter of fiscal 2019.

Income Tax Expense

The Company's effective tax rate on its income from continuing operations before taxes was (22.7)% in the first quarter of fiscal 2020 as compared with 27.3% in the first quarter of fiscal 2019. During the first quarter of fiscal 2020, the Company's effective tax rate was favorably impacted primarily by (i) the release of unrecognized tax benefit reserves and (ii) the mix of income in lower tax jurisdictions. During the first quarter of fiscal 2019, the Company's effective tax rate was unfavorably impacted primarily by (i) an adjustment to the provisional estimate for the one-time mandatory deemed repatriation tax liability recorded under the requirements of recent tax law changes in the United States (the "Act") and (ii) increases in unrecognized tax benefits, partially offset by (iii) an adjustment to the provisional deferred tax impacts of the Act and (iv) the mix of income in lower tax jurisdictions.

See Note 8 "Income taxes" to the Company's consolidated financial statements included in this Quarterly Report on Form 10-Q.

Income from Discontinued Operations

Income from discontinued operations was $0.2 million in the first quarter of fiscal 2019, primarily related to additional income tax expenses associated with the TS business.

Net Income

As a result of the factors described in the preceding sections of this MD&A, the Company's net income for the first quarter of fiscal 2020 was $41.8 million, or $0.40 per share on a diluted basis, as compared with $83.7 million, or $0.72 per share on a diluted basis, in the first quarter of fiscal 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash Flow from Operating Activities

During the first quarter of fiscal 2020, the Company generated $195.6 million of cash from its operating activities from continuing operations compared to $85.0 million of cash used in the first quarter of fiscal 2019. These operating cash flows were comprised of: (i) cash flow generated from net income from continuing operations, adjusted for the impact of non-cash and other items, which includes depreciation and amortization expenses, deferred income taxes, stock-based compensation expense, amortization of operating lease assets and other non-cash items (including provisions for doubtful accounts and net periodic pension costs) and (ii) cash flows used for, or generated from, working capital and other, excluding cash and cash equivalents. Cash generated from working capital and other was $82.2 million during the first quarter of fiscal 2020, including an increase in accounts payable of $189.7 million, offset by increases in inventories of $64.2 million and accounts receivable of $6.7 million, and a decrease in accrued expenses and other of $36.7 million. Comparatively, cash used for working capital and other was $275.6 million during the first quarter of fiscal 2019, including increases in inventories of $269.6 million, increases in accounts receivable of $19.3 million and a decrease in accrued expenses and other of $81.8 million, partially offset by increases in accounts payable of $95.1 million.

Cash Flow from Financing Activities

During the first quarter of fiscal 2020, the Company received net proceeds of $110.8 million under the Securitization Program. During the first quarter of fiscal 2020, the Company paid dividends on common stock of $21.5 million and repurchased $110.8 million of common stock.

During the first quarter of fiscal 2019, the Company made net repayments of $40.0 million under the Securitization Program and net repayments of $50.3 million from borrowings of various bank credit facilities. During the first quarter of fiscal 2019, the Company paid dividends on common stock of $22.9 million and repurchased $149.1 million of common stock. Additionally, included in other, net is approximately $17.6 million of cash received from the exercises of stock options.

Cash Flow from Investing Activities

During the first quarter of fiscal 2020, the Company used $29.9 million for capital expenditures primarily related to warehouse and facilities, and information technology hardware and software costs compared to $41.0 million for capital expenditures in the first quarter of fiscal 2019. In addition, the Company paid $12.8 million for other investing activities.

During the first quarter of fiscal 2019, the Company received $120.0 million of cash from investing activities – discontinued operations from the sale of the TS business.

Contractual Obligations

For a detailed description of the Company's long-term debt and lease commitments for the next five years and thereafter, see *Long-Term Contractual Obligations* appearing in Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2019. With the exception of the Company's debt transactions discussed herein, there are no material changes to this information outside of normal borrowings and repayments of long-term debt and operating lease payments. The Company does not currently have any material non-cancellable commitments for capital expenditures or inventory purchases.

Financing Transactions

See Note 4, "Debt" to the Company's consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information on financing transactions including the Credit Facility, the Securitization Program, and other outstanding debt as of September 28, 2019. The Company was in compliance with all covenants under the Credit Facility and the Securitization Program as of September 28, 2019 and June 29, 2019.

The Company has various lines of credit, financing arrangements 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. Outstanding borrowings under such forms of debt at the end of first quarter of fiscal 2020 was $0.6 million.

As an alternative form of financing outside of the United States, the Company sells certain of its trade accounts receivable on a non-recourse basis to third-party financial institutions pursuant to factoring agreements. The Company accounts for these transactions as sales of receivables and presents cash proceeds as cash provided by operating activities in the consolidated statements of cash flows. Factoring fees for the sales of receivables are recorded within "Interest and other financing expenses, net" and were not material.

Liquidity

The Company held cash and cash equivalents of $664.1 million as of September 28, 2019, of which $592.6 million was held outside the United States. As of June 29, 2019, the Company held cash and cash equivalents of $546.1 million, of which $476.6 million was held outside of the United States.

As of the end of the first quarter of fiscal 2020, the Company had a combined total borrowing capacity of $1.75 billion under the Credit Facility and the Securitization Program. There were no borrowings outstanding and $4.2 million in letters of credit issued under the Credit Facility and $338.1 million in borrowings outstanding under the Securitization Program, resulting in approximately $1.41 billion of total availability as of September 28, 2019. Availability under the Securitization Program is subject to the Company having sufficient eligible trade accounts receivable to support desired borrowings. The Company expects to renew or replace the Securitization Program on similar terms, subject to market conditions, before its maturity in August 2020. The Company expects to redeem the $300.0 million of Notes due June 2020 either through the issuance of new notes or from available borrowing capacity under the Credit Facility. During the first quarter of fiscal 2020, the Company had an average daily balance outstanding of approximately $50.6 million under the Credit Facility and approximately $488.4 million under the Securitization Program. During the first quarter of fiscal 2019, the Company had an average daily balance outstanding of approximately $65.0 million under the Securitization Program.

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. The Company generated $871.7 million in cash flows from operating activities over the trailing four fiscal quarters ended September 28, 2019 from 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. To the extent the cash balances held in foreign locations cannot be remitted back to the U.S. in a tax efficient manner, those cash balances are generally used for ongoing working capital, capital expenditure needs and to support acquisitions. 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 including capacity for the non-recourse sale of accounts receivable 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.

Historically 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, further its business strategies and meet management’s return on financial thresholds. As the Company implements the operating cost savings restructuring plans, responds to current business environment challenges and pursues ways to become more efficient and cost effective, the Company expects to use cash for restructuring, integration and other expenses.

In addition to continuing to make investments in acquisitions, as of September 28, 2019, the Company may repurchase up to an aggregate of $593.3 million of shares of the Company’s common stock through a $2.95 billion share repurchase program approved by the Board of Directors. The Company may 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 the first quarter of fiscal 2020, the Board of Directors approved a dividend of $0.21 per share, which resulted in $21.5 million of dividend payments during the quarter.

Recently Issued Accounting Pronouncements

See Note 1, "Basis of presentation and new accounting pronouncements" to the Company's consolidated financial statements included in this Quarterly Report on Form 10-Q for a description of recently issued accounting pronouncements.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

The Company seeks to reduce earnings and cash flow volatility associated with changes in foreign currency exchange rates by entering into financial arrangements that 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.

See Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2019, for further discussion of market risks associated with foreign currency exchange rates and interest rates. Avnet's exposure to such risks has not changed materially since June 29, 2019, as the Company continues to economically hedge the majority of its foreign currency exchange exposures. Thus, any increase or decrease in fair value of the Company's forward foreign currency exchange contracts is generally offset by an opposite effect on the related hedged position. For interest rate risk, the Company continues to maintain a combination of fixed and variable rate debt to mitigate the exposure to fluctuation in market interest rates.

See *Liquidity and Capital Resources — Financing Transactions* appearing in Item 2 of this Quarterly Report on Form 10-Q for further discussion of the Company's financing transactions and capital structure. As of September 28, 2019, 82% of the Company's debt bears interest at a fixed rate and 18% of the Company's debt bears interest at variable rates. Therefore, a hypothetical 1.0% (100 basis points) increase in interest rates would result in a $0.8 million decrease in income from continuing operations before income taxes in the Company's consolidated statement of operations for the first quarter of fiscal 2020.

Item 4. ***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, as amended (the "Exchange Act")) as of the end of the reporting period covered by this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q, 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.

During the first quarter of fiscal 2020, there were no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-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.

PART II

OTHER INFORMATION

Item 1. ***Legal Proceedings***

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 1A. ***Risk Factors***

The discussion of the Company's business and operations should be read together with the risk factors contained in Item 1A of its Annual Report on Form 10-K for the fiscal year ended June 29, 2019, which describe various risks and uncertainties to which the Company is or may become subject. These risks and uncertainties have the potential to affect the Company's business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. As of September 28, 2019, there have been no material changes to the risk factors set forth in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2019.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

In August 2019, the Company's Board of Directors authorized a $500 million increase in the Company's existing share repurchase program, increasing the cumulative total of authorized share repurchases to $2.95 billion of the Company's common stock. The following table includes the Company's monthly purchases of the Company's common stock during the first quarter of fiscal 2020, 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
June 29 – July 27	429,100	$ 43.87	429,100	$ 186,605,000
July 28 – August 24	829,869	$ 41.52	829,869	$ 652,146,000
August 25 – September 28	1,372,037	$ 42.89	1,372,037	$ 593,295,000

Item 6. ***Exhibits***

Exhibit Number	Exhibit
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.
** Furnished herewith. The information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 25, 2019

AVNET, INC.

By: /s/ THOMAS LIGUORI
Thomas Liguori
Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William J. Amelio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Avnet, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ WILLIAM J. AMELIO
William J. Amelio
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas Liguori, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Avnet, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ THOMAS LIGUORI

Thomas Liguori
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q for the period ended September 28, 2019 (the “Report”), I, William J. Amelio, Chief Executive Officer of Avnet, Inc. (the “Company”) hereby certify that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2019

/s/ WILLIAM J. AMELIO

William J. Amelio
Chief Executive Officer

Exhibit 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q for the period ended September 28, 2019 (the “Report”), I, Thomas Liguori, Chief Financial Officer of Avnet, Inc. (the “Company”) hereby certify that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2019

/s/ THOMAS LIGUORI
Thomas Liguori
Chief Financial Officer