

ARROW ELECTRONICS INC

Form 10-K

February 07, 2019

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

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OR

o 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 1-4482

ARROW ELECTRONICS INC

(Exact name of registrant as specified in its charter)

New York	11-1806155
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
9201 East Dry Creek Road, Centennial, Colorado	80112
(Address of principal executive offices)	(Zip Code)
(303) 824-4000	
(Registrant's telephone number, including area code)	

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

Title of each class	Name of each exchange on which registered
Common Stock, \$1 par value	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 x No o

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

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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 x Accelerated filer o
 Non-accelerated filer o Smaller reporting company o
 Emerging growth company o

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. o

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$6,477,885,555.

There were 84,917,353 shares of Common Stock outstanding as of February 1, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

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The definitive proxy statement related to the registrant's Annual Meeting of Shareholders, to be held May 9, 2019 is incorporated by reference in Part III to the extent described therein.

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PART I

Item 1. Business.

Arrow Electronics, Inc. (the "company" or "Arrow") is a global provider of products, services, and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The company has one of the world's broadest portfolios of product offerings available from leading electronic components and enterprise computing solutions suppliers, coupled with a range of services, solutions, and tools that help industrial and commercial customers introduce innovative products, reduce their time to market, and enhance their overall competitiveness. Arrow was incorporated in New York in 1946 and serves over 200,000 customers.

Arrow's diverse worldwide customer base consists of original equipment manufacturers ("OEMs"), value-added resellers ("VARs"), Managed Service Providers ("MSPs"), contract manufacturers ("CMs"), and other commercial customers. These customers include manufacturers of industrial equipment (such as machine tools, factory automation, and robotic equipment) and consumer products serving industries ranging from telecommunications, automotive and transportation, aerospace and defense, medical, professional services, and alternative energy, among others.

The company has two business segments, the global components business and the global enterprise computing solutions ("ECS") business. The company distributes electronic components to OEMs and CMs through its global components business segment and provides enterprise computing solutions to VARs and MSPs through its global ECS business segment. For 2018, approximately 70% of the company's sales were from the global components business segment, and approximately 30% of the company's sales were from the global ECS business segment. The financial information about the company's business segments and geographic operations is found in Note 16 to the Consolidated Financial Statements.

The company maintains over 300 sales facilities and 49 distribution and value-added centers, serving over 80 countries. Both business segments have operations in each of the three largest electronics markets; the Americas; Europe, Middle East, and Africa ("EMEA"); and Asia Pacific regions. Through this network, Arrow guides innovation forward by helping its customers deliver new technologies, new materials, new ideas, and new electronics that impact the business community and consumers.

The company's financial objectives are to grow sales faster than the market, increase the markets served, grow profits faster than sales, and increase return on invested capital. To achieve its objectives, the company seeks to capture significant opportunities to grow across products, markets, and geographies. To supplement its organic growth strategy, the company continually evaluates strategic acquisitions to broaden its product and value-added service offerings, increase its market penetration, and expand its geographic reach.

Global Components

Global components markets and distributes electronic components and provides a comprehensive range of value-added capabilities throughout the entire life cycle of technology products and services. The company provides customers with the ability to deliver the latest technologies to the market through design engineering, global marketing and integration, global logistics, and supply chain management. The company offers the convenience of accessing, from a single source, multiple technologies and products from its suppliers with rapid or scheduled deliveries. Additionally, the company offers expertise in sustainable technology solutions to guide enterprise customers through the entire technology life cycle. Most of the company's customers require delivery of their orders on schedules or volumes that are generally not available on direct purchases from manufacturers.

Within the global components business segment, net sales of approximately 68% consist of semiconductor products and related services; approximately 19% consist of passive, electro-mechanical, and interconnect products, consisting primarily of capacitors, resistors, potentiometers, power supplies, relays, switches, and connectors; approximately 10% consist of computing and memory; and approximately 3% consist of other products and services.

Over the past three years, the global components business segment completed 6 strategic acquisitions to broaden its digital capabilities to meet the evolving needs of customers and suppliers. These acquisitions also expanded the global components business segment's portfolio of products and services offerings at every phase of technology deployment, including custom hardware and software, and new Internet of Things based business models.

Global ECS

The company's global ECS business segment is a leading value-added provider of comprehensive computing solutions and services. Global ECS' portfolio of computing solutions includes data-center, cloud, security, and analytics solutions. Global ECS brings broad market access, extensive supplier relationships, scale, and resources to help its VARs and MSPs meet the needs of their end-users. Global ECS works with VARs and MSPs to tailor complex IT solutions for their end-users. Customers have access to various services including engineering and integration support, warehousing and logistics, marketing resources, and authorized hardware and software training. Global ECS' suppliers benefit from demand creation, speed to market, and efficient supply chain management.

Within the global ECS business segment, net sales of approximately 39% consist of software, 37% consist of storage, 12% consist of industry standard servers, 6% consist of proprietary servers, and 6% consist of other products and services.

Over the past three years, the global ECS business segment completed two strategic acquisitions to further expand its portfolio of products. Aligned with the vision of guiding innovation forward in the IT channel, the company is investing in emerging and adjacent markets, such as managed services and unified computing, within the ECS business.

Customers and Suppliers

The company and its affiliates serve over 200,000 industrial and commercial customers. Industrial customers range from major OEMs and CMs to small engineering firms, while commercial customers primarily include VARs, MSPs, and OEMs. No single customer accounted for more than 2% of the company's 2018 consolidated sales.

The company's sales teams focus on an extensive portfolio of products and services to support customers' material management and production needs, including connecting customers to the company's field application engineers that provide technical support and serve as a gateway to the company's supplier partners. The company's sales representatives generally focus on a specific customer segment, particular product lines or a specific geography, and provide end-to-end product offerings and solutions with an emphasis on helping customers introduce innovative products, reduce their time to market, and enhance their overall competitiveness.

Substantially all of the company's sales are made on an order-by-order basis, rather than through long-term sales contracts. As such, the nature of the company's business does not provide visibility of material forward-looking information from its customers and suppliers beyond a few months.

No single supplier accounted for more than 10% of the company's consolidated sales in 2018. The company believes that many of the products it sells are available from other sources at competitive prices. However, certain parts of the company's business, such as the company's global ECS business segment, rely on a limited number of suppliers with the strategy of providing focused support, extensive product knowledge, and customized service to suppliers and VARs. Most of the company's purchases are pursuant to distributor agreements, which are typically non-exclusive and cancelable by either party at any time or on short notice.

Distribution Agreements

Certain agreements with suppliers protect the company against the potential write-down of inventories due to technological change or suppliers' price reductions. These contractual provisions typically provide certain protections to the company for product obsolescence and price erosion in the form of return privileges, scrap allowances, and price protection. Under the terms of the related distributor agreements and assuming the company complies with certain conditions, such suppliers are required to credit the company for reductions in suppliers' list prices. As of

December 31, 2018, this type of arrangement covered approximately 49% of the company's consolidated inventories. In addition, under the terms of many such agreements, the company has the right to return to the supplier, for credit, a defined portion of those inventory items purchased within a designated period of time.

A supplier, which elects to terminate a distribution agreement, may be required to purchase from the company the total amount of its products carried in inventory. As of December 31, 2018, this type of repurchase arrangement covered approximately 54% of the company's consolidated inventories.

While these inventory practices do not wholly protect the company from inventory losses, the company believes that they currently provide substantial protection from such losses.

Competition

The company operates in a highly competitive environment, both in the United States and internationally. The company competes with other large multinational and national electronic components and enterprise computing solutions distributors, as well as numerous other smaller, specialized competitors who generally focus on narrower markets, products, or particular sectors. The company also competes for customers with its suppliers. The size of the company's competitors vary across markets sectors, as do the resources the company has allocated to the sectors in which it does business. Therefore, some of the company's competitors may have a more extensive customer and/or supplier base than the company in one or more of its market sectors. There is significant competition within each market sector and geography served that creates pricing pressure and the need to continually improve services. Other competitive factors include rapid technological changes, product availability, credit availability, speed of delivery, ability to tailor solutions to customer needs, quality and depth of product lines and training, as well as service and support provided by the distributor to the customer.

The company also faces competition from companies entering or expanding into the logistics and product fulfillment, electronic catalog distribution, and e-commerce supply chain services markets. As the company seeks to expand its business into new areas in order to stay competitive in the market, the company may encounter increased competition from its current and/or new competitors.

The company believes that it is well equipped to compete effectively with its competitors in all of these areas due to its comprehensive product and service offerings, highly-skilled work force, and global distribution network.

Employees

The company and its affiliates employed approximately 20,100 employees worldwide as of December 31, 2018.

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. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The company's SEC filings are available to the public on the SEC's Web site at <http://www.sec.gov> and through the New York Stock Exchange ("NYSE"), 11 Wall 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:

Arrow Electronics, Inc.
9201 East Dry Creek Road
Centennial, Colorado 80112
(303) 824-4000
Attention: Corporate Secretary

The company also makes these filings available, free of charge, through its website (<http://www.arrow.com>) as soon as reasonably practicable after the company files such materials with the SEC. The company does not intend this internet address to be an active link or to otherwise incorporate the contents of the website into this Annual Report on Form 10-K.

Executive Officers

The following table sets forth the names, ages, and the positions held by each of the executive officers of the company as of February 7, 2019:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Michael J. Long	60	Chairman, President, and Chief Executive Officer
Matt Anderson	40	Senior Vice President, Chief Digital Officer
Sean J. Kerins	56	President, Arrow Global Enterprise Computing Solutions
Andy King	55	President, Arrow Global Components
Chuck Kostalnick	53	Senior Vice President, Chief Supply Chain Officer
Vincent P. Melvin	55	Senior Vice President, Chief Information Officer
M. Catherine Morris	60	Senior Vice President, Chief Strategy Officer
Chris D. Stansbury	53	Senior Vice President, Chief Financial Officer
Gregory P. Tarpinian	57	Senior Vice President, Chief Legal Officer
Gretchen K. Zech	49	Senior Vice President, Chief Human Resources Officer

Set forth below is a brief account of the business experience during the past five years of each executive officer of the company.

Michael J. Long has been Chairman of the Board of Directors, President, and Chief Executive Officer of the company for more than five years.

Matt Anderson was appointed Senior Vice President, Chief Digital Officer in July 2017. Prior thereto he served as Chief Digital Officer from October 2014 to June 2017. Prior to joining Arrow he served as General Manager and Chief Digital Officer at Hibu from January 2013 to September 2014.

Sean J. Kerins was appointed President of Arrow Global Enterprise Computing Solutions in May 2014. Prior thereto he served as President of North America Enterprise Computing Solutions from July 2010 to May 2014.

Andy King was appointed President of Arrow Global Components in November 2015. Prior thereto he served as President of EMEA Components from November 2013 to November 2015.

Chuck Kostalnick was appointed Senior Vice President, Chief Supply Chain Officer in July 2017. Prior thereto he served as President, Arrow Sustainable Technology Solutions from August 2016 to July 2017. Before joining Arrow he served as Executive Vice President and Chief Business Officer at Sanmina from September 2013 to July 2016.

Vincent P. Melvin has been Senior Vice President and Chief Information Officer of the company for more than five years.

M. Catherine Morris has been Senior Vice President and Chief Strategy Officer of the company for more than five years.

Chris D. Stansbury was appointed Senior Vice President and Chief Financial Officer in May 2016. Prior thereto he served as Vice President, Finance and Chief Accounting Officer from August 2014 to May 2016. Prior to joining Arrow he served as the Vice President, Finance and Chief Financial Officer for Hewlett Packard's Global Networking business from September 2013 to July 2014.

Gregory P. Tarpinian was appointed Senior Vice President and Chief Legal Officer in January 2015. Prior thereto he served as the Vice President of Legal Affairs for more than five years.

Gretchen K. Zech has been Senior Vice President and Chief Human Resources Officer of the company for more than five years.

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Item 1A. Risk Factors.

Described below and throughout this report are certain risks that the company's management believes are applicable to the company's business and the industries in which it operates. If any of the described events occur, the company's business, results of operations, financial condition, liquidity, or access to the capital markets could be materially adversely affected. When stated below that a risk may have a material adverse effect on the company's business, it means that such risk may have one or more of these effects. There may be additional risks that are not presently material or known. There are also risks within the economy, the industry, and the capital markets that could materially adversely affect the company, including those associated with an economic recession, inflation, a global economic slowdown, political instability, employee attraction and retention, and those associated with customers' inability or refusal to pay for the products and services provided by the company. There are also risks associated with the occurrence of natural disasters such as tsunamis, hurricanes, tornadoes, and floods. These factors affect businesses generally, including the company, its customers and suppliers and, as a result, are not discussed in detail below, but are applicable to the company. Included below are some risks pertaining to specific government regulation, however, not all regulations applicable to the company or unanticipated regulation changes (such as changes in tax regulations in the various geographies we operate) have been described. The continuing expansion of government laws and regulations, some that may apply specifically to the company's industry and others to the market generally, as well as any actions taken by activist investors, could negatively impact the company's profitability.

If the company is unable to maintain its relationships with its suppliers or if the suppliers materially change the terms of their existing agreements with the company, the company's business could be materially adversely affected.

A substantial portion of the company's inventory is purchased from suppliers with which the company has entered into non-exclusive distribution agreements. These agreements are typically cancelable on short notice (generally 30 to 90 days). Some of the company's businesses rely on a limited number of suppliers to provide a high percentage of their revenues. For example, sales of products from one of the company's suppliers accounted for approximately 9% of the company's consolidated sales. To the extent that the company's significant suppliers reduce the number of products they sell through distribution, are unwilling to continue to do business with the company, or are unable to continue to meet or significantly alter their obligations, the company's business could be materially adversely affected. In addition, to the extent that the company's suppliers modify the terms of their contracts to the detriment of the company, limit supplies due to capacity constraints, or other factors, there could be a material adverse effect on the company's business. Further, the supplier landscape has experienced a consolidation, which could negatively impact the company if the surviving, consolidated suppliers decide to exclude the company from their supply chain efforts.

The competitive pressures the company faces could have a material adverse effect on the company's business.

The company operates in a highly competitive international environment. The company competes with other large multinational and national electronic components and enterprise computing solutions distributors, as well as numerous other smaller, specialized competitors who generally focus on narrower markets, products, industries, or particular sectors. The company also competes for customers with its suppliers. The size of the company's competitors vary across market sectors, as do the resources the company has allocated to the sectors in which it does business. Therefore, some of the company's competitors may have a more extensive customer and/or supplier base than the company in one or more of its market sectors. There is significant competition within each market sector and geography that creates pricing pressure and the need for constant attention to improve services. Other competitive factors include rapid technological changes, product availability, credit availability, speed of delivery, ability to tailor solutions to customer needs, quality and depth of product lines and training, as well as service and support provided by the distributor to the customer. The company also faces competition from companies in the logistics and product fulfillment, catalog distribution, and e-commerce supply chain services markets. As the company continues to expand its business into new areas in order to stay competitive in the market, such as in the area of the "Internet of Things"

and its expansion in the digital market, the company may encounter increased competition from its current and/or new competitors. The company's failure to maintain and enhance its competitive position could have a material adverse effect on its business.

The company may not be able to adequately anticipate, prevent, or mitigate damage resulting from criminal and other illegal or fraudulent activities committed against it.

It is clear that global businesses like ours are facing increasing risks of criminal, illegal, and other fraudulent acts. The evolving nature of such threats, in light of new and sophisticated methods used by criminals, including phishing, misrepresentation, social engineering and forgery, are making it increasingly difficult for us to anticipate and adequately mitigate these risks. In addition, designing and implementing measures to defend against, prevent, and detect these types of activities are increasingly costly and invasive into the operations of the business. As a result, we could experience a material loss in the future to the extent that controls and other measures we implement to address these threats fail to prevent or detect such acts.

Products sold by the company may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against the company, which may have a material adverse effect on the company.

The company sells its components at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. As a result, the company may face claims for damages (such as consequential damages) that are disproportionate to the revenues and profits it receives from the components involved in the claims. While the company typically has provisions in its supplier agreements that hold the supplier accountable for defective products, and the company and its suppliers generally exclude consequential damages in their standard terms and conditions, the company's ability to avoid such liabilities may be limited as a result of differing factors, such as the inability to exclude such damages due to the laws of some of the countries where it does business. The company's business could be materially adversely affected as a result of a significant quality or performance issue in the products sold by the company, if it is required to pay for the associated damages. Although the company currently has product liability insurance, such insurance is limited in coverage and amount. Further, when relying on contractual liability exclusions, the company could lose customers if their claims are not addressed to their satisfaction.

Declines in value and other factors pertaining to the company's inventory could materially adversely affect its business.

The market for the company's products and services is subject to rapid technological change, evolving industry standards, changes in end-market demand, oversupply of product, and regulatory requirements, which can contribute to the decline in value or obsolescence of inventory. Although most of the company's suppliers provide the company with certain protections from the loss in value of inventory (such as price protection and certain rights of return), the company cannot be sure that such protections will fully compensate it for the loss in value, or that the suppliers will choose to, or be able to, honor such agreements. For example, many of the company's suppliers will not allow products to be returned after they have been held in inventory beyond a certain amount of time, and, in most instances, the return rights are limited to a certain percentage of the amount of product the company purchased in a particular time frame. All of these factors pertaining to inventory could have a material adverse effect on the company's business.

The company is subject to environmental laws and regulations that could materially adversely affect its business.

A number of jurisdictions in which the company's products are sold have enacted laws addressing environmental and other impacts from product disposal, use of hazardous materials in products, use of chemicals in manufacturing, recycling of products at the end of their useful life, and other related matters. These laws prohibit the use of certain substances in the manufacture of the company's products and impose a variety of requirements for modification of manufacturing processes, registration, chemical testing, labeling, and other matters. Failure to comply with these laws or any other applicable environmental regulations could result in fines or suspension of sales. Additionally, these directives and regulations may result in the company having non-compliant inventory that may be less readily salable or have to be written off.

Some environmental laws impose liability, sometimes without fault, for investigating or cleaning up contamination on or emanating from the company's currently or formerly owned, leased, or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. As the distribution business, in general, does not involve the manufacture of products, it is typically not subject to significant liability in this area. However, there may be occasions, including through acquisitions, where environmental liability arises. Two sites for which the company assumed responsibility as part of the Wyle Electronics ("Wyle") acquisition are known to have environmental issues, one at Norco, California and the other at Huntsville, Alabama. The company was also named as a defendant in a private lawsuit filed in connection with alleged contamination at a small industrial building formerly leased by Wyle Laboratories in El Segundo, California. The lawsuit was settled, but the possibility remains that

government entities or others may attempt to involve the company in further characterization or remediation of groundwater issues in the area. The presence of environmental contamination could also interfere with ongoing operations or adversely affect the company's ability to sell or lease its properties. The discovery of contamination for which the company is responsible, the enactment of new laws and regulations, or changes in how existing requirements are enforced, could require the company to incur costs for compliance or subject it to unexpected liabilities.

Expansion into the electronic asset disposition market has broadened the company's risk profile.

The company provides services related to electronic devices being disposed of by business customers. These services include, the data sanitation of storage devices from customer equipment and either recycling the equipment through resale or disposing of it in an environmentally compliant manner. The company may also hold equipment in order to protect and preserve customer data. If the company does not meet its contractual and regulatory obligations with respect to such data, it could be subject to financial damages, penalties, and damage to reputation. Also, the company's or its subcontractors' failure to comply with applicable environmental laws and regulations in disposing of the equipment could result in liability. Such environmental liability may be

joint and several, meaning that the company could be held responsible for more than its share of the liability involved. To the extent that company fails to comply with its obligations and such failure is not covered by insurance, the company's business could be adversely affected.

The company may not have adequate or cost-effective liquidity or capital resources.

The company requires cash or committed liquidity facilities for general corporate purposes, such as funding its ongoing working capital, acquisitions, and capital expenditure needs, as well as to refinance indebtedness. At December 31, 2018, the company had cash and cash equivalents of \$509.3 million. In addition, the company currently has access to committed credit lines of \$2.0 billion and a committed asset securitization program of \$1.2 billion, of which the company had outstanding borrowings of \$810.0 million at December 31, 2018. The company's ability to satisfy its cash needs 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 its control.

The company may, in the future, need to access the financial markets to satisfy its cash needs. The company's ability to obtain external financing is affected by various factors including general financial market conditions and the company's debt ratings. Further, any increase in the company's level of debt, change in status of its debt from unsecured to secured debt, or deterioration of its operating results may cause a reduction in its current debt ratings. Any downgrade in the company's current debt rating or tightening of credit availability could impair the company's ability to obtain additional financing or renew existing credit facilities on acceptable terms. Under the terms of any external financing, the company may incur higher financing expenses and become subject to additional restrictions and covenants. For example, the company's existing debt agreements contain restrictive covenants, including covenants requiring compliance with specified financial ratios, and a failure to comply with these or any other covenants may result in an event of default. An increase in the company's financing costs or loss of access to cost-effective capital resources could have a material adverse effect on the company's business.

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

The agreements governing the company's financings contain various covenants and restrictions that, in certain circumstances, could limit its ability to:

- grant liens on assets;
- make investments;
- merge, consolidate, or transfer all or substantially all of its 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 how it conducts its business and may be unable to raise additional debt, compete effectively, or make investments.

The company's lack of long-term sales contracts may have a material adverse effect on its business.

Most of the company's sales are made on an order-by-order basis, rather than through long-term sales contracts. The company generally works with its customers to develop non-binding forecasts for future orders. Based on such non-binding forecasts, the company makes commitments regarding the level of business that it will seek and accept, the inventory that it purchases, and the levels of utilization of personnel and other resources. A variety of conditions, both specific to each customer and generally affecting each customer's industry may cause customers to cancel,

reduce, or delay orders that were either previously made or anticipated, file for bankruptcy protection or fail, or default on their payments. Generally, customers cancel, reduce, or delay purchase orders and commitments without penalty. The company seeks to mitigate these risks, in some cases, by entering into noncancelable/nonreturnable sales agreements, but there is no guarantee that such agreements will adequately protect the company. Significant or numerous cancellations, reductions, delays in orders by customers, loss of customers, and/or customer defaults on payments could materially adversely affect the company's business.

The company's revenues originate primarily from the sales of semiconductor, PEMCO (passive, electro-mechanical and connector), IT hardware and software products, the sales of which are traditionally cyclical.

The semiconductor industry historically has experienced fluctuations in product supply and demand, often associated with changes in technology and manufacturing capacity and subject to significant economic market upturns and downturns. Sales of

semiconductor products and related services represented approximately 45%, 46%, and 42% of the company's consolidated sales in 2018, 2017, and 2016, respectively. The sale of the company's PEMCO products closely tracks the semiconductor market. Accordingly, the company's revenues and profitability, particularly in its global components business segment, tend to closely follow the strength or weakness of the semiconductor market. Further, economic weakness could cause a decline in spending in information technology, which could have a negative impact on the company's ECS business. A cyclical downturn in the technology industry could have a material adverse effect on the company's business and negatively impact its ability to maintain historical profitability levels.

The company's non-U.S. sales represent a significant portion of its revenues, and consequently, the company is exposed to risks associated with operating internationally.

In 2018, 2017, and 2016, approximately 59%, 58%, and 57%, respectively, of the company's sales came from its operations outside the United States. As a result of the company's international sales and locations, its operations are subject to a variety of risks that are specific to international operations, including the following:

- import and export regulations that could erode profit margins or restrict exports;
- the burden and cost of compliance with international laws, treaties, and technical standards and changes in those regulations;
- potential restrictions on transfers of funds;
- import and export duties and value-added taxes;
- transportation delays and interruptions;
- the burden and cost of compliance with complex multi-national tax laws and regulations;
- uncertainties arising from local business practices and cultural considerations;
- enforcement of the Foreign Corrupt Practices Act, or similar laws of other jurisdictions;
- foreign laws that potentially discriminate against companies which are headquartered outside that jurisdiction;
- volatility associated with sovereign debt of certain international economies;
- the uncertainty surrounding the implementation and effects of Brexit;
- potential military conflicts and political risks; and
- currency fluctuations, which the company attempts to minimize through traditional hedging instruments.

Furthermore, products the company sells which are either manufactured in the United States or based on U.S. technology ("U.S. Products") are subject to the Export Administration Regulations ("EAR") when exported and re-exported to and from all international jurisdictions, in addition to the local jurisdiction's export regulations applicable to individual shipments. Licenses or proper license exemptions may be required by local jurisdictions' export regulations, including EAR, for the shipment of certain U.S. Products to certain countries, including China, India, Russia, and other countries in which the company operates. Non-compliance with the EAR or other applicable export regulations can result in a wide range of penalties including the denial of export privileges, fines, criminal penalties, and the seizure of inventories. In the event that any export regulatory body determines that any shipments made by the company violate the applicable export regulations, the company could be fined significant sums and/or its export capabilities could be restricted, which could have a material adverse effect on the company's business.

Also, the company's gross margins in the components business in the Asia/Pacific region tend to be lower than those in the other markets in which the company sells products and services. If sales in this market increase as a percentage of overall sales, consolidated gross margins will be lower. While the company has and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business abroad, it cannot ensure that such measures will be adequate and, therefore, could have a material adverse effect on its business.