INSIGHT ENTERPRISES INC
Form 10-K
February 22, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

/ 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
or

/ / Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to ___________.

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware	86-0766246
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification No.)

6820 South Harl Avenue, Tempe, Arizona 85283

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (480) 333-3000

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

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01	The NASDAQ Global Select Market

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

n/a

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YesXNo

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes NoX

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.

YesXNo

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).

YesXNo

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

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 X	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 Act).

Yes NoX

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock as reported on The Nasdaq Global Select Market on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was $1,710,394,927.

The number of shares outstanding of the registrant's common stock on February 15, 2019 was 35,502,671.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2019 Annual Meeting of Stockholders have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

INSIGHT ENTERPRISES, INC.

ANNUAL REPORT ON FORM 10-K

Year Ended December 31, 2018

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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, including statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, gross margin, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, cash needs and the payment of accrued expenses and liabilities; the expected effects of seasonality on our business; expectations of further consolidation in the Information Technology (“IT”) industry; our business strategy and our strategic initiatives, including our efforts to grow our core business, develop and grow our global cloud business and build scalable solutions; expectations regarding partner incentives; our expectations about future benefits of our acquisitions and our plans related thereto, including potential expansion into wider regions; the increasing demand for big data solutions; the availability of competitive sources of products for our purchase and resale; our intentions concerning the payment of dividends; our acquisition strategy; our ability to offset the effects of inflation and manage any increase in interest rates; projections of capital expenditures; our plan to migrate EMEA’s IT system; the sufficiency of our capital resources, the availability of financing and our needs or plans relating thereto; the effects of new accounting principles and expected dates of adoption; the effect of indemnification obligations; projections about the outcome of ongoing tax audits; adequate provisions for and our positions and strategies with respect to ongoing and threatened litigation; our exposure to derivative counterparty concentration and non-performance risks; our ability to expand our client relationships; our expectations that pricing pressures in the IT industry will continue; our plans to use cash flow from operations for working capital, to pay down debt, repurchase shares of our common stock, make capital expenditures, and fund acquisitions; our belief that our office facilities are adequate and that we will be able to extend our current leases or locate substitute facilities on satisfactory terms; our belief that we have adequate provisions for losses; our expectation that we will not incur interest payments under our inventory financing facility; our compliance with leverage ratio requirements; our exposure to off-balance sheet arrangements; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” “project,” “will,” “may” and variations of such words and similar expressi are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that results described in forward-looking statements will be achieved, and actual results could differ materially from those suggested by the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

- actions of our competitors, including manufacturers and publishers of products we sell;
- our reliance on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year;
- changes in the IT industry and/or rapid changes in technology;
- risks associated with the integration and operation of acquired businesses;
- possible significant fluctuations in our future operating results;
- the risks associated with our international operations;
- general economic conditions;
- increased debt and interest expense and decreased availability of funds under our financing facilities;
- the security of our electronic and other confidential information;
- disruptions in our IT systems and voice and data networks;
- failure to comply with the terms and conditions of our commercial and public sector contracts;
- legal proceedings and client audits and failure to comply with laws and regulations;

- accounts receivable risks, including increased credit loss experience or extended payment terms with our clients;
- our reliance on independent shipping companies;
- our dependence on certain key personnel;
- natural disasters or other adverse occurrences;

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- exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations; and
- intellectual property infringement claims and challenges to our registered trademarks and trade names.

Any forward-looking statements in this report, including those identified under "Risk Factors" in Part I, Item 1A of this report, should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. Additionally, there are risks described from time to time in the reports that we file with the Securities and Exchange Commission. We assume no obligation to update, and, except as may be required by law, do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

INSIGHT ENTERPRISES, INC.

PART I

Item 1. Business

Our Company

Today, every business is a technology business. Insight Enterprises, Inc. ("Insight" or the "Company") empowers organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of IT in North America; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific ("APAC"). As a Fortune 500-ranked global provider of digital innovation, cloud/data center transformation, connected workforce, and supply chain optimization solutions and services, we help clients innovate and optimize their operations to run smarter.

The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

Operating Segment*	Geography	Percent of 2018 Consolidated Net Sales
North America	United States and Canada	76%
EMEA	Europe, Middle East and Africa	21%
APAC	Asia-Pacific	3%

* Additional detailed segment and geographic information can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Insight began operations in Arizona in 1988, incorporated in Delaware in 1991 and completed its initial public offering in 1995. Our corporate headquarters are located in Tempe, Arizona. From our original location in the United States, we expanded nationwide and then entered Canada in 1997 and the United Kingdom in 1998. Through a combination of acquisitions and organic growth, we continued to increase our geographic coverage and expand our technical capabilities. Our major acquisitions were as follows:

- 2006 – Acquired Software Spectrum, Inc., and expanded our footprint in EMEA and APAC and strengthened our software and related services capabilities;
- 2008 – Acquired Calence, LLC in North America and MINX Limited in the United Kingdom, and enhanced our global technical expertise around higher-end networking and communications technologies, as well as managed services and security;
- 2011 – Acquired Ensynch, Inc. ("Ensynch"), and enhanced our professional services capabilities across the complete Microsoft solution set, including cloud migration and management;
- 2012 – Acquired Inmac GmbH and Micro Warehouse BV ("Inmac"), and expanded our hardware capabilities into key markets in our existing European footprint, specifically in Germany and the Netherlands;
- 2015 – Acquired BlueMetal Architects, Inc. ("BlueMetal"), an interactive design and technology architecture firm, and strengthened our services capabilities in the area of application design, mobility and big data;

- 2016 – Acquired Ignia, Pty Ltd ("Ignia"), and expanded our global footprint in the areas of application design, digital solutions, cloud, mobility and business analytics, while also building on our ability to bring digital innovation solutions to our clients in APAC;
- 2017 – Acquired Datalink Corporation ("Datalink") and strengthened our position as a leading IT solutions provider with deep technical expertise delivering data center solutions to clients on premise or in the cloud. Additionally, we acquired Caase Group B.V. (referred to herein as, "Caase.com") and strengthened our ability to deliver cloud and data center solutions to our clients in EMEA; and
- 2018 – On August 1, 2018, we acquired Cardinal Solutions Group, Inc. ("Cardinal"), a digital solutions provider and strengthened our digital innovations capabilities.

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Our Purpose and Values

Our purpose is: "We build meaningful connections to help businesses run smarter." We live by our core values of Hunger, Heart and Harmony, which set the tone for our business and define who we are. Our core values are:

Hunger – Our insatiable desire to create new opportunities for our clients and our business is apparent in everything we do.

Heart – We seek to impact the lives of the people we serve positively by always putting our clients, partners and teammates first.

Harmony – We invite perspective, and we consistently celebrate each other's unique contributions as we work together to bring the best solutions to our clients.

We believe that these values strengthen the overall Insight experience for our clients, partners and teammates (we refer to our customers as "clients," our suppliers as "partners" and our employees as "teammates").

Our Market

The worldwide total addressable market for information technology is forecasted to be $3.8 trillion annually according to Gartner, a leading IT research and advisory company. Based on our analysis of Gartner market data, we believe the top 10 most comparable global solution providers represent less than 10% of the worldwide total addressable market. We believe our addressable worldwide market in the indirect sales IT channel represents approximately $652 billion in annual sales and for the year ended December 31, 2018, our net sales of $7.1 billion represented approximately 1% of that highly diverse market. We believe that we are well positioned in this highly fragmented global market with locations in 19 countries and our deep experience delivering IT hardware, software and services solutions across the globe.

Our Value Proposition

As the IT industry evolves, our value proposition to our clients continues to evolve. The increased complexity across the technology ecosystem, combined with the continual emergence of new trends and offerings, has made it difficult for most clients to effectively manage their IT environments. We consult with our clients regarding their IT product and services needs and help our clients define, architect, implement and manage their IT solutions.

We believe that Insight has a unique position in the market to gain profitable market share by offering Intelligent Technology Solutions™ that empower our clients to manage their IT environments so they can drive meaningful business outcomes today and transform their operations for tomorrow.

Insight's unique advantages include:

- Our global scale and coverage – we have the capabilities to serve clients across the globe with hardware, software provisioning and related services and with integrated technology solutions in multiple countries directly or through our partner network.
- Our operational excellence and systems – we offer a broad selection of products with access to billions of dollars in virtual inventory and efficient supply chain execution, as well as product fulfillment, logistics capabilities, management tools and technical expertise.
- Our software DNA – we understand complex licensing requirements and have the know-how to optimize our clients' usage and compliance management through a portfolio of license consulting and optimization services.
- Our partner alignment – we have a multi-partner approach and have deep relationships with leading product manufacturers, software publishers and distribution partners, as well as emerging cloud and other technology partners, to service our global portfolio of commercial and public sector clients with the integrated IT solutions that make the most sense for their IT environments.

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- Our data center transformation skills – in support of our long-term strategy, we acquired Datalink (2017 U.S.) and Caase (2017 Netherlands) providers of IT services, cloud and enterprise data center solutions, adding additional deep technical expertise and complementary services offerings to our internally developed solutions and increasing our addressable market opportunity in hybrid cloud and other high-growth data center categories.
- Our next-generation tech skills – we quickly adapt to new technology trends and innovation, investing internally to advance our technical capabilities while at the same time making strategic acquisitions that establish us as thought leaders, with scale and reach, around emerging market trends. The Blue Metal (2015, U.S.), Ignia (2016, Australia) and Cardinal (2018, U.S.) acquisitions are examples of acquisitions that have given us global capabilities to support our clients as they look to accelerate in the digital world.
- Our App development and Internet-of-Things ("IoT") expertise – we were recognized as Microsoft's Worldwide Partner of the Year for IoT as well as Mobile App Development in each of the past two years and, combined with our hardware and software expertise, we are well-positioned to deliver holistic connected product and IoT solutions.
- Our services solutions – we can scale to help organizations of all sizes and have well-developed services capabilities focused on four solutions areas: supply chain optimization, connected workforce, cloud and data center transformation and digital innovation, that represent the ways we help our clients with the demands they face, as discussed in more detail below.
- Our track record for successfully integrating mergers and acquisitions to accelerate growth – we have a demonstrated track record for acquiring strategic businesses and integrating them into the Insight model, while effectively realizing the benefits of the combined businesses.

Our Business Strategy

A client's information technology service needs span an array of business priorities including modern infrastructure and cloud options, workforce productivity initiatives, and leveraging IT to differentiate with their customers. We believe our four solution areas effectively represent the areas that our clients care about most and were designed to allow our clients, and the different decision makers within our clients, to interact with us in multiple ways, whether acquiring a hardware or software asset, implementing public cloud or as-a-service workplace solutions, designing a next generation or hybrid cloud data center, or leveraging sophisticated IOT and artificial intelligence solutions to improve their clients' experience. At each connection point, we provide technical expertise and advisory services to our clients.

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Our go to market framework for our four solution areas, built on thirty years of broad IT experience combined with strategic acquisitions, new services development and deep partner relationships, uniquely positions us to help our clients manage their business today and also transform to meet their needs tomorrow. Our expertise is deep across these key solutions areas:

Supply Chain Optimization – Through Insight’s core business, we help clients effectively and efficiently acquire all of their information technology needs leveraging our scale and supply chain expertise. We help our clients invest smarter.

Connected Workforce – We help clients deliver a secure, modern experience to their workforce, driving productivity in the workplace and helping to attract and retain talent in this competitive marketplace. We help our clients work smarter.

Cloud and Data Center Transformation – We help clients optimize, modernize and secure their data center infrastructure and leverage cloud to improve business agility. We help our clients run workloads smarter.

Digital Innovation – We leverage innovative applications and emerging technologies to improve clients’ business performance, engage customers and uncover new revenue streams. We help our clients innovate smarter.

Each of our solution areas represents a discrete area of growth for our business and when connected to each other, they provide a platform for our clients to leverage our breadth of expertise to solve their most relevant business challenges from IT supply chain to optimizing performance in the digital world. Our strategy is to increase our penetration with new and existing clients within the four focus solution areas across our geographic footprint in North America, EMEA and APAC. Our offerings within the solution areas include hardware and software products from market leading and emerging manufacturer brands, sold separately or combined into branded solutions with Insight delivered professional or managed services. We can serve clients directly in each of our markets or serve a single client globally where they can enjoy a common experience across our footprint. To execute our strategy, we employ centralized and field-based sales, engineering and services resources to connect with our clients. We also have invested in approximately 1,000 technical engineers, architects and software developers who create and deliver integrated IT solutions to our clients globally, an asset that we believe differentiates us in the marketplace.

Our unique solution area go to market strategy is supported by a strong operational platform that includes scalable IT and e-commerce systems and processes, robust digital marketing capabilities and a culture of continuous business process transformation and automation.

E-commerce and Cloud Management Systems - In recent years, cloud and as-a-service solutions have become more mainstream and adoption continues to increase across markets and verticals. Key market imperatives in the adoption of these solutions are speed to market, flexibility, scalability and availability. We have invested in, and will continue to invest in, technical tools and resources to provide clients with the assessment, migration, integration and managed services required to simplify the cloud adoption decision, whether that decision results in a private, public or hybrid cloud environment.

We also continue to invest in our global e-commerce platform, which serves as a single marketplace for our clients to buy and manage anything from a discrete product offering to their cloud and other as-a-service subscriptions. Components of our e-commerce platform include:

- Customizable client portals, primarily in North America, which allow clients to streamline procurement and processes through a self-service online tool, drive standardization and optimize reconciliation.
- A focus on small to medium-sized clients, providing them with the ability to learn, solve, buy, and manage cloud products and services via our online experience.
- A similar online experience and capabilities for our larger enterprise clients with added IT as a Service Broker capabilities allowing larger IT organizations to centrally provide cloud offerings while maintaining the manageability and visibility they require.

Digital Marketing Enablement – We have invested in internal industry and marketing expertise to develop original go to market and IT solution content, whitepapers and industry research studies to ensure we enable our clients with relevant information around IT and business trends. Further, we leverage a best-in-class digital marketing technology stack to personalize the delivery of our content through an omni-channel experience as they manage and transform their IT investment. Our integrated suite of digital marketing tools has allowed us to access and grow our position in the mid-market over the past few years while also strengthening our marketing alignment with our partners.

Culture of Business Transformation and Automation – At the heart of our culture is an intense desire to improve our clients' experience when doing business with us either on the web, through business to business connections or on the telephone. We have a dedicated business transformation team focused on end to end process improvement initiatives around order flow, dynamic pricing and cost optimization, and back office operations, all oriented to the impact on client experience. In 2018, we began to invest in process automation and optical recognition scanning solutions to improve certain of our client facing processes, making the buying experience more frictionless while improving the scalability of our business processes for the long term.

Our Offerings

Our offerings in North America and certain countries in EMEA and APAC include a suite of IT hardware, software and services solutions. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services. On a consolidated basis, hardware, software and services represented approximately 61%, 27% and 12%, respectively, of our net sales in 2018. This compares to 58%, 32% and 10%, respectively, of our net sales in 2017 and 54%, 37% and 9%, respectively, of our consolidated net sales in 2016. Additional detailed sales mix information by operating segment can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Services Solutions Offerings

We have developed solutions that integrate hardware, software and services to help businesses run smarter within our key solutions areas. Our core solutions include:

Supply Chain Optimization – Growing pressure on IT budgets and increasing trends in outsourcing of non-core functions are changing the way clients approach procurement and management of core IT investments. We provide end to end lifecycle services around hardware and software that help our clients optimize their IT return on investments.

- Hardware Life Cycle: Source, procure, stage, configure, integrate, test, deploy and maintain IT products spanning endpoints to infrastructure, regionally, or across the globe via the Insight footprint and an engaged network of suppliers.
- Software Life Cycle: Portfolio management, compliance, integration and adoption, on premise or in the cloud, regionally or across the globe.
- Hardware Warranty and Software Maintenance: Warranty and maintenance services covering an array of products that can be purchased as a point solution or as a managed service delivered by Insight.

Connected Workforce – The consumerization of IT, increase in the millennial population and proliferation of alternate work models is transforming the workplace. We provide our clients' workforce with tools to enable and enhance employee productivity and retention.

- Insight Managed Office: Desktop and notebook devices coupled with cloud-based productivity solutions, deployed through an "over the air" deployment model, managed by Insight's 24x7 Service Desk.
- Insight Managed Mobility: Tablet and cellular-based devices, paired with cloud-based applications and Insight's 24x7 Service Desk to deliver an end-to-end managed mobility experience for clients.
- Insight Managed Collaboration: Offerings that allow clients to outsource their highly complex voice, conferencing and collaboration/team applications, delivering cloud-based redeployment of modern technologies managed for our clients with both Insight's onsite and remote Service Desk support professionals.
- Insight Managed Deployment: This comprises multi-site deployments of devices or technology within a branch or at the edge, combined with dedicated, onsite desktop support technicians coupled with 24x7 Service Desk.
- Security: Identity and access management, single-sign-on and mobile-device-management to protect end users.
- Software as a Service ("SaaS"): SaaS solutions from mature and emerging publishers, sold discretely or combined into an Insight delivered solution.

Cloud and Data Center Transformation – Consumption-based models and technology convergence are reinventing decades-old infrastructure business models. We optimize our clients' public and private infrastructure to enable customer and workforce objectives best suited to their workload and business requirements. Our solutions help clients assess readiness, architect appropriate solutions and migrate to both public and private cloud infrastructures.

- Hybrid Cloud: On-premise converged infrastructure (private cloud) augmented by off-premise public cloud integrated, managed and secured.
- Intelligent Network: Core Wide Area Network, Local Area Network, wireless and security solutions to seamlessly connect Hybrid Cloud, Branch Infrastructure and end users.
- Infrastructure Management: 24x7 remote management of clients' server/storage/network infrastructure through our ISO-certified Remote Network Operating Center.
- Security: Network security and Security Incident Event Management solutions to secure our clients' infrastructure.
- Infrastructure as a Service ("IaaS"): IaaS solutions from mature and emerging publishers, sold discretely or combined into an Insight delivered solution.

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Digital Innovation – When interacting with their customers, our clients face growing digital engagement and a rapid shift toward social media. We help our clients leverage technology to better engage their customers to build loyalty and increase profitability. Our digital innovation solutions leverage our deep expertise around public cloud, mobility, big data and ensuring secure access to integrated solutions.

- Intelligent Endpoints: Digital signage, kiosk, tablet and smartphone endpoints integrated with off-the-shelf software applications.
- Intelligent Applications: Custom-developed applications to enable client-to-customer engagement. These applications are increasingly cloud-based and mobile-centric.
- Modern Applications: Custom-developed mobile, cloud and IoT applications. Typically, these applications are specific to the client vertical market, e.g., healthcare, financial services or retail.
- Big Data & Analytics. Custom solutions to help clients quickly review actionable insights within their data, such as weather-based predictive analytics to drive weekly marketing campaigns for consumer products and patient-based intake and health outcomes analysis to optimize nurse staffing.

Hardware Product Offerings

We offer products from hundreds of manufacturers, including such industry leaders as Cisco, Dell/EMC, HP Inc., Lenovo, Hewlett Packard Enterprise Company (“HPE”), NetApp, Apple, Microsoft and IBM. Our scale and purchasing power, combined with our efficient, high-volume and cost effective direct sales and marketing model, allow us to offer competitive prices. We believe that offering choices from multiple partners enables us to better serve our clients by providing a variety of product solutions to address their specific business needs.

In addition to our distribution facilities, we have “direct-ship” programs with many of our partners, including manufacturers and distributors, allowing us to expand our product offerings without increasing inventory, handling costs or inventory warehousing risk exposure. As a result, we are able to offer billions of dollars of products in virtual inventory in fulfilling our performance obligations to our clients. Convenience and product options among multiple brands are key competitive advantages compared to manufacturers’ direct selling programs, which are generally limited to their own brands and may not offer clients a complete or best-in-class solution across all product categories.

Software Product Offerings

Our clients acquire software applications from us in the form of licensing agreements with software publishers or boxed products. We offer products from hundreds of publishers, including such industry leaders as Microsoft, VMware, Adobe, IBM Software, Symantec and Citrix.

As software publishers choose different models for implementing licensing agreements, businesses must evaluate the alternatives to ensure that they select the appropriate agreements and comply with the publishers’ licensing terms when purchasing and managing their software licenses. With many publishers now offering public cloud-based software solutions in place of licenses consumed on premise, we expect we will continue to see migration to the cloud-based software alternatives discussed above in our services offerings.

Our Information Technology Systems

We have committed significant resources to the IT systems that we own and use to manage our business and believe that our success is dependent upon our ability to provide prompt and efficient service to our clients based on the accuracy, quality and utilization of the information generated by our IT systems. Because these systems affect our ability to manage our sales, client service, partner relationships and programs, distribution, inventories and accounting systems and our voice and data networks, we have built redundancy into certain systems, maintain system outage policies and procedures and have comprehensive data backup. We are focused on driving improvements in sales productivity through upgraded IT systems to support higher levels of client satisfaction and new client acquisition, as well as garnering efficiencies in our business.

We operate under a single, standardized IT system across North America and APAC and a separate, single IT system platform in all countries in our EMEA operations. We plan to migrate our EMEA operations to the same IT system used in North America and APAC.

For a discussion of risks associated with our IT systems, see "Risk Factors – Disruptions in our IT systems and voice and data networks could affect our ability to service our clients and cause us to incur additional expenses," in Part I, Item 1A of this report.

Our Competition

The IT hardware, software and services industry is very fragmented and highly competitive. Our competition includes:

- Solution providers, value-added resellers and direct marketers such as CDW, Zones, Connection, PCM, SHI, Softchoice, Systemax, Computacenter, Bechtle, SoftwareONE, Comparex, and Crayon;
- Systems integrators such as ePlus, Presidio, World Wide Technology, Perficient and Accenture;
- Specialty retailers, aggregators, distributors, and to a lesser extent, national computer retailers, computer superstores, Internet-only computer providers, consumer electronics and office supply superstores and mass merchandisers;
- Product manufacturers, such as Dell, HP Inc., IBM, Lenovo and HPE;
- Software publishers, such as IBM, Microsoft and Symantec;
- National and global service providers, such as IBM Global Services and HP Enterprise Services; and
- E-tailers, such as Amazon Web Services, Newegg, Buy.com and e-Buyer (United Kingdom).

The competitive landscape in the industry is continually changing as various competitors expand their product and services offerings. In addition, emerging models such as cloud computing are creating new competitors and opportunities in messaging, infrastructure, security, collaboration and other services offerings, and, as with other areas, we compete both with resellers and directly with manufacturers, publishers or other service providers for many of these offerings. Further, many of our manufacturer and publisher partners are also our competitors, as many sell directly to business customers, particularly larger corporate customers.

For a discussion of risks associated with the actions of our competitors, see "Risk Factors – The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business," in Part I, Item 1A of this report.

Our Partners

We partner with market leaders offering the top technology brands as well as emerging entrants in the marketplace. During 2018, we purchased products and software from approximately 3,500 partners. Approximately 69% (based on dollar volume) of these purchases were directly from manufacturers or software publishers, with the balance purchased through distributors. Purchases from Microsoft accounted for approximately 26% of our aggregate purchases in 2018. No other partner accounted for more than 10% of purchases in 2018. Our top five partners as a group for 2018 were Microsoft, Cisco Systems, Tech Data (a distributor), HP Inc. and Ingram Micro (a distributor), and approximately 60% of our total purchases during 2018 came from this group of partners. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available in substantially all of our product categories such that, with the exception of Microsoft, we are not dependent on any single partner for sourcing products.

During 2018, sales of Microsoft, Dell and Cisco Systems products accounted for approximately 18%, 11% and 11%, respectively, of our consolidated net sales. No other manufacturer's products accounted for more than 10% of our consolidated net sales in 2018. Sales of product from our top five manufacturers/publishers as a group (Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo) accounted for approximately 56% of Insight's consolidated net sales during 2018.

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We obtain incentives from certain product manufacturers, software publishers and distribution partners based typically upon the volume of sales or purchases of their products and services. In other cases, such incentives may be in the form of participation in our partner programs, which may require specific services or activities with our clients, discounts, marketing funds, price protection or rebates. Manufacturers and publishers may also provide mailing lists, contacts or leads to us. We believe that these incentives (or partner funding) and other marketing assistance allow us to increase our marketing reach and strengthen our relationships with leading manufacturers and publishers.

We are focused on understanding our partners' objectives and developing plans and programs to grow our mutual businesses. We have invested in our digital marketing capabilities over the past two years. These digital marketing investments increase the effectiveness of our marketing campaigns and client interactions. Our partners are taking notice, and we believe that we are emerging as a leader in our industry as we consistently outpace our competition in digital marketing. We implemented business intelligence tools that enable us to track performance in this area and demonstrate the return on our partners' investments with us. We measure partner satisfaction regularly and hold quarterly business reviews with our largest partners to review business results from the prior quarter, discuss plans for the future and obtain feedback. Additionally, we host annual partner forums in North America, EMEA and APAC to articulate our plans for the upcoming year.

As we move into new service areas, we may become even more reliant on certain partner relationships. For a discussion of risks associated with our reliance on partners, see "Risk Factors – We rely on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year," in Part I, Item 1A of this report.

Our Teammates

As of December 31, 2018, we employed 7,420 teammates, of whom 2,455 were engaged in sales related activities, 2,424 were engaged in management, support services and administration activities, 2,384 were skilled, certified consulting and service delivery professionals and 157 were engaged in distribution activities. Our teammates in the United States are not represented by a labor union. Our workforces in certain foreign countries, such as Germany, have worker representative committees or work councils with which we maintain strong relationships. We believe our relations with our teammates are good, and we have never experienced a labor related work stoppage.

For a discussion of risks associated with our dependence on certain personnel, including sales personnel, see "Risk Factors – We depend on certain key personnel," in Part I, Item 1A of this report.

Our Seasonality

We experience some seasonal trends in our sales of IT hardware, software and services. For example:

- software sales are typically higher in our second and fourth quarters, particularly the second quarter;
- business clients, particularly larger enterprise businesses in the United States, tend to spend more in our fourth quarter and less in the first quarter;
- sales to the federal government in the United States are often stronger in our third quarter, while sales in the state and local government and education markets are stronger in our second quarter; and
- sales to public sector clients in the United Kingdom are often stronger in our first quarter.

These trends create overall seasonality in our consolidated results such that sales and profitability are expected to be higher in the second and fourth quarters of the year.

Our Backlog

The majority of our backlog historically has been and continues to be open cancelable purchase orders. We do not believe that backlog as of any particular date is predictive of future results.

Our Intellectual Property

We do not maintain a traditional research and development group, but we do develop and seek to protect a range of intellectual property, including trademarks, service marks, copyrights, domain name rights, trade dress, trade secrets and similar intellectual property, relying for such protection on applicable statutes and common law rights, trade-secret protection and confidentiality and license agreements, as applicable, with teammates, clients, partners and others to protect our intellectual property rights. Our principal trademark is a registered mark, and we also license certain of our proprietary intellectual property rights to third parties. We have registered a number of domain names, applied for registration of other marks in the United States and in certain international jurisdictions, and, from time to time, filed patent applications. We believe our trademarks and service marks, in particular, have significant value, and we continue to invest in the promotion of our trademarks and service marks and in our protection of them.

For a discussion of risks associated with our intellectual property, see "Risk Factors – We may not be able to protect our intellectual property adequately, and we may be subject to intellectual property infringement claims," in Part I, Item 1A of this report.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the reports filed pursuant to Section 16(a) of the Exchange Act are available free of charge on our web site at www.insight.com, as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission. The information contained on our web site is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

The IT hardware, software and services industry is intensely competitive, and actions of our competitors, including manufacturers and publishers of products we sell, can negatively affect our business. Competition in the industry is based on price, product availability, speed of delivery, credit availability, quality and breadth of product lines, and, increasingly, on the ability to provide services and tailor specific solutions to client needs. Many of our manufacturer and publisher partners are also our competitors, as many sell directly to business customers, particularly larger corporate customers. In addition to the manufacturers and publishers of products we sell, we compete with a large number and wide variety of providers and resellers of IT hardware, software and services. We believe our industry will see further consolidation as product resellers and direct marketers combine operations or acquire or merge with other resellers, service providers and direct marketers to increase efficiency, service capabilities and market share. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their product and service offerings. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share.

The competitive landscape in which we operate continues to change as new technologies are developed. While innovation helps our business as it creates new offerings for us to sell, it can also disrupt our business model and create new and stronger competitors. For instance, while cloud-based solutions present an opportunity for us, cloud-based solutions and technologies that deliver technology solutions as-a-service could increase the amount of sales directly to customers rather than through solutions providers like us, or could reduce the amount of hardware or software we sell, leading to a reduction in our sales and/or profitability. Accordingly, we are dependent on continued innovations by our current vendor partners and our ability to partner with new and emerging technology providers.

Generally, pricing is very aggressive in the industry, and we expect pricing pressures to continue. There can be no assurance that we will be able to negotiate prices as favorable as those negotiated by our competitors or that we will be able to offset the effects of price reductions with an increase in the number of clients, higher net sales, cost reductions, greater sales of services, which are typically at higher gross margins, or otherwise. Price reductions by our competitors that we either cannot or choose not to match could result in an erosion of our market share and/or reduced sales or, to the extent we match such reductions, could result in reduced operating margins or inventory impairment charges, any of which could have a material adverse effect on our business, financial condition and results of operations.

Some of our competitors in each of our operating segments may have greater technical, marketing and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. Many current and potential competitors also may have greater name recognition and engage in more extensive promotional activities, offer more attractive terms to their customers and adopt more aggressive pricing policies than we do. Additionally, some of our competitors have higher margins and/or lower operating cost structures, allowing them to price more aggressively. There can be no assurance that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

We rely on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year. We acquire products for resale both directly from manufacturers and publishers and indirectly through distributors, and the loss of a significant partner relationship could cause a disruption in the availability of products to us. There can be no assurance that manufacturers and publishers will continue to sell or will not limit or curtail the availability of their product to resellers like us. The loss of, or change in business relationship with, any of our key vendor partners could negatively impact our business.

In addition, certain manufacturers, publishers and distributors provide us with substantial incentives in the form of rebates, marketing funds and other investments, purchasing incentives, early payment discounts, referral fees and price protections (collectively, “partner funding”). Partner funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. Certain of these funds are based on our volume of sales or purchases, growth rate of net sales, increases in customer usage, or purchases and marketing programs. If we do not meet the goals of these programs or if we are not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to us by manufacturers and publishers. We continue to experience adverse partner funding program changes that reduce the incentives many partners make available to us and that change the requirements for earning such incentives. If we are unable to react timely to remediate and respond to these changes in partner funding programs of publishers and manufacturers, including the elimination of, or significant reductions in, funding for some of the activities for which we have been compensated in the past, the changes could have a material adverse effect on our business, financial condition and results of operations. This is especially true in connection with the incentive programs of our largest partners: Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo. There can be no assurance that we will continue to receive such incentives in the future.

Changes in the IT industry and/or rapid changes in technology may reduce demand for the IT hardware, software and services we sell or change who makes purchasing decisions for IT hardware, software and services. Our results of operations are influenced by a variety of factors, including the condition of the IT industry, shifts in demand for, or availability of, IT hardware, software, peripherals and services, and industry innovation and the introduction of new products and technologies. The IT industry is characterized by rapid technological change and the frequent introduction of new products and changing delivery channels and models, which can decrease demand for current products and services and can disrupt purchasing patterns. If we fail to react in a timely manner to such changes, we may experience lower sales and, with respect to hardware, we may have to record write-downs of obsolete inventory. In addition, in order to satisfy client demand, protect ourselves against product shortages, obtain greater purchasing discounts and react to changes in original equipment manufacturers' terms and conditions, we may decide to carry inventory of products that may have limited or no return privileges. There can be no assurance that we will be able to avoid losses related to inventory obsolescence on these products. Additionally, if purchasing power within our clients shifts from centralized procurement functions to business units or individual end users and we are unable to react timely to any such changes, these shifts in purchasing power could have a material adverse effect on our business, financial conditions and results of operations.

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The cloud and “as-a-service” models are transforming the IT market and introducing new products, services and competitors to the market. In many cases, these new distribution models allow enterprises to obtain the benefits of commercially licensed, internally operated software with less complexity and lower initial set-up, operational and licensing costs, which increases competition for us. There can be no assurance that we will be able to adapt to, or compete effectively with, current or future distribution channels or competitors or that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

The acquisition, integration and operation of acquired businesses may disrupt our business and create additional expenses, and we may not achieve the anticipated benefits of the acquisitions. In connection with our strategic initiatives, we regularly acquire new businesses to expand our technical capabilities, product offerings and customer base and to realize cost savings. All acquisitions entail various risks such as difficulties in realizing the benefits of the acquired business, exposure to unexpected liabilities, difficulties in retaining key employees and adverse customer reactions. In addition, integration of an acquired business involves numerous risks, including assimilation of operations of the acquired business and difficulties in the convergence of IT systems, the diversion of management’s attention from other business concerns, risks of entering markets in which we have had no or only limited direct experience, assumption of unknown or unquantifiable liabilities, the potential loss of key teammates and/or clients, difficulties in completing strategic initiatives already underway in the acquired company, and unfamiliarity with partners of the acquired company, each of which could have a material adverse effect on our business, results of operations and financial condition. The continued integration activities of the acquired businesses into our business is difficult and time consuming, and we may be unable to achieve expected synergies and operating efficiencies over the long term. We cannot assure that these risks or other unforeseen factors will not offset the intended benefits of the acquisitions, in whole or in part.

Our future operating results may fluctuate significantly. Our operating results are highly dependent upon our level of gross profit as a percentage of net sales, which fluctuates due to numerous factors, including changes in prices from partners, changes in the amount and timing of partner funding, volumes of purchases, changes in client mix, management of our cash conversion cycle, the relative mix of products and services sold during the period, general competitive conditions, and strategic product and services pricing and purchasing actions. As a result of significant price competition and our higher concentration of large enterprise clients, our gross margins are low, and we expect them to continue to be low in the future. Increased competition arising from industry consolidation and low demand for certain IT products and services may hinder our ability to maintain or improve our gross margins. These low gross margins magnify the impact of variations in revenue and operating costs on our operating results. In addition, our expense levels are based, in part, on anticipated net sales and the anticipated amount and timing of partner funding, and a portion of our operating expenses are relatively fixed. Therefore, we may not be able to reduce spending quickly enough to compensate for any unexpected net sales shortfall, and we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins in the future. If we cannot proportionately decrease our cost structure, our business, financial condition and results of operations could suffer. In addition, a reduction in the amount of credit granted to us by our partners could increase our need for and cost of working capital and have a material adverse effect on our business, financial condition and results of operations.

There are risks associated with our international operations that are different than the risks associated with our operations in the United States, and our exposure to the risks of a global market could hinder our ability to maintain and expand international operations. Outside of the United States, we have operation centers in Australia, Canada, France, Germany and the United Kingdom, as well as sales offices throughout EMEA and APAC. In the regions in which we do not currently have a physical presence, we serve our clients through strategic relationships. In implementing our international strategy, we may face barriers to entry and competition from local companies and other companies that already have established global businesses, as well as the risks generally associated with conducting business internationally. The success and profitability of international operations are subject to numerous risks and uncertainties, many of which are outside of our control, such as:

- political or economic instability;
- changes in governmental regulation or taxation (foreign and domestic);

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- currency exchange fluctuations;
- changes in import/export laws, regulations and customs and duties and tariffs (foreign and domestic);
- trade restrictions (foreign and domestic);
- difficulties of conducting business, managing operations, and costs of staffing in certain foreign countries;
- work stoppages or other changes in labor conditions;
- taxes and other restrictions on repatriating foreign profits back to the United States;
- extended payment terms;
- seasonal reductions in business activity in some parts of the world; and
- natural disasters, terrorism, civil unrest and other geopolitical uncertainties.

In addition, changes in policies and/or laws of the United States or foreign governments, including data privacy restrictions, resulting in, among other changes, higher taxation, tariffs or similar protectionist laws, currency conversion limitations, limitations on business operations, or the nationalization of private enterprises could reduce the anticipated benefits of international operations and could have a material adverse effect on our business, financial condition and results of operations.

We have currency exposure arising from both sales and purchases denominated in foreign currencies, including intercompany transactions outside the United States, and we currently conduct limited hedging activities. In addition, some currencies may be subject to limitations on conversion into other currencies, which can limit the ability to otherwise react to rapid foreign currency devaluations. We cannot predict with precision the effect of future exchange-rate fluctuations, and significant rate fluctuations could have a material adverse effect on our business, financial condition and results of operations.

International operations also expose us to currency fluctuations as we translate the financial statements of our foreign operations to U.S. dollars.

General economic conditions, including unfavorable economic conditions in a particular region, business or industry sector, may lead our clients to delay or forgo investments in IT hardware, software and services. Weak economic conditions generally or any broad-based reduction in IT spending adversely affects our business, operating results and financial condition. A prolonged slowdown in the global economy or similar crisis, or in a particular region or business or industry sector, or tightening of credit markets, could cause our clients to have difficulty accessing capital and credit sources, delay contractual payments, or delay or forgo decisions to upgrade or add to their existing IT environments, license new software or purchase products or services (particularly with respect to discretionary spending for hardware, software and services). Such events could have a material adverse effect on our business, financial condition and results of operations. Economic or industry downturns could result in longer payment cycles, increased collection costs and defaults in excess of our expectations. A significant deterioration in our ability to collect on accounts receivable could also impact the cost or availability of financing under our accounts receivable securitization program.

Our sales to our public sector customers are also impacted by government spending policies, government shutdowns, budget priorities and revenue levels. An adverse change in government spending policies (including budget cuts at the federal, state and local level), budget priorities or revenue levels could cause our public sector customers to reduce their purchases or to terminate or not renew their contracts with us. These possible actions or the adoption of new or modified procurement regulations or practices could have a material adverse effect our business, financial position and results of operations.

In addition, there continues to be substantial uncertainty regarding the impact of the Referendum on the United Kingdom's Membership in the European Union ("EU") (referred to as "Brexit"), calling for the exit of the United Kingdom from the EU. Potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the United Kingdom and EU countries and increased regulatory complexities could have a negative impact on our business, financial condition and results of operations.

Our acquisition strategy may increase our outstanding debt and interest expense and decrease the availability under our financing facilities, all of which could have a material adverse effect on our results of operations and financial condition. To fund our acquisition initiatives, we increase our total borrowings from time to time. These additional borrowings have the effect of increasing our future interest expenses and require escalating amortization payments. Additionally, our financing facilities have interest rates that vary based on market conditions and on our leverage ratio, which increases our exposure to interest rate fluctuations and may result in greater interest expense than we have forecasted.

Our financing facilities contain various covenants that we must comply with in order to avoid an occurrence of an event of default. The covenants include limitations on the payment of dividends and the requirement that we comply with maximum leverage and minimum fixed charge ratio requirements, comply with a minimum receivables requirement and meet monthly, quarterly and annual reporting requirements. Our ability to maintain compliance with our financial covenants and to make scheduled payments on our financing facilities depends on our financial and operating performance. If we were unable to maintain compliance or to repay the borrowed amounts, the lenders under our financing facilities could declare an event of default and demand payment within a specified period of time.

Breaches in the security of our electronic and other confidential information could materially adversely affect our financial condition and results of operations. We are dependent upon automated information technology processes. Privacy, security, and compliance concerns have continued to increase as technology has evolved to facilitate commerce and as cross-border commerce increases. As part of our normal business activities, we collect and store certain proprietary and confidential information, including information about teammates and information about partners and clients which may be entitled to protection under a number of regulatory regimes. In the course of normal and customary business practice, we may share some of this information with vendors who assist us with certain aspects of our business. Moreover, the success of our operations depends upon the secure transmission of confidential and personal data over public networks, including the use of cashless payments. Any failure on the part of us or our vendors to maintain the security of data we are required to protect, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in our teammates', partners' and clients' confidence in us and other competitive disadvantages, and thus could have a material adverse effect on our business, financial condition and results of operations. Like many other businesses, we have been, and expect to continue to be, subject to electronic data attacks and threats, although we do not believe attacks have resulted in the misappropriation of sensitive data in a material way. Additionally, some of the hardware and software products we resell could have defects or otherwise be the subject of security breaches and other attacks. We would consider the consequences of such attacks to be the responsibility of the respective manufacturers and publishers of such products, however, if such circumstances were to arise, we may be required to notify regulators and individuals of a data breach and could be subject to litigation.

Disruptions in our IT systems and voice and data networks could affect our ability to service our clients and cause us to incur additional expenses. We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to provide prompt and efficient service to our clients. Our ability to provide that level of service is largely dependent on the ease of use, accuracy, quality and utilization of our IT systems, which affects our ability to manage our sales, client service, distribution, inventories and accounting systems, and the reliability of our voice and data networks and managed services offerings. If our current technology is determined to have a shorter economic life or the value of our current system is impaired, or necessary improvements to our technology are significantly delayed, we could incur additional expense and/or charges. The continuing development of our IT systems is crucial for our success. Accordingly, some of our IT systems are subject to ongoing IT projects designed to streamline or optimize the information systems. There is no guarantee that we will be successful in these efforts at all times or that there will not be implementation or integration difficulties. In addition, a substantial interruption in our IT systems or in our voice and data networks, however caused, could occur and could have a material adverse effect on our business, financial condition and results of operations.

The failure to comply with the terms and conditions of our commercial and public sector contracts could result in, among other things, damages, fines or other liabilities. Sales to commercial clients are based on stated contractual terms, the terms and conditions on our website or terms contained in purchase orders on a transaction by transaction basis. Sales to public sector clients are derived from sales to federal, state and local governmental departments and agencies, as well as to educational institutions, through open market sales and various contracts and programs. Noncompliance with contract terms, particularly to highly regulated public sector clients, or with government procurement regulations and other requirements could result in fines or penalties against us or termination of contracts, and, in the public sector, could also result in civil, criminal, and administrative liability. With respect to our public sector clients, the government's remedies may include suspension or debarment. In addition, almost all of our contracts have default provisions, and substantially all of our contracts in the public sector are terminable at any time for convenience of the contracting agency.

We are exposed to risks from legal proceedings and client audits and failure to comply with the laws and regulations applicable to our operations could adversely impact our business, results of operations or cash flows. We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, employment, tort and other litigation. Because of our significant sales to governmental entities, we also are subject to audits by federal, state, international, national, provincial and local authorities in the ordinary course of our business. We also are subject to and currently engage in audits by various vendor partners and large customers, including government agencies, relating to purchases and sales under various contracts. In addition, we are subject to indemnification claims under various contracts. Current and future litigation, infringement claims, governmental proceedings and investigations, audits or indemnification claims that we face may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome. Additionally, our operations are subject to numerous U.S. and foreign laws and regulations in a number of areas including areas of labor and employment, advertising, e-commerce, tax, import and export requirements, anti-corruption, data privacy requirements, anti-competition, and environmental, health, and safety. Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business, and the risk of noncompliance. We have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, but there can be no guarantee against teammates, contractors, or agents violating such laws and regulations or our policies and procedures.

We are exposed to accounts receivable risks. We extend credit to our customers for a significant portion of our net sales, typically on 30-day payment terms. We are subject to the risk that our customers may not pay for the products they have purchased, or may pay at a slower rate than we have historically experienced, the risk of which is heightened during periods of economic downturn or uncertainty or, in the case of public sector customers, during periods of budget constraints.

We rely on independent shipping companies for delivery of products and are subject to price increases or service interruptions from these carriers. We generally ship hardware products to our customers by FedEx, United Parcel Service and other commercial delivery services and invoice customers for delivery charges. If we are unable to pass on to our clients future increases in the cost of commercial delivery services, our profitability could be adversely affected. Additionally, strikes, inclement weather, natural disasters or other service interruptions sustained by such shippers could adversely affect our ability to deliver products on a timely basis. Such events could have a material adverse effect on our business, financial condition and results of operations.

We depend on certain key personnel. We rely on key management teammates to execute our strategy to grow profitable market share. The loss of one or more of these leaders, or a failure to attract and retain new executives, could have a material adverse effect on our business, financial condition and results of operations. We also believe that our future success will be largely dependent on our ability to attract and retain highly qualified management, sales, service and technical teammates, and we make significant investments in the training of our leadership team, sales account executives, architects and services engineers. If we are not able to retain such personnel or to train them quickly enough to meet changing market conditions, we could experience a drop in the overall quality and efficiency of our sales and services teammates, and that could have a material adverse effect on our business, financial condition and results of operations.

A natural disaster or other adverse occurrence at one of our primary facilities or customer data centers could damage our business. We have warehouse and distribution facilities in the United States and Canada and in the United Kingdom and Germany. If the warehouse and distribution equipment at one of our distribution centers were to be seriously damaged by a natural disaster or other adverse occurrence, we could utilize another distribution center or third-party distributors to ship products to our customers. However, this may not be sufficient to avoid interruptions in our service and may not enable us to meet all of the needs of our customers and would cause us to incur incremental operating costs. In addition, we operate customer data centers and numerous sales offices which may contain both business-critical data and confidential information of our customers. A natural disaster or other adverse occurrence at any of the customer data centers or at any of our major sales offices could negatively impact our business, results of operations or cash flows.

Changes in, interpretations of, or enforcement trends related to tax rules and regulations may adversely affect our effective income tax rates or operating margins and we may be required to pay additional tax assessments. We conduct business globally and file tax returns in various U.S. and foreign tax jurisdictions. Our effective income tax rate could be adversely affected by various factors, many of which are outside of our control, including:

- changes in pre-tax income in various jurisdictions in which we operate that have differing statutory tax rates;
- increases in corporate tax rates and the availability of deductions or credits in the United States and elsewhere;
- changes in tax laws, regulations, and/or interpretations of such tax laws in multiple jurisdictions, including but not limited to U.S. federal and state regulations or interpretations resulting from the Tax Cuts and Jobs Act of 2017;
- tax effects related to purchase accounting for acquisitions; and
- resolutions of issues arising from tax examinations and any related interest or penalties.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation, judgment and complex calculations in situations where the ultimate tax determination may not be certain. Our determination of tax liabilities is always subject to review or examination by tax authorities in various jurisdictions. Any adverse outcome of such review or examination could have a material adverse effect on our financial condition and results of operations.

We may not be able to protect our intellectual property adequately, and we may be subject to intellectual property infringement claims. To protect our intellectual property, we rely on copyright, trademark and trade secret laws, unpatented proprietary know-how, and patents, as well as confidentiality, invention assignment, non-solicitation and non-competition agreements. There can be no assurance that these measures will afford us sufficient protection of our intellectual property, and it is possible that third parties may copy or otherwise obtain and use our proprietary information without authorization or otherwise infringe on our intellectual property rights. The disclosure of our trade secrets could impair our competitive position and could have a material adverse effect on our business, financial condition and results of operations. In addition, our registered trademarks and trade names are subject to challenge by third parties. This may affect our ability to continue using those marks and names. Likewise, many businesses are actively investing in, developing and seeking protection for intellectual property in the areas of search, indexing, e-commerce and other Web-related technologies, as well as a variety of on-line business models and methods, all of which are in addition to traditional research and development efforts for IT products and application software, and non-practicing entities continue to invest in acquiring patent portfolios for the purpose of turning the portfolios into income-generating assets, whether through licensing campaigns or litigation. If there is a determination that we have infringed the proprietary rights of others, we could incur substantial monetary liability, be forced to stop selling infringing products or providing infringing services, be required to enter into costly royalty or licensing agreements, if available, or be prevented from using the rights, which could force us to change our business practices or hardware, software or services offerings in the future. These types of claims and challenges could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive offices are located in Tempe, Arizona. We believe that our facilities are suitable and adequate for our present purposes, and we anticipate that we will be able to extend our existing leases on terms satisfactory to us or, if necessary, to locate substitute facilities on acceptable terms. At December 31, 2018, we owned or leased approximately 1.4 million square feet of office and warehouse space, and, while approximately 70% of the square footage is in the United States, we own or lease office and warehouse facilities in Canada and in 10 countries in EMEA and we lease office facilities in five countries in APAC.

Information about significant sales, distribution, services and administration facilities in use as of December 31, 2018 is summarized in the following table:

Operating Segment	Location	Primary Activities	Own or Lease
North America	Tempe, Arizona, USA	Executive Offices, Sales and Administration and Network Operations Center	Own
	Tempe, Arizona, USA	Client Support Center	Own
	Addison, Illinois, USA	Sales and Administration	Lease
	Eden Prairie, Minnesota, USA	Sales, Services and Administration	Lease
	Hanover Park, Illinois, USA	Services, Distribution and Administration	Lease
	Plano, Texas, USA	Sales and Administration	Lease
	Austin, Texas, USA	Sales and Administration	Lease
	Liberty Lake, Washington, USA	Sales and Administration	Lease
	Tampa, Florida, USA	Sales and Administration	Lease
	Conway, Arkansas, USA	Sales and Administration	Lease
	Winnipeg, Manitoba, Canada	Sales and Administration	Lease
	Montreal, Quebec, Canada	Sales and Administration	Own
	Montreal, Quebec, Canada	Distribution	Lease
EMEA	Sheffield, United Kingdom	Sales and Administration	Own
	Sheffield, United Kingdom	Distribution	Lease
	Uxbridge, United Kingdom	Sales and Administration	Lease
	Garching, Germany	Sales and Administration	Lease
	Frankfurt, Germany	Sales and Administration	Lease
	Frankfurt, Germany	Distribution	Lease
	Vélizy, France	Sales and Administration	Lease
	Apeldoorn, Netherlands	Sales and Administration	Lease
APAC	Sydney, New South Wales, Australia	Sales and Administration	Lease

Perth, Australia	Sales and Administration	Lease

In addition to those listed above, we have leased sales offices in various cities across North America, EMEA and APAC. These properties are not included in the table above. Substantially all of our owned properties secure our senior revolving credit facility ("revolving facility"). A portion of the client support center that we own in Tempe, Arizona included in the table above is currently leased to Revana, formerly known as Direct Alliance Corporation, a discontinued operation that was sold to a third party in 2006. For additional information on operating leases, see Note 8 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see “Legal Proceedings” in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this report, which is incorporated by reference herein.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our common stock trades under the symbol “NSIT” on The Nasdaq Global Select Market. As of February 15, 2019, we had 35,502,671 shares of common stock outstanding held by 51 stockholders of record. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms and clearing agencies.

We have never paid a cash dividend on our common stock, and we currently do not intend to pay any cash dividends in the foreseeable future. Our revolving facility and our accounts receivable securitization financing facility contain restrictions on the payment of cash dividends.

Issuer Purchases of Equity Securities

We did not repurchase shares of our common stock during the quarter ended December 31, 2018.

See further information on our share repurchase programs in Note 15 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Stock Price Performance Graph

Set forth below is a graph comparing the percentage change in the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq US Benchmark TR Index (Market Index) and the Nasdaq US Benchmark Computer Hardware TR Index (Industry Index). The graph assumes that $100 was invested on December 31, 2013 in our common stock and in each of the two Nasdaq indices, and that, as to such indices, dividends were reinvested. We have not, since our inception, paid any cash dividends on our common stock. Historical stock price performance shown on the graph is not necessarily indicative of future price performance.

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
Insight Enterprises, Inc. Common Stock (NSIT)	$100.00	$114.00	$110.61	$178.07	$168.60	$179.44
Nasdaq US Benchmark TR Index (Market Index)	100.00	112.46	113.00	127.70	155.01	146.57
Nasdaq US Benchmark Computer Hardware TR Index (Industry Index)	100.00	135.56	123.42	142.26	204.61	191.61

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto in Part II, Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report. The selected consolidated financial data presented below under the captions "Consolidated Statements of Operations Data" and "Consolidated Balance Sheet Data" as of and for each of the years in the five-year period ended December 31, 2018 is derived from our audited consolidated financial statements. The consolidated financial statements as of December 31, 2018 and 2017, and for each of the years in the three-year period ended December 31, 2018, which have been audited by KPMG LLP, our independent registered public accounting firm, are included in Part II, Item 8 of this report.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Consolidated Statements of Operations Data (1)(2)(3)					
Net sales	$7,080,136	$6,703,623	$5,485,515	$5,373,090	$5,316,229
Costs of goods sold	6,086,418	5,785,053	4,742,413	4,656,758	4,603,826
Gross profit	993,718	918,570	743,102	716,332	712,403
Operating expenses:					
Selling and administrative expenses	756,529	723,328	585,243	584,906	576,967
Severance and restructuring expenses	3,424	9,002	4,580	4,907	4,433
Loss on sale of foreign entity	—	3,646	—	—	—
Acquisition-related expenses	282	3,329	4,447	—	—
Earnings from operations	233,483	179,265	148,832	126,519	131,003
Non-operating (income) expense:					
Interest income	(1,075)	(1,209)	(1,066)	(783)	(1,062)
Interest expense	22,812	19,174	8,628	7,224	6,019
Net foreign currency exchange loss (gain)	(1,498)	855	522	(393)	327
Other expense, net	1,342	1,347	1,290	1,295	1,347
Earnings before income taxes	211,902	159,098	139,458	119,176	124,372
Income tax expense	48,225	68,415	54,768	43,325	48,688
Net earnings	$163,677	$90,683	$84,690	$75,851	$75,684
Net earnings per share:					
Basic	$4.60	$2.54	$2.35	$2.00	$1.84
Diluted	$4.55	$2.50	$2.32	$1.98	$1.83
Shares used in per share					

calculations:					
Basic	35,586	35,741	36,102	37,984	41,062
Diluted	36,009	36,207	36,438	38,275	41,358

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	December 31, 2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data					
Working capital	$801,915	$804,369	$544,943	$543,534	$565,559
Total assets	2,775,947	2,685,651	2,219,300	2,014,017	1,947,838
Short-term debt, including capital leases and other financing obligations (4)	1,395	16,592	480	1,535	766
Long-term debt, including capital leases and other financing obligations (4)	195,525	296,576	40,251	89,000	62,535
Stockholders' equity	986,989	843,469	713,443	685,742	721,231
Cash dividends declared per common share	—	—	—	—	—

(1) Our consolidated statements of operations data includes results of the following acquisitions from their respective dates of acquisition: Cardinal from August 1, 2018, Caase.com from September 26, 2017, Datalink from January 6, 2017, Ignia from September 1, 2016 and BlueMetal from October 1, 2015.

(2) Our consolidated statement of operations for 2018 includes the impact of adopting ASU No. 2014-09, "Revenue from Contracts with Customers," which created FASB Topic 606 ("Topic 606"). See Note 2 to the Consolidated Financial Statements in Part II, Item 8 of this report.

(3) Our consolidated statements of operations for 2018 and 2017 include the impact of U.S federal tax reform that was enacted in December 2017 as part of the U.S Tax Cuts and Jobs Act. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.

(4) Excludes obligations under our inventory financing facility of $304.1 million, $319.5 million, $154.9 million, $106.3 million and $122.8 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively. We do not include these obligations in total debt because we have not in the past incurred, and in the future do not expect to incur, any interest payments due under this facility. These amounts are classified separately as accounts payable-inventory financing facility on our consolidated balance sheets. See Note 6 to the Consolidated Financial Statements in Part II, Item 8 of this report.

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INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

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

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Part II, Item 8 of this report. Our actual results could differ materially from those contained in forward-looking statements due to a number of factors, including those discussed in "Risk Factors" in Part I, Item 1A and elsewhere in this report.

Overview

Today, every business is a technology business. We empower organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of IT in North America; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific ("APAC"). As a Fortune 500-ranked global provider of digital innovation, cloud/data center transformation, connected workforce, and supply chain optimization solutions and services, we help clients innovate and optimize their operations to run smarter. Our offerings in North America and certain countries in EMEA and APAC include hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services.

Full year 2018 financial and operational highlights included the following:

- We generated double-digit growth in earnings from operations globally and in each of our reporting segments.
- We grew our services business by 25% on a consolidated basis with double-digit growth in each of our reporting segments.
- We generated cash flows from operations of $292.6 million.
- We continued our focus on tight expense control across the business.
- In North America, we completed the acquisition of Cardinal on August 1, 2018 and substantially completed the integration of IT systems and back office operations in late January 2019.

On a consolidated basis, for the year ended December 31, 2018:

- Net sales of $7.1 billion increased 6% compared to 2017.
- Gross profit of $993.7 million increased 8% compared to 2017, also up 7% year over year excluding the effects of fluctuating foreign currency exchange rates.
- Consolidated gross margin improved approximately 30 basis points to 14.0% of net sales in 2018. This increase reflects solid growth in services net sales and gross profit.
- Earnings from operations increased to $233.5 million in 2018, up 30% compared to the prior year, which represented 3.3% of net sales.
- Our effective tax rate in 2018 was 22.8%, driven by the effects of U.S. federal tax reform enacted in December 2017. This lower tax rate in 2018 compares to our effective tax rate of 43.0% in 2017 and 39.3% in 2016.
- Net earnings and diluted net earnings per share were $163.7 million and $4.55, respectively, in 2018. In 2017, we reported net earnings of $90.7 million and diluted net earnings per share of $2.50. In 2016, we reported net earnings of $84.7 million and diluted net earnings per share of $2.32.

The results of operations for 2018 include the following items:

- the impact of the adoption of FASB Topic 606 ("Topic 606");

- the results of the acquisition of Cardinal, effective August 1, 2018;
- transaction costs totaling $282,000 associated with the acquisition;
- severance and restructuring expenses of $3.4 million, $2.7 million net of tax; and
- the repurchase of approximately 641,000 shares of the Company’s common stock for an aggregate of $22.0 million.

The results of operations for 2017 include the following items:

- the results of the acquisitions of Caase.com and Datalink, from their respective acquisition dates;
- the loss on the sale of our Russia business totaling $3.6 million;
- transaction costs totaling $3.3 million, $2.5 million net of tax, associated with the acquisitions of Caase.com and Datalink;
- severance and restructuring expenses of $9.0 million, $7.3 million net of tax; and
- incremental income tax expense related to U.S. federal tax reform of $13.4 million.

The results of operations for 2016 include the following items:

- the results of the acquisition of Ignia effective September 1, 2016;
- transaction costs totaling $4.4 million, $4.2 million net of tax, associated with the acquisitions of Ignia and Datalink;
- severance and restructuring expenses of $4.6 million, $3.3 million net of tax;
- a gain of $338,000 on the sale of our Bloomingdale, Illinois real estate; and
- the repurchase of approximately 1.9 million shares of the Company's common stock for an aggregate of $50.0 million.

Throughout the "Overview" and "Results of Operations" sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations," we refer to changes in net sales, gross profit, selling and administrative expenses and earnings from operations on a consolidated basis and in North America, EMEA and APAC excluding the effects of fluctuating foreign currency exchange rates. In computing these amounts and percentages, we compare the current period amount as translated into U.S. dollars under the applicable accounting standards to the prior period amount in local currency translated into U.S. dollars utilizing the weighted average translation rate for the current period.

Net of tax amounts referenced above were computed using the statutory tax rate for the taxing jurisdictions in the operating segment in which the related expenses were recorded, adjusted for the effects of valuation allowances on net operating losses in certain jurisdictions.

During 2018, we generated $292.6 million of cash from operating activities, including approximately $75.0 million, net of cash and cash equivalents acquired, utilized to fund the acquisition of Cardinal. We ended the year with $142.7 million of cash and cash equivalents and $194.0 million of debt outstanding under our long-term debt facilities. In December 2018 we paid off the remaining balance of our Term Loan A ("TLA").

Details about segment results of operations can be found in Note 19 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Our discussion and analysis of financial condition and results of operations is intended to assist in the understanding of our consolidated financial statements, including the changes in certain key items in those consolidated financial statements from year to year and the primary factors that contributed to those changes, as well as how certain critical accounting estimates affect our consolidated financial statements.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS

The following table sets forth certain financial data as a percentage of net sales for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
Net sales	100.0	%	100.0	%	100.0	%
Costs of goods sold	86.0		86.3		86.5	
Gross profit	14.0		13.7		13.5	
Operating expenses:						
Selling and administrative expenses	10.6		10.8		10.7	
Severance and restructuring expenses, loss on sale of foreign entity and acquisition-related expenses	0.1		0.2		0.1	
Earnings from operations	3.3		2.7		2.7	
Non-operating expense, net	0.3		0.3		0.2	
Earnings before income taxes	3.0		2.4		2.5	
Income tax expense	0.7		1.0		1.0	
Net earnings	2.3	%	1.4	%	1.5	%

Our gross profit across the business and related to product versus services sales are, and will continue to be, impacted by partner incentives, which can change significantly in the amounts made available and the related product or services sales being incentivized by the partner. These changes could impact our results of operations to the extent we are unable to remediate and respond to them. For a discussion of risks associated with our reliance on partners, see "Risk Factors – We rely on our partners for product availability, competitive products to sell and marketing funds and purchasing incentives, which can change significantly in the amounts made available and the requirements year over year," in Part I, Item 1A of this report.

2018 Compared to 2017

Net Sales. Net sales increased 6%, or $376.5 million, in 2018 compared to 2017. Net sales of products increased 3% and net sales of services increased 25% in 2018 compared to 2017. Our net sales by operating segment for 2018 and 2017 were as follows (dollars in thousands):

	2018	2017	% Change	
North America	$5,362,981	$5,181,734	3	%
EMEA	1,530,241	1,355,416	13	%

APAC	186,914	166,473	12	%
Consolidated	$7,080,136	$6,703,623	6	%

Net sales in North America increased 3%, or $181.2 million, in 2018 compared to 2017, primarily driven by higher hardware and services net sales. Net sales in EMEA increased 13% (9% excluding the effects of fluctuating foreign currency exchange rates), or $174.8 million, in 2018 compared to 2017. Net sales in APAC increased 12% (13% excluding the effects of fluctuating foreign currency exchange rates), or $20.4 million, in 2018 compared to 2017.

Our net sales by offering category for North America for 2018 and 2017 were as follows (dollars in thousands):

	North America			
Sales Mix	2018	2017	% Change	
Hardware	$3,610,356	$3,352,355	8	%
Software	1,112,715	1,310,118	(15	%)
Services	639,910	519,261	23	%
	$5,362,981	$5,181,734	3	%

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

In North America net sales of hardware and services were up 8% and 23%, respectively, year over year, while net sales of software declined 15% year to year. The net changes year over year were the result of the following:

- The increase in hardware net sales reflects the device refresh cycle in the first half of the year and was due primarily to higher volume sales of client devices, storage and networking solutions to large enterprise clients.
- The increase in services net sales was due to higher sales of hardware warranty, higher sales of cloud solution offerings, higher sales of software maintenance, higher enterprise agreement fees, as well as contribution from our Cardinal acquisition, effective August 1, 2018.
- The decrease in the software category was primarily the result of lower volume of sales with public sector clients. Software product net sales have also been affected by clients migrating software applications to cloud solution offerings which are recognized on a net basis within the services category and the 2018 change to record sales of security software net as a result of the adoption of Topic 606.

Our net sales by offering category for EMEA for 2018 and 2017 were as follows (dollars in thousands):

	EMEA		
Sales Mix	2018	2017	% Change
Hardware	$653,499	$536,500	22 %
Software	736,509	710,452	4 %
Services	140,233	108,464	29 %
	$1,530,241	$1,355,416	13 %

In EMEA, net sales of hardware, software and services were up 22%, 4% and 29%, respectively, year over year. The improvements year over year were the result of the following:

- The increase in hardware net sales was due primarily to higher volume sales of client devices, storage and networking solutions to large enterprise and public sector clients.
- The increase in services net sales was due primarily to a higher volume of sales of software maintenance and cloud solution offerings that are recognized on a net basis, as well as the contribution of Dutch cloud service provider, Caase.com, acquired effective September 26, 2017.
- The increase in software net sales was due to higher volume with new and existing clients year over year.

Our net sales by offering category for APAC for 2018 and 2017 were as follows (dollars in thousands):

	APAC			
Sales Mix	2018	2017	% Change	
Hardware	$29,496	$27,907	6	%
Software	107,363	101,412	6	%
Services	50,055	37,154	35	%
	$186,914	$166,473	12	%

In APAC, net sales of hardware, software and services were up 6%, 6% and 35%, respectively, year over year. The changes were the result of the following:

- The increase in hardware net sales was primarily due to our continued expansion of hardware offerings in this market.
- The increase in software net sales was due primarily to a single large public sector license renewal recorded in the first quarter of 2018 that historically transacted in the fourth quarter in prior years.

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INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

- The increase in services net sales resulted from an increase in cloud and digital solutions based professional service engagements, as well as growth in the contribution of Ignia, acquired effective September 1, 2016.

Net sales by category for North America, EMEA and APAC were as follows for 2018 and 2017:

	North America		EMEA		APAC	
Sales Mix	2018	2017	2018	2017	2018	2017
Hardware	67 %	65 %	43 %	40 %	16 %	17 %
Software	21 %	25 %	48 %	52 %	57 %	61 %
Services	12 %	10 %	9 %	8 %	27 %	22 %
	100 %	100 %	100 %	100 %	100 %	100 %

Gross Profit. Gross profit increased 8%, or $75.1 million, in 2018 compared to 2017, with gross margin increasing approximately 30 basis points to 14.0% of net sales. Our gross profit and gross profit as a percent of net sales by operating segment for 2018 and 2017 were as follows (dollars in thousands):

	2018	% of Net Sales	2017	% of Net Sales
North America	$732,695	13.7 %	$691,677	13.3 %
EMEA	221,467	14.5 %	190,310	14.0 %
APAC	39,556	21.2 %	36,583	22.0 %
Consolidated	$993,718	14.0 %	$918,570	13.7 %

North America's gross profit in 2018 increased $41.0 million, or 6%, compared to 2017. As a percentage of net sales, gross margin increased by approximately 40 basis points year over year. The year over year net increase in gross margin was primarily attributable to the following:

- An increase in higher margin services net sales, which contributed 56 basis points. This increase in margin from services net sales was driven by an increase in margin generated from enterprise agreement fees and sales of warranty services as well as by an increase in gross profit on cloud solution offerings.
-

- This increase was partially offset by a decrease in margin from software products of 20 basis points due to a lower mix of software license sales, as clients are migrating to cloud-based solutions.

EMEA’s gross profit in 2018 increased $31.2 million, or 16% (12% excluding the effects of fluctuating foreign currency exchange rates), compared to 2017. As a percentage of net sales, gross margin increased by approximately 50 basis points year over year. The net improvement in gross margin for EMEA in 2018 compared to 2017 was due primarily to the following:

- An increase in higher margin services net sales, which contributed 69 basis points. The increase resulted from a higher volume of software maintenance and cloud solution net sales that are recorded on a net basis.
- This increase was partially offset by a net decrease in product margin, which includes partner funding and freight, of 26 basis points in 2018 compared to 2017 primarily due to lower margins on software product transactions.

APAC’s gross profit increased 8% (9% excluding the effects of fluctuating foreign currency exchange rates) in 2018 compared to 2017, with gross margin decreasing to 21.2% in 2018 from 22.0% in 2017.

INSIGHT ENTERPRISES, INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Operating Expenses.

Selling and Administrative Expenses. Selling and administrative expenses increased $33.2 million in 2018 compared to 2017. Our selling and administrative expenses by major expense type for 2018 and 2017 were as follows (dollars in thousands):

	2018	2017
Personnel costs, including teammate benefits	$593,955	$562,406
Depreciation and amortization	37,458	42,599
Facility expenses	26,396	25,362
Travel and entertainment	25,656	24,607
Legal and professional fees	16,103	16,740
Marketing	10,345	10,640
Other	46,616	40,974
Total	$756,529	$723,328
Percentage of net sales	10.7 %	10.8 %

Selling and administrative expenses decreased approximately 10 basis points as a percentage of net sales in 2018 compared to 2017. The overall net increase in expenses reflects a $31.5 million increase in personnel costs, including teammate benefits expenses primarily due to increased headcount and increased variable compensation resulting from increased sales and gross profit in 2018 compared to 2017. This was partially offset by a decrease in depreciation and amortization expense of approximately $5.1 million year to year.

Severance and Restructuring Expenses. During 2018, we recorded severance expense, net of adjustments, totaling $3.4 million. In North America charges related to severance of $1.6 million were a result of actions taken to realign roles and responsibilities, as well as a headcount reduction as part of cost reduction initiatives in the fourth quarter of 2018. In EMEA charges of $1.7 million primarily related to headcount reductions as part our cost reduction and restructuring initiatives in EMEA. Current period charges were offset by adjustments for changes in estimates of previous accruals as cash payments were made during 2018. During 2017, we recorded severance expense, net of adjustments, totaling $9.0 million. See Note 9 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of severance and restructuring activities.

Acquisition-related Expenses. During 2018, we incurred $282,000 in direct third-party transaction costs related to the acquisition of Cardinal in North America. Comparatively, during 2017, we incurred $3.2 million in such costs related to the acquisition of Datalink in North America and $106,000 in such costs related to the acquisition of Caase.com in EMEA. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of acquisitions.

Non-Operating (Income) Expense.

Interest Income. Interest income for 2018 and 2017 was generated from interest earned on cash and cash equivalent bank balances. The slight decrease in interest income year over year is primarily due to lower average interest-bearing cash and cash equivalent balances during 2018.

Interest Expense. Interest expense primarily relates to borrowings under our financing facilities and imputed interest under our inventory financing facility. Interest expense increased 19%, or $3.6 million, in 2018 compared to 2017 due primarily to higher interest rates partially offset by lower average daily balances on our debt facilities, in 2018 compared to 2017. Imputed interest under our inventory financing facility increased $3.9 million compared to 2017 to $10.6 million in 2018. The increase was the result of expanded use of our inventory financing facility and a higher average incremental borrowing rate used to compute the imputed interest amounts during 2018. Additionally, in 2018 interest expense includes a loss on debt extinguishment of approximately $624,000 recorded in the fourth quarter of 2018 to write off a portion of our deferred financing fees. For a description of our various financing facilities, see Notes 6 and 7 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Net Foreign Currency Exchange Gains/Losses. These gains/losses result from foreign currency transactions, including foreign currency derivative contracts and intercompany balances that are not considered long-term in nature. The change in net foreign currency exchange gains/losses is due primarily to the underlying changes in the applicable exchange rates, partially mitigated by our use of foreign exchange forward contracts to offset the effects of fluctuations in foreign currencies on certain of our non-functional currency assets and liabilities.

Other Expense, Net. Other expense, net, consists primarily of bank fees associated with our cash management activities and was relatively flat in 2018 compared to 2017.

Income Tax Expense. Our effective tax rate for 2018 was 22.8% compared to 43.0% in 2017. The decrease in the tax rate from 2017 to 2018 was primarily due to the effect of the reduction in the U.S. federal statutory rate from 35.0% to 21.0% effective for the 2018 tax year and other tax effects recorded in connection with the enactment of the U.S. Tax Cuts and Jobs Act. The effective tax rate in 2018 was higher than the federal statutory rate of 21.0% primarily due to state income taxes offset partially by research and development credits and a benefit related to the true up of provisional amounts related to U.S. tax reform recorded in 2017. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of income tax expense.

2017 Compared to 2016

Any reference to our "core" business in the 2017 compared to 2016 discussion exclude Datalink's results subsequent to the Datalink acquisition.

Net Sales. Net sales increased 22%, or $1.2 billion, in 2017 compared to 2016. Net sales of products (hardware and software) increased 21% and net sales of services increased 36% in 2017 compared to 2016. Our net sales by operating segment for 2017 and 2016 were as follows (dollars in thousands):

	2017	2016	% Change	
North America	$5,181,734	$3,971,828	30	%
EMEA	1,355,416	1,338,560	1	%
APAC	166,473	175,127	(5	%)
Consolidated	$6,703,623	$5,485,515	22	%

Net sales in North America increased 30%, or $1.2 billion, in 2017 compared to 2016. This included 17% year over year growth in our core business driven by higher volume of sales from new and existing clients, and the addition of Datalink, which reported $524.3 million in net sales in 2017. Net sales in EMEA increased 1% (2% excluding the effects of fluctuating foreign currency exchange rates), or $16.9 million, in 2017 compared to 2016. Net sales in APAC decreased 5% (7% excluding the effects of fluctuating foreign currency rates), or $8.7 million, in 2017 compared to 2016.

Our net sales by offering category for North America for 2017 and 2016, were as follows (dollars in thousands):

	North America		
Sales Mix	2017	2016	% Change
Hardware	$3,352,355	$2,454,889	37 %
Software	1,310,118	1,146,808	14 %
Services	519,261	370,131	40 %
	$5,181,734	$3,971,828	30 %

In North America, net sales of hardware, software and services increased 37%, 14% and 40%, respectively, year over year. The increases year over year were the result of the following:

- Higher volume of hardware net sales to large enterprise clients due primarily to strong growth in data center solutions as well as client devices. Datalink also accounted for approximately 29% of the year over year growth in the hardware category.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

- Datalink accounted for approximately 70% of the year over year increase in software net sales.
- Continued trend toward higher sales of cloud solution offerings and a higher mix of software maintenance sales that are recorded on a net sales recognition basis impacted the services net sales category. Datalink also contributed to the increase, offset partially by declines in technical services projects in our core business in 2017 compared to 2016.

Our net sales by offering category for EMEA for 2017 and 2016, were as follows (dollars in thousands):

	EMEA			
Sales Mix	2017	2016	% Change	
Hardware	$536,500	$481,505	11	%
Software	710,452	762,427	(7	%)
Services	108,464	94,628	15	%
	$1,355,416	$1,338,560	1	%

In EMEA net sales of hardware and services were up 11% and 15%, respectively, year over year, while net sales of software declined 7% year to year. The changes were the result of the following:

- Higher volume of client devices, storage and networking solutions to public sector clients in the hardware category.
- Increased sales of license consulting services and partner delivered services to new and existing clients across the region impacted services net sales. In addition, there was a higher volume of sales of software maintenance and cloud solution offerings that are recorded on a net sales recognition basis.
- A single significant transaction in software net sales during 2016 with no comparable transaction in 2017 affected the year to year comparison.

Our net sales by offering category for APAC for 2017 and 2016, were as follows (dollars in thousands):

	APAC			
Sales Mix	2017	2016	% Change	
Hardware	$27,907	$18,916	48	%
Software	101,412	132,718	(24	%)
Services	37,154	23,493	58	%
	$166,473	$175,127	(5	%)

In APAC increases in hardware and services net sales year over year were offset by a decrease in software net sales during 2017 compared to 2016. The changes were the result of the following:

- Continued expansion of hardware offerings in the APAC market.
- Contributions of Ignia and higher volume of sales of software maintenance and cloud solution offerings that are recorded on a net sales recognition basis positively impacted services net sales.
- Timing of a single client agreement in the public sector resulted in decreased software net sales in 2017 compared to 2016.

Net sales by category for North America, EMEA and APAC were as follows for 2017 and 2016:

	North America		EMEA		APAC	
Sales Mix	2017	2016	2017	2016	2017	2016
Hardware	65 %	62 %	40 %	36 %	17 %	11 %
Software	25 %	29 %	52 %	57 %	61 %	76 %
Services	10 %	9 %	8 %	7 %	22 %	13 %
	100 %	100 %	100 %	100 %	100 %	100 %

INSIGHT ENTERPRISES, INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Gross Profit. Gross profit increased 24%, or $175.5 million, in 2017 compared to 2016, with gross margin increasing approximately 20 basis points to 13.7% of net sales. Our gross profit and gross profit as a percent of net sales by operating segment for 2017 and 2016 were as follows (dollars in thousands):

	2017	% of Net Sales	2016	% of Net Sales
North America	$691,677	13.3%	$525,481	13.2%
EMEA	190,310	14.0%	185,687	13.9%
APAC	36,583	22.0%	31,934	18.2%
Consolidated	$918,570	13.7%	$743,102	13.5%

North America’s gross profit in 2017 increased 32% compared to 2016, and as a percentage of net sales, gross margin increased by approximately 10 basis points year over year. The year over year net increase in gross margin was primarily attributable to the following:

- A net increase in product margin, which includes partner funding and freight, of 30 basis points year over year. This increase was due primarily to improvements in hardware and software product margin due to the acquisition of Datalink, which includes sales of data center products at higher gross margins than in our core business.
- Services margin improvement year over year of 11 basis points driven by an increase in margin generated by sales of warranty services during 2017 compared to 2016, primarily due to Datalink.

The above increases were partially offset by the following:

- Lower product margin in our core business due to a higher mix of business with large enterprise clients, where margins tend to be lower than other client groups.
- A decrease in margin from lower fees from enterprise software agreements of 23 basis points during 2017 compared to 2016.
- An insurance settlement of $2.2 million recognized during 2016 as a reduction of cost of sales due to the nature of the related insured loss previously recorded.

EMEA’s gross profit in 2017 increased 2% (4% excluding the effects of fluctuating foreign currency exchange rates) compared to 2016. As a percentage of net sales, gross margin increased by approximately 10 basis points year over year. APAC’s gross profit in 2017 increased 15% (13% excluding the effects of fluctuating foreign currency exchange rates) compared to 2016, with gross margin increasing to 22.0% in 2017 from 18.2% in 2016. The improvement in gross margin for both EMEA and APAC in 2017 compared to 2016 was due primarily to changes in sales mix to higher margin products and services.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Operating Expenses.

Selling and Administrative Expenses. Selling and administrative expenses increased $138.1 million in 2017 compared to 2016. Our selling and administrative expenses by major expense type for 2017 and 2016 were as follows (dollars in thousands):

	2017	2016
Personnel costs, including teammate benefits	$562,406	$455,892
Depreciation and amortization	42,599	38,130
Facility expenses	25,362	20,314
Travel and entertainment	24,607	17,170
Legal and professional fees	16,740	11,905
Marketing	10,640	6,848
Other	40,974	34,984
Total	$723,328	$585,243
Percentage of net sales	10.8 %	10.7 %

Selling and administrative expenses increased approximately 10 basis points as a percentage of net sales in 2017 compared to 2016. The increase in expenses reflects the addition of Datalink to our North America business effective January 2017. The addition of Datalink and increased variable compensation resulting from increased sales and gross profit in 2017 compared to 2016 were the primary drivers for the $106.5 million increase in personnel costs, including teammate benefit expenses for 2017 compared to 2016. Datalink was also the primary driver for year over year increases in travel and entertainment, facilities and marketing expenses. Depreciation and amortization expense increased approximately $4.5 million year over year, due to additional amortization expense on newly acquired intangible assets.

Severance and Restructuring Expenses. During 2017, North America, EMEA and APAC recorded severance expense, net of adjustments, totaling $4.0 million, $4.9 million and $104,000, respectively. The North America charges related to severance actions taken to realign roles and responsibilities subsequent to the acquisition of Datalink in January 2017, as well as a headcount reduction as part of cost reduction initiatives in the fourth quarter of 2017. The EMEA charges primarily related to headcount reductions in France, Germany and the Netherlands as part our cost reduction and restructuring initiatives in EMEA. The APAC charges primarily related to severance actions taken subsequent to the acquisition of Ignia. For 2017, charges were offset by adjustments for changes in estimates of previous accruals as cash payments were made during the year. During 2016, North America, EMEA and APAC recorded severance expense, net of adjustments, totaling $3.0 million, $1.5 million and $118,000, respectively. See Note 9 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of severance and restructuring activities.

Acquisition-related Expenses. During 2017, we incurred $3.2 million in direct third-party transaction costs related to the acquisition of Datalink in North America and $106,000 in such costs related to the acquisition of Caase.com in EMEA. Comparatively, during 2016, we incurred $4.3 million in such costs related to the acquisition of Datalink in North America and $169,000 in such costs related to the acquisition of Ignia in APAC. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of acquisitions.

Non-Operating (Income) Expense.

Interest Income. Interest income for 2017 and 2016 was generated from interest earned on cash and cash equivalent bank balances. The slight increase in interest income year over year is primarily due to higher interest rates earned on such balances and to higher average interest-bearing cash and cash equivalent balances during 2017.

Interest Expense. Interest expense primarily relates to borrowings under our financing facilities and imputed interest under our inventory financing facility. Interest expense increased 122%, or $10.5 million, in 2017 compared to 2016 due primarily to borrowings under our TLA as well as higher borrowing rates and higher average daily balances under our other financing facilities, in 2017 compared to 2016, while imputed interest under our inventory financing facility increased $3.3 million from 2016 to 2017 to $6.7 million.

Net Foreign Currency Exchange Gains/Losses. These gains/losses result from foreign currency transactions, including foreign currency derivative contracts and intercompany balances that are not considered long-term in nature. The change in net foreign currency exchange gains/losses is due primarily to the underlying changes in the applicable exchange rates, partially mitigated by our use of foreign exchange forward contracts to offset the effects of fluctuations in foreign currencies on certain of our non-functional currency assets and liabilities.

Other Expense, Net. Other expense, net, consists primarily of bank fees associated with our cash management activities and was relatively flat in 2017 compared to 2016.

Income Tax Expense. Our effective tax rate for 2017 was 43.0% compared to 39.3% in 2016. The increase in the tax rate from 2016 to 2017 was primarily due to the effect of U.S. federal tax reform that was enacted in December 2017, which accounted for 8.4% of our effective tax rate. The effective tax rate in 2017 was higher than the federal statutory rate of 35.0% primarily due to the effect of U.S. federal tax reform enacted during the fourth quarter of 2017, as previously noted, as well as state income taxes, net of federal income tax benefits, and increases in the valuation allowances in certain foreign jurisdictions. These increases in our effective tax rate in 2017 were offset partially by lower taxes on earnings in foreign jurisdictions. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of income tax expense.

Liquidity and Capital Resources

The following table sets forth certain consolidated cash flow information for 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Net cash provided by (used in) operating activities	$292,647	$(307,066)	$96,077
Net cash used in investing activities	(91,710)	(204,645)	(21,185)
Net cash (used in) provided by financing activities	(159,028)	397,121	(58,230)
Foreign currency exchange effect on cash and cash equivalent and restricted cash balances	(5,061)	16,089	(1,937)
Increase (decrease) in cash and cash equivalents and restricted cash	36,848	(98,501)	14,725
Cash and cash equivalents and restricted cash at beginning of year	107,445	205,946	191,221
Cash and cash equivalents and restricted cash at end of year	$144,293	$107,445	$205,946

Cash and Cash Flow

Our primary uses of cash during 2018 were to fund working capital requirements, pay down our debt balances, fund capital expenditures, repurchase shares of our common stock and to fund the acquisition of Cardinal. Operating activities generated $292.6 million in cash in 2018. Both the 2017 and 2016 results are affected by individually significant transactions at each year end, as discussed in more detail below. During 2018, we made net combined repayments on our long-term debt facilities of $114.8 million and acquired Cardinal for $78.8 million, net of cash and cash equivalents acquired and including accrued working capital and tax adjustments of approximately $3.8 million. Capital expenditures were $17.3 million in 2018, a 10% decrease from 2017, reflecting continued IT investments in our core ERP systems and e-commerce and digital marketing platforms. Cash and cash equivalent balances in 2018 were negatively affected by $5.1 million as a result of foreign currency exchange rates.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

We anticipate that cash flows from operations, together with the funds available under our financing facilities, will be adequate to support our cash and working capital requirements for operations as well as other strategic investments over the next 12 months. We expect existing cash and cash flows from operations to continue to be sufficient to fund our operating cash activities and cash commitments for investing and financing activities, such as capital expenditures, repurchases of our common stock and debt repayments, for at least the next 12 months.

Net cash provided by (used in) operating activities. Cash flows from operating activities reflect our net earnings, adjusted for non-cash items such as depreciation, amortization, stock-based compensation expense and write-offs and write-downs of assets, as well as changes in asset and liability balances. As noted previously, our net sales and earnings from operations grew 6% and 30%, respectively, in 2018. Cash flow from operating activities in 2018 was $292.6 million, a significant increase in cash generation compared to 2017. This increase is the result of our focus on expense control, optimizing working capital, including an enhanced focus on collection of receivables, and reducing our investments in inventory. However, the 2017 results were also affected by a single significant payment to a supplier of approximately $160 million that was due and paid in January 2017 for which the related receivable was collected from the client in the fourth quarter of 2016 and several other factors discussed below.

In 2017, the increase in accounts receivable reflected increased net sales for which our collection efforts did not keep up with the growth. The 2017 results also reflected the collection of a single significant receivable from a client in the fourth quarter of 2016 for which the related payment to the supplier of approximately $160 million was due and paid in January 2017. Further impacting our 2017 operating cash flows was the expanded use of our inventory financing facility in 2017 to support growth in our sales. Borrowings on this facility are reflected in the financing section of our statement of cash flows. Had we not leveraged the facility during 2017, the net borrowings under our inventory financing facility of $141.0 million that are reflected as cash flows provided by financing activities would have been included within trade payables, which are reflected in the operating activities section of our statement of cash flows. The increase in inventories was primarily attributable to an increase in inventory levels at December 31, 2017 to support specific client engagements. The decrease in deferred revenue was a result of revenue recognition in 2017 on a number of larger client transactions in North America for which monies had been collected from clients prior to December 31, 2016, in advance of meeting the criteria for revenue recognition.

In 2016, the increases in accounts receivable and accounts payable reflected growth in sales and associated costs of goods sold, respectively, in 2016 compared to 2015. However, the 2016 results were also affected by a single significant receivable collected from a client in the fourth quarter of 2016 for which the related payment to the supplier of approximately $160 million was due and paid in January 2017, as noted previously. There was a similar transaction in the fourth quarter of 2015 for approximately $60 million. Excluding the effects of these two individually significant timing differences, cash flow from operations would have been nominal for 2016. Further impacting our 2016 operating cash flows was the expanded use of our inventory financing facility in 2016 to support growth in our sales. Had we not leveraged the facility during 2016, the net borrowings under our inventory financing facility of $48.6 million that are reflected as cash flows provided by financing activities would have been included within trade payables, which are reflected in the operating activities section of our statement of cash flows. The $50.1 million increase in other assets was primarily a result of our deferral of costs in advance of our being able to recognize the related revenue. The $28.9 million increase in inventories was primarily attributable to an increase in inventory levels at December 31, 2016, to support specific client engagements and inventory in transit.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Our consolidated cash flow operating metrics for the quarters ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Days sales outstanding in ending accounts receivable ("DSOs") (a)	102	94	90
Days inventory outstanding ("DIOs") (b)	10	13	12
Days purchases outstanding in ending accounts payable ("DPOs") (c)	(79)	(72)	(88)
Cash conversion cycle (days) (d)	33	35	14

(a) Calculated as the balance of accounts receivable, net at the end of the period divided by daily net sales. Daily net sales is calculated as net sales for the quarter divided by 92 days.
(b) Calculated as average inventories (excluding inventories not available for sale) divided by daily costs of goods sold. Average inventories is calculated as the sum of the balances of inventories at the beginning of the period plus inventories at the end of the period divided by two. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 92 days.
(c) Calculated as the sum of the balances of accounts payable – trade and accounts payable – inventory financing facility at the end of the period divided by daily costs of goods sold. Daily costs of goods sold is calculated as costs of goods sold for the quarter divided by 92 days.
(d) Calculated as DSOs plus DIOs, less DPOs.

Our cash conversion cycle was 33 days in the fourth quarter ended December 31, 2018, compared to 35 days in the fourth quarter of 2017. The decrease resulted from the net effect of an eight day increase in DSO and a seven day increase in DPOs due to the relative timing of client receipts and supplier payments during the respective quarters as well as a three day decrease in DIOs due to the reduction of inventory held for client specific engagements and an overall focus on minimizing inventory on hand. These operating metrics include the effects of the adoption of the new revenue recognition standard effective January 1, 2018. As a result, DSOs for the three months ended December 31, 2018 were higher by approximately six days, due to a higher accounts receivable balance being reported under the new accounting guidance, than would have been reported under the previous accounting guidance. This increase was partially offset by an increase of approximately four days in DPOs in the three months ended December 31, 2018, resulting from a higher accounts payable balance being reported under the new accounting guidance. The net impact of the adoption of the new revenue recognition standard to the cash conversion cycle for the three months ended December 31, 2018 is approximately a two day increase.

Our cash conversion cycle was 35 days in the fourth quarter ended December 31, 2017, compared to 14 days in the fourth quarter of 2016. Our 2016 cash conversion cycle was below our target range of 20 to 25 days as a result of unusually high DPOs associated with the $160 million payment timing difference in North America at the end of the prior year period, as discussed above. Our 2017 cash conversion cycle was above our target range due to the increases in our inventory and accounts receivable balances noted above.

Our cash conversion cycle was 14 days in the fourth quarter ended December 31, 2016, a decrease of six days from the fourth quarter of 2015, and due primarily to an eleven day increase in DPOs driven by a single significant payment to a supplier in North America that was due and paid in January 2017. Although the payment to the supplier was not due until after year-end, we collected on the accounts receivable from the client in the fourth quarter of 2016 under normal credit terms, as discussed above.

We expect that cash flow from operations will be used, at least partially, to fund working capital as we typically pay our partners on average terms that are shorter than the average terms we grant to our clients in order to take advantage of supplier discounts. We intend to use cash generated in 2019 in excess of working capital needs to support our capital expenditures for the year, to repurchase shares of our common stock and to pay down our debt balances. We also may use cash to fund potential acquisitions.

INSIGHT ENTERPRISES, INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

Net cash used in investing activities. Capital expenditures of $17.3 million, $19.2 million and $12.3 million in 2018, 2017 and 2016, respectively, were primarily related to technology and facility enhancements. We expect total capital expenditures in 2019 to be between $20.0 million and $25.0 million, primarily for technology-related upgrade projects and the integration of prior acquisitions.

During 2018 we acquired Cardinal for $78.8 million net of cash and cash equivalents acquired and including accrued working capital and tax adjustments of approximately $3.8 million. During 2017 we acquired Caase.com and Datalink for $6.0 million and $180.9 million, respectively, net of cash and cash equivalents acquired. During 2016, we acquired Ignia for $10.8 million, net of cash acquired.

Net cash (used in) provided by financing activities. During 2018, we had net combined repayments on our long-term debt under our revolving facility, TLA and accounts receivable securitization facility (“ABS facility”) of $114.8 million and had net repayments under our inventory financing facility of $15.3 million. In 2018, we also funded $22.1 million of repurchases of our common stock. During 2017, we had net combined borrowings on our long-term debt under our revolving facility, TLA and ABS facility of $269.3 million and had net borrowings under our inventory financing facility of $141.0 million. During 2016, we made net combined repayments on our long-term debt under our revolving facility and our ABS facility of $49.5 million and had net borrowings under our inventory financing facility of $48.6 million. In 2016, we also funded $50.0 million of repurchases of our common stock.

Financing Facilities

As of December 31, 2018, our long-term debt balance includes $194.0 million outstanding under our $250.0 million ABS facility and no amounts outstanding under our $350.0 million revolving facility.

As of December 31, 2018, the current portion of our long-term debt relates to our capital leases and other financing obligations. Our objective is to pay our debt balances down while retaining adequate cash balances to meet overall business objectives.

While the ABS facility has a stated maximum amount, the actual availability under the ABS facility is limited by the quantity and quality of the underlying accounts receivable. As of December 31, 2018, qualified receivables were sufficient to permit access to the full $250.0 million under the ABS facility. Our ABS facility was amended on June 27, 2018.

Our consolidated debt balance that can be outstanding at the end of any fiscal quarter under our revolving facility and our ABS facility is limited by certain financial covenants, particularly a maximum leverage ratio. The maximum leverage ratio is calculated as aggregate debt outstanding divided by the sum of the Company’s trailing twelve month net earnings (loss) plus (i) interest expense, excluding non-cash imputed interest on our inventory financing facility, (ii) income tax expense (benefit), (iii) depreciation and amortization, (iv) non-cash stock-based compensation, (v) extraordinary or non-recurring non-cash losses or expenses and (vi) certain cash restructuring and acquisition-related charges and synergies, not to exceed a specified cap (“adjusted earnings”). The maximum leverage ratio permitted under the facilities is currently 3.25 times our trailing twelve-month adjusted earnings. A significant drop in the Company’s adjusted earnings would limit the amount of indebtedness that could be outstanding at the end of any fiscal quarter to a level that would be below the Company’s consolidated maximum facility amounts. Based on the maximum permitted leverage ratio as of December 31, 2018, the Company's debt balance that could have been outstanding under our revolving facility and ABS facility was the full amount of the maximum borrowing capacity of $600.0 million.

Our revolving facility and our ABS facility contain various covenants customary for transactions of this type, including limitations on the payment of dividends and the requirement that we comply with maximum leverage and minimum fixed charge ratio requirements, comply with a minimum receivable requirement and meet monthly, quarterly and annual reporting requirements. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified time period. At December 31, 2018, we were in compliance with all such covenants. Further, the terms of the ABS facility identify various circumstances that would result in an "amortization event" under the facility. As of December 31, 2018, no such "amortization event" had occurred.

INSIGHT ENTERPRISES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (continued)

We also have an agreement with a financial intermediary to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These amounts are classified separately as accounts payable - inventory financing facility in our consolidated balance sheets.

Our inventory financing facility was amended on March 23, 2018 to increase the aggregate availability for vendor purchases under the facility from $325,000,000 to $400,000,000. In conjunction with the increase, we no longer have the option to request additional increases in the aggregate amount available under the inventory financing facility without amending the facility. The facility matures on June 23, 2021. Additionally, the facility may be renewed under certain circumstances described in the agreement for successive 12-month periods. Interest does not accrue on accounts payable under this facility provided the accounts payable are paid within stated terms (typically 60 days).

Notes 6 and 7 to the Consolidated Financial Statements in Part II, Item 8 of this report also include: a description of our financing facilities; amounts outstanding; amounts available and weighted average borrowings and interest rates during the year.

Undistributed Foreign Earnings

Cash and cash equivalents held by foreign subsidiaries may be subject to U.S. income taxation upon repatriation to the United States. As a result of the U.S. federal tax reform enacted in December 2017, all undistributed foreign earnings are deemed distributed. We provided for U.S. income and withholding taxes on the earnings deemed distributed from all of our foreign subsidiaries during 2018. As of December 31, 2018, we had approximately $107.6 million in cash and cash equivalents in certain of our foreign subsidiaries. As of December 31, 2018, the majority of our foreign cash resides in the Netherlands, Canada and Australia. Certain of these cash balances will be remitted to the United States by paying down intercompany payables generated in the ordinary course of business or though actual dividend distributions.

Off-Balance Sheet Arrangements

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications. These arrangements are discussed in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this report. We believe that none of our off-balance sheet arrangements have, or are reasonably likely to have, a material current or future effect on our financial condition, sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

At December 31, 2018, our contractual obligations for continuing operations were as follows (in thousands):

	Payments due by period			
	Less than	1-3	3-5	More

	Total	1 Year	Years	Years	than 5 Years
Long-term debt (a)	$194,000	$—	$194,000	$—	$—
Capital lease obligations, including interest payments	3,071	1,488	1,583	—	—
Inventory financing facility (b)	304,130	304,130	—	—	—
Operating lease obligations (c)	71,884	21,499	27,701	15,446	7,238
Severance and restructuring obligations (d)	2,452	2,452	—	—	