

INSIGHT ENTERPRISES INC
Form 10-K
February 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

**Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017**

or

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

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of	86-0766246 (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. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to post such files). Yes No

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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

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 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was \$1,410,322,331.

The number of shares outstanding of the registrant's common stock on February 15, 2018 was 35,836,320.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2018 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.

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INSIGHT ENTERPRISES, INC.

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 expectations that working capital trends will return to normalized levels; 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 expressions and 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;

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.

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Our Company

Insight Enterprises, Inc. (*Insight* or the *Company*) is a Fortune 500 global IT provider helping businesses of all sizes from small and medium sized firms to worldwide enterprises, governments, schools and health care organizations define, architect, implement and manage Intelligent Technology Solutions™ in North America; Europe, the Middle East and Africa (*EMEA*); and Asia-Pacific (*APAC*). We empower our clients to manage their IT environments so they can drive meaningful business outcomes today and transform their operations for tomorrow.

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

		% of 2017
Operating Segment*	Geography	Consolidated Net Sales
North America	United States and Canada	77%
EMEA	Europe, Middle East and Africa	20%
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 20 to the Consolidated Financial Statements in Part II, Item 8 of this report.

This year, 2018, marks 30 years of doing business for Insight. Across three decades, we have evolved with the industry. Each strategic pivot has been made in pursuit of helping our clients run their businesses smarter. 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 solutions powered by Intelligent Technology Solutions to our clients in APAC; and

2017 On January 6, 2017, we acquired Datalink Corporation (Datalink), a leading provider of IT services and enterprise data center solutions based in Eden Prairie, Minnesota, 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. On September 26, 2017, we acquired Caase Group B.V. (referred to herein as, Caase.com), a Dutch cloud service provider, and strengthened our ability to deliver Intelligent Technology Solutions to our clients in the Netherlands, with a view to expanding into the wider European region in the near future.

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INSIGHT ENTERPRISES, INC.

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 \$3.7 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 \$612 billion in annual sales and for the year ended December 31, 2017, our net sales of \$6.7 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 20 countries and have the capabilities to provide clients with hardware, software provisioning and related services and 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 hardware and software product and services needs and help our clients define, architect, implement and manage their IT solutions.

We are well positioned to participate in the market as IT continues to transform. Our value drivers include:

Deep knowledge in client-relevant solution areas

History of adapting our business model to respond to new technology trends, including the cloud

Differentiated consulting, technology and managed services offerings

Ability to scale to serve clients of all sizes and across many verticals

Strong partner relationships with top market positions

Global footprint with local presence in key markets

Flexible capital structure to support future growth, including additional acquisitions

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.

We believe that 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 hardware and software products with access to billions of dollars in virtual inventory and efficient supply chain execution, as well as product fulfillment and logistics capabilities, management tools and technical expertise.

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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.

Our data center transformation skills in support of our long-term strategy, in January 2017, we completed the acquisition of Datalink, a leading provider of IT services and enterprise data center solutions, adding 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 and, with our acquisition of BlueMetal in 2015, continued our evolution as thought leaders in emerging technologies that help transform our clients businesses.

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 digital platform we have 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. We also have a best-in-class digital marketing engine to bring scalable solutions to the mid-market.

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 datacenter transformation and digital innovation, that represent the ways we help our clients with the demands they face, as discussed in more detail below.

Our Business Strategy

Our long-term strategy remains consistent and includes three components:

Grow our core business;

Grow services sales in our key solutions areas; and

Accelerate with cloud.

Grow our core business. We believe that our core business is strong and continues to present opportunities for growth. We believe that Insight is uniquely positioned to help our clients manage their business effectively today and also transform to meet their changing needs tomorrow. Our balanced portfolio of manufacturer and publisher brands, extensive e-commerce and logistics capabilities and differentiated services capabilities allow us to tailor our offerings based on the size and complexity of the needs of our clients. As a global provider of integrated solutions to business and government clients, we believe we are well-positioned relative to our competitors in several markets. Our go-to-market model leverages both centralized and local market sales and technical and support resources to efficiently serve and advise our clients.

In each of our geographic operating segments we are focused on driving our growth objectives by acquiring new clients and expanding our relationships with existing clients by increasing the types of products and services they buy from us. In North America, we have a local market presence in key cities where we have invested in sales, technical and service delivery resources to drive growth with existing and new clients, particularly in the large account client space. In addition, we drive expansion in specific service/solution areas with key partners. We are also concentrating our efforts on growing our business with mid-sized and large clients in certain vertical markets, including federal government, state and local governments, K-12 education, healthcare and service providers, and have invested in both local market and centralized sales resources to drive these efforts. In EMEA, we are focused on increasing our share in the mid-market and public sector by increasing sales of software and certain hardware categories across the business. We continue to expand our services capabilities in the region and to leverage strategic partner relationships and service-delivery vendors to bring software, cloud and collaboration solutions to our clients. Our APAC operating segment, which is largely comprised of software sales, is engaged in growing sales in the mid-market and enterprise space and in the development of specialized software services, particularly in the areas of software license optimization and cloud.

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Grow services sales in our key solutions areas. The IT market has become more complex and clients are looking for solutions providers to help them navigate the rapidly changing environment. We believe that our core business plus our recent strategic acquisitions provide an integrated foundation that we can leverage to better serve our clients. We have identified four key solutions areas that capitalize on this foundation and include robust offerings to help our clients with the demands they face. Our services capabilities provide significant value-add to our clients, driving stronger client relationships and higher margins. Our key solutions areas are:

Supply Chain Optimization We help our clients ***invest smarter*** so they can manage today and transform for the future. By optimizing their supply chain, we can help our clients maximize resources and do more today so they can invest in the future.

Connected Workforce We help our clients employees ***work smarter*** so they can manage and transform their businesses. By connecting their workforces, we help our clients create meaningful employee experiences that fuel productivity as well as attract and retain essential talent.

Cloud and Data Center Transformation We help our clients ***run workloads smarter*** so they can transform business. By defining and navigating cloud and data center platforms, we help our clients optimize and modernize their business.

Digital Innovation We help our clients ***innovate smarter*** so they can create meaningful connections with their customers. By innovating their digital business, we help our clients monetize existing offerings, create new revenue streams and drive differentiation across their customer experience.

Accelerate with cloud. Private, public and hybrid cloud solutions provide flexible, reliable, secure and affordable solutions for delivering critical IT functions, such as email, data security, Infrastructure as a Service (IaaS) and more. Cloud solutions have become more mainstream, and adoption continues to increase across markets and verticals. Key market imperatives in the adoption of cloud 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 cloud management platform, which serves as a marketplace for our clients to buy and manage their cloud subscriptions with options that enhance their Software as a Service (SaaS) and IaaS management capabilities.

Components of our cloud management platform include:

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 (ITaaS) capabilities allowing larger IT organizations to centrally provide cloud offerings while maintaining the manageability and visibility they require.

Additionally, we have a strong global position in the service provider and independent software vendor (ISV) market. Building on our existing capabilities in this market, we have developed a cloud portfolio for our service provider clients to resell to their customers, offering them revenue diversification with minimal investment. We also plan to expand our cloud management platform capabilities and deliver cloud portal platforms that provide e-commerce and subscription management capabilities to our service provider clients.

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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 58%, 32% and 10%, respectively, of our net sales in 2017. This compares to 54%, 37% and 9%, respectively, of our consolidated net sales in 2016, and 54%, 38% and 8%, respectively, of our consolidated net sales in 2015. Additional detailed sales mix information by operating segment, including a discussion of changes in our classification of certain revenue streams during 2017, can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and in Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report. Prior year results were reclassified to conform to the current year presentation, resulting in 3% of our consolidated net sales being reclassified from software to services in both 2016 and 2015. These reclassifications had no effect on consolidated total net sales.

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 what clients choose to build versus buy. We provide outsourcing services our clients desire, including management of client infrastructure and end-user operations to drive IT return on investment.

Product Life Cycle: Source, procure, stage, configure, integrate, test, deploy and maintain IT products spanning endpoints to infrastructure.

Infrastructure Management: 24x7 remote management of clients' server/storage/network infrastructure through our ISO-certified Remote Network Operating Center (RNOC).

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 a modern, over the air deployment model, managed by Insight's 24x7 Service Desk. In addition, we see growing demand for Device-as-a-Service.

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 experience where clients can outsource

their highly complex mobility environments to Insight in an as-a-service style model.

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: Service level agreement-based outsourcing of distributed devices and technology, or edge, deployment and support. This comprises multi-site deployments, coupled with dedicated, onsite desktop support technicians coupled with 24x7 Service Desk.

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.

Hybrid Cloud: On-premise converged infrastructure (private cloud) augmented by off-premise public cloud integrated, managed and secured.

Intelligent Network: Core WAN, LAN, wireless and security solutions to seamlessly connect Hybrid Cloud, Branch Infrastructure and end users.

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.

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.

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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.

We have invested in cloud, mobility, big data and security capabilities and expertise to enable our key solutions areas and continuously seek to identify client-relevant technology solutions.

Cloud. Cloud computing represents an evolution in the IT world. Cloud-based SaaS, whereby clients subscribe to software that is hosted either by the software publisher or a dedicated third-party hosting company, is prevalent in the Connected Workforce and Cloud and Data Center Transformation solutions highlighted above. In addition, public IaaS and converged infrastructure private cloud represent growing portions of Hybrid Cloud solutions. We help clients assess readiness, architect appropriate solutions and migrate to both public and private cloud infrastructures.

Mobility. Our clients must engage differently with their customers and fully engage their workforce whether they are at work, at home or on-the-go. We help clients do so through solutions starting with Insight Managed Mobility, an as-a-service like Enterprise Mobility Management (EMS) solution for employees, and modern customer-facing solutions, such as mobile Point of Sale (mPOS) and mobile commerce applications in the retail industry as well as mobile trading applications for brokerage customers in the financial services industry.

Big Data. Our clients are inundated with data that they struggle to interpret. We help turn this data into actionable insights with solutions 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. We expect the proliferation of sensors for IoT will fuel this data overload and drive further demand for these solutions.

Security. All of these solutions must be delivered without compromising customer, company or employee private information. We offer services for identity and access management, single-sign-on (SSO) and mobile-device-management (MDM) to protect end users. In addition, we provide network security and Security Incident Event Management (SIEM) solutions to secure our clients' infrastructure.

Hardware Offerings

We offer products from hundreds of manufacturers, including such industry leaders as Cisco, HP Inc., Lenovo, Dell, Hewlett Packard Enterprise Company (HPE), EMC, Microsoft, NetApp, Apple 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 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 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, Adobe, VMware, Symantec, McAfee, Citrix, IBM Software and Red Hat, as well as newer entrants, such as Box and 8x8.

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. In addition to software provisioning, we offer holistic software solutions, including software licensing optimization and implementation consulting, to help our clients better understand their software needs, evaluate their existing software and provide options to optimize their assets.

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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:

Direct marketers and resellers, such as CDW (North America and United Kingdom), Systemax (Europe), Softchoice, Comparex, Connection, PCM, World Wide Technology, SHI, SoftwareONE, Computacenter, SCC, Bechtle, Cancom and Crayon;

National and regional resellers, including value-added resellers, 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;

Systems integrators, such as Compucom Systems, Inc.;

National and global service providers, such as IBM Global Services and HP Enterprise Services; and

E-tailers, such as Amazon Web Services (AWS), 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 2017, we purchased products and software from approximately 5,400 partners. Approximately 66% (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 2017. No other partner accounted for more than 10% of purchases in 2017. Our top five partners as a group for 2017 were Microsoft, Cisco Systems, Tech Data (a distributor), Dell and HP Inc., and approximately 60% of our total purchases during 2017 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.

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During 2017, sales of Microsoft, Dell and Cisco Systems products accounted for approximately 20%, 12% and 11%, respectively, of our consolidated net sales. No other manufacturer's products accounted for more than 10% of our consolidated net sales in 2017. Sales of product from our top five manufacturers/publishers as a group (Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo) accounted for approximately 59% of Insight's consolidated net sales during 2017.

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 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, 2017, we employed 6,697 teammates, of whom 2,512 were engaged in sales related activities, 2,024 were engaged in management, support services and administration activities, 2,007 were skilled, certified consulting and service delivery professionals and 154 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;

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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.

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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 extens