



2020

Insight Annual Report

Insight ®

Dear fellow stockholder,

Many of us have heard the term “unprecedented year” to describe 2020, and it’s undoubtedly true. Like the world around us, Insight was faced with many challenges we’d not experienced before.

But in spite of the difficulties and changes we weathered, we’re very proud of the way our business and our teammates responded. 2020 presented new and necessary opportunities to demonstrate our values of hunger, heart and harmony — all while pursuing our business objectives to lead with Insight Intelligent Technology Solutions™ and drive profitable growth.

We’re also proud of the notable recent accomplishments, both in terms of progress in our business and recognition in our industry. Here are a few select examples:

- We received 40+ awards from our technology partner community.
- We also finalized our integration of PCM, which added scale to our business worldwide and expanded our footprint in Canada.
- We ranked No. 70 on Fortune’s most recent list of 100 Best Workplaces for Diversity. We scored highest in the Justice category, defined as the extent to which employees perceive that management promotes inclusive behavior, avoids discrimination and is committed to ensuring fair appeal.
- We hosted our inaugural Global Harmony Day in October for our teammates and saw participation across multiple countries, languages and time zones. It was an incredible testament to the deep commitment our teammates share to fostering diversity and inclusion through our harmony value.
- We were chosen for the Forbes World’s Best Employers 2020 list, coming in at No. 296 out of more than 750 companies.
- And we moved up 21 spots to No. 409 on this year’s Fortune 500, marking our 10th consecutive year placing on this prestigious list.

From the financial side, we saw a solid year. Net sales in 2020 surpassed \$8 billion for the first time in the company’s history. Gross profit of \$1.3 billion was a 14% increase over 2019. Consolidated gross margin improved approximately 90 basis points to 15.6% of net sales, thanks to solid growth in services net sales and gross profit. Earnings from operations increased to \$271.6 million, up 13% compared to the prior year, which represented 3.3% of net sales. Cash flow from operations was more than \$356 million, a positive swing of more than \$200 million compared to the prior year.

2021 is a new year, and there’s a renewed excitement and energy as we’ve shifted our focus internally to achieve double-digit organic growth in our services solution areas. We look forward to seeing this strategic shift translate to real financial growth across our Connected Workforce, Cloud + Data Center Transformation and Digital Innovation solution areas.

In the coming year, our clients will continue looking for solutions that will help them recover and restore the progress they’d previously been making. The variety of solutions we offer coupled with our expertise in the industry are just what our clients need to navigate a new way forward. We intend to use 2021 to work together as One Insight to ensure we’re ready for the inevitable rebound of our economies.

As always, we’re grateful for your dedication to supporting our purpose of building meaningful connections to help our clients’ businesses run smarter.



Ken Lamneck
CEO

We build meaningful connections to help businesses **run smarter**.



Digital Innovation



Cloud + Data Center Transformation



Connected Workforce

Supply Chain Optimization

Global Scale and Technical Expertise

Deep portfolio & relationships

6,000+

hardware, software and cloud partners

Global reach
Operations in

19 countries,

serving clients around the globe

Engaged workforce

11,000+

Insight teammates worldwide

Broad expertise

7,700+ and **4,400+**

total client facing teammates

skilled, certified consulting and service delivery professionals

Financial stability

\$8.3B

in revenue in **2020**

Long legacy & knowledge

No. 409 on the Fortune 500

founded in **1988**

E-commerce portal

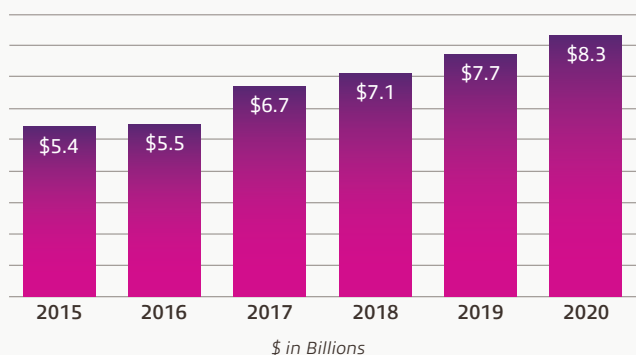
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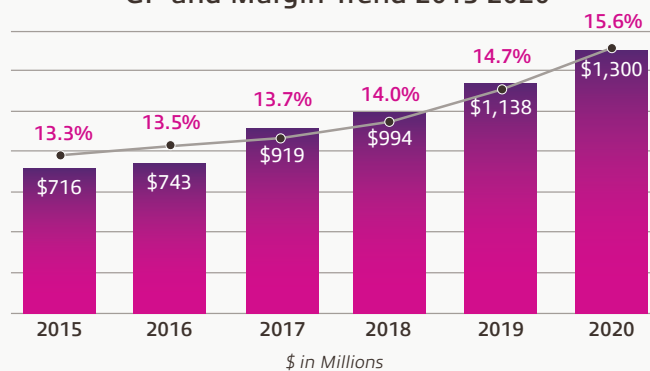
5-Year Strategic Plan

IEI as reported summary charts

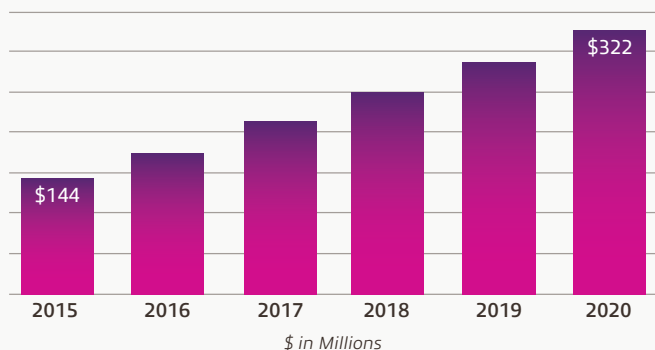
Net Sales Trend 2015-2020



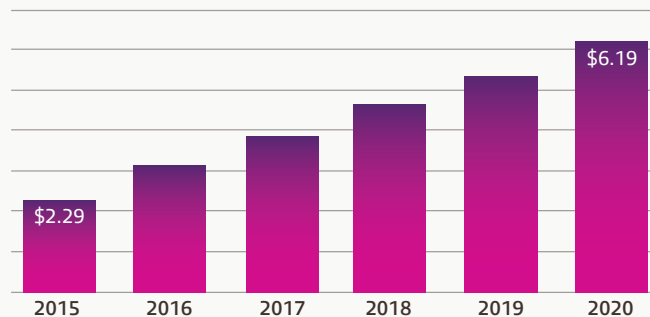
GP and Margin Trend 2015-2020



Adjusted EFO Trend 2015-2020



Adjusted Diluted EPS Trend 2015-2020



Twelve Months Ended Dec. 31,

U.S. Dollar in \$000s, except per share data

| | 2020 | 2015 |
|--|-----------|-----------|
| Adjusted Consolidated Earnings from Operations: | | |
| GAAP consolidated EFO | \$271,575 | \$126,519 |
| Amortization of intangible assets | 37,535 | 11,308 |
| Severance and restructuring expenses, net | 12,394 | 4,907 |
| Acquisition and integration related expenses | 2,208 | – |
| Impairment of property and equipment | (1,324) | 800 |
| Adjusted non-GAAP consolidated EFO | \$322,388 | \$143,534 |

Adjusted Diluted EPS:

| | 2020 | 2015 |
|--|--------|--------|
| GAAP diluted EPS | \$4.87 | \$1.98 |
| Amortization of intangible assets | 1.06 | 0.30 |
| Severance and restructuring expenses, net | 0.35 | 0.13 |
| Acquisition and integration related expenses | 0.06 | – |
| Impairment of property and equipment | (0.04) | 0.02 |
| Amortization of debt discount and issuance costs | 0.33 | – |
| Income taxes on non-GAAP adjustments | (0.44) | (0.14) |
| Adjusted non-GAAP diluted EPS | \$6.19 | \$2.29 |

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, 2020

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
incorporation or organization)

86-0766246

(IRS Employer
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 | Trading Symbol | Name of each exchange on which registered |
|--------------------------------|----------------|---|
| Common stock, par value \$0.01 | NSIT | 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. /X/

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, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was \$1,692,113,608.

The number of shares outstanding of the registrant's common stock on February 12, 2021 was 35,103,074.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2021 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, 2020

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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, and 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; our future responses to and the potential impact of coronavirus strain COVID-19 (“COVID-19”) on our Company; the expected effects of seasonality on our business; expectations of further consolidation and trends in the Information Technology (“IT”) industry; our business strategy and our strategic initiatives, including our efforts to grow our core business in the current environment, 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; our expectations, including expected synergies, from the PCM integration; 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 plans to continue to evolve our IT systems, including migration of EMEA’s current 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; our expectations regarding future tax rates; adequate provisions for and our positions and strategies with respect to ongoing and threatened litigation and expected outcomes; 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 facilities; our expectations that future income will be sufficient to fully recover deferred tax assets; 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, which are discussed in “Risk Factors” in Part I, Item 1A of this report:

- 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;
- the duration and severity of the COVID-19 pandemic and its effects on our business, results of operations and financial condition, as well as the widespread outbreak of any other illnesses or communicable diseases;
- general economic conditions, economic uncertainties and changes in geopolitical conditions;
- changes in the IT industry and/or rapid changes in technology;
- supply constraints for devices;
- accounts receivable risks, including increased credit loss experience or extended payment terms with our clients;
- our reliance on independent shipping companies;
- the risks associated with our international operations;
- natural disasters or other adverse occurrences;
- disruptions in our IT systems and voice and data networks;

INSIGHT ENTERPRISES, INC.

- cyberattacks or breaches of data privacy and security regulations;
- intellectual property infringement claims and challenges to our registered trademarks and trade names;
- legal proceedings, including PCM related litigation, client audits and failure to comply with laws and regulations;
- failure to comply with the terms and conditions of our commercial and public sector contracts;
- exposure to changes in, interpretations of, or enforcement trends related to tax rules and regulations;
- our substantial amount of indebtedness;
- the conditional conversion feature of our convertible senior notes (the "notes"), which if triggered, may adversely affect the Company's financial condition and operating results;
- the accounting method for convertible debt securities that may be settled in cash, such as the notes, could have a material effect on the Company's reported financial results;
- the Company is subject to counterparty risk with respect to the convertible note hedge transactions;
- risks associated with the discontinuation of LIBOR as a benchmark rate.
- increased debt and interest expense and availability of funds under our financing facilities;
- possible significant fluctuations in our future operating results as well as seasonality and variability in client demands;
- our dependence on certain key personnel;
- risks associated with the integration and operation of acquired businesses, including achievement of expected synergies and benefits; and
- future sales of the Company's common stock or equity-linked securities in the public market could lower the market price for our common stock.

Any forward-looking statements in this report are made as of the date of this filing and should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. Additionally, there may be other risks described from time to time in the reports that we file with the Securities and Exchange Commission (the "SEC"). 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, and connected workforce solutions, together with our supply chain optimization expertise, 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:

| <u>Operating Segment*</u> | <u>Geography</u> | <u>Percent of 2020 Consolidated Net Sales</u> |
|---------------------------|--------------------------------|---|
| North America..... | United States and Canada | 79% |
| EMEA..... | Europe, Middle East and Africa | 19% |
| APAC..... | Asia-Pacific | 2% |

* 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 acquisitions were as follows:

Prior to 2015 we acquired Software Spectrum, Inc. (2006), Calence, LLC (2008), MINX Limited (2008), Ensynch, Inc. (2011), Inmac GmbH (2012) and Micro Warehouse BV (2012).

Our acquisitions from 2015 through today were as follows:

- 2015 – Acquired BlueMetal Architects, Inc. (“BlueMetal”), an interactive design and technology architecture firm, and strengthened our digital innovation 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 transformation 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 solutions to our clients in EMEA;
- 2018 – Acquired Cardinal Solutions Group, Inc. (“Cardinal”), a digital solutions provider and strengthened our digital innovations capabilities;
- 2019 – Acquired PCM, Inc. (“PCM”), a provider of multi-vendor technology offerings, including hardware, software and services which complemented our supply chain optimization solution offering, adding scale and clients in the mid-market and corporate space primarily in North America; and
- 2020 – On February 28, 2020, we acquired vNext SAS (“vNext”), a French digital consulting services and managed services provider, increasing our capacity to deliver consulting and implementation services to support clients’ digital transformation initiatives to our clients in EMEA.

INSIGHT ENTERPRISES, INC.

Our Purpose and Values

Our purpose: 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 have a positive impact in the lives of the people we serve by 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 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 20% of the worldwide total addressable market. We believe our addressable worldwide market represents approximately \$700 billion in annual sales and for the year ended December 31, 2020, our net sales of \$8.3 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 solutions across the globe.

Our Value Proposition

At Insight, we build meaningful connections to help businesses run smarter.

As a Fortune 500-ranked global technology provider, we empower organizations of all sizes with secure Insight Intelligent Technology Solutions™ and services to help our clients maximize the value of their technology today — and prepare for tomorrow.

Delivering client value, which helps us earn client loyalty, is our primary goal. We expect our clients to achieve long-standing advantages by leveraging our unique capabilities to provide end-to-end secure digital transformation solutions and services. From IT strategy and design to implementation and management, we meet clients wherever they are now, and work alongside them to get them where they want to be.

Insight has a differentiated investment and solution development strategy. Through organic investment and strategic acquisitions, we’ve developed scale and innovative solutions in three primary areas: Digital Innovation, Cloud and Data Center Transformation, and Connected Workforce. Underpinning these core solution areas is our pervasive security capability and our legacy, global, at-scale supply chain optimization systems and tools.

Insight’s Strategic Assets are a Platform for Growth

- **Culture, people and leadership** – We have many teammates on one global team who live by our core values; we show hunger, heart and harmony in everything we do. We put people first, believing that technology can connect people in powerful ways.
- **Innovation led solution area expertise** –
 - *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 often making strategic acquisitions that establish us as thought leaders, with scale and reach, around emerging market trends. Annually, we gather thought leaders from our technical

INSIGHT ENTERPRISES, INC.

expert pool to share best practices through peer led learning sessions. The BlueMetal (2015, U.S.), Ignia (2016, Australia), Cardinal (2018, U.S.) and vNext (2020, France) acquisitions are examples of acquisitions that have given us global capabilities to support our clients as they look to accelerate in the digital world.

- *Data center transformation skills* – In support of our long-term strategy, we acquired Datalink (2017, U.S.), a provider of IT services, cloud and enterprise data center solutions and Caase.com (2017, Netherlands), a cloud solutions provider. These acquisitions added deep technical expertise and complementary services offerings to our internally developed solutions and increased our addressable market opportunity in hybrid cloud and other high-growth data center categories.
- *App development and Internet-of-Things (“IoT”) expertise* – We were recognized as Intel’s Innovation Partner of the Year in 2020 and IoT Partner of the Year in 2019 as well as named partner of the year by app development solution providers HashiCorp and Databricks in 2020. We also were named in The Forrester Wave™: Midsize Agile Software Development Service Providers, Q2 2019 and The Forrester New Wave™: Computer Vision Consultancies, Q4 2020 reports. That expertise combined with our hardware and software expertise, makes us well-positioned to deliver holistic connected product and IoT solutions.
- *Software DNA* – We understand complex software licensing requirements and have the know-how to optimize our clients’ usage and compliance management through a portfolio of license consulting and optimization services.
- **Global reach and scale** – 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. With the 2019 acquisition of PCM, Insight grew to over 11,000 teammates worldwide, serving over 150,000 clients spanning our client categories.
- **Diverse partner relationships** – 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.
- **Operational rigor and financial health** – We offer efficient supply chain execution, as well as product fulfillment, logistics capabilities, management tools and technical expertise. We also have a track record for successfully integrating mergers and acquisitions to accelerate growth.

Our Business Strategy

A client’s information technology services needs span an array of business priorities including modern infrastructure and cloud options, workforce productivity initiatives, and leveraging IT to differentiate from their competitors. We believe our solution areas effectively represent the areas that our clients care about most and are designed to allow our clients, and the different decision makers within our clients’ organizations, to interact with us in multiple ways. Whether 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 our clients’ experiences, we provide technical expertise and advisory services to our clients as a single solution integrator, powered by decades-long partner relationships and expertise to supply them the hardware, software and cloud services required to support their technology needs.

Our go to market framework for our solution areas is built on over 30 years of broad IT experience combined with strategic acquisitions, new services development and deep partner relationships. We are uniquely positioned to help our clients maximize the values of their technology today – and prepare for tomorrow.

INSIGHT ENTERPRISES, INC.

Our expertise is deep across our solutions areas, underpinned by our supply chain optimization expertise:



| | | |
|--|---|--|
| <p><i>Digital Innovation</i></p> <p>We help companies navigate their digital transformation journey end-to-end. From custom app development and effective data analytics to Agile training and change management, we're the partner to take business to the next level.</p> | <p><i>Cloud and Data Center Transformation</i></p> <p>We help businesses modernize and secure critical platforms to transform IT. Through end-to-end services from architecture through management, we help leverage the right platforms to increase agility and support innovation.</p> | <p><i>Connected Workforce</i></p> <p>We help organizations keep their employees connected, productive and secure with professional and managed services that maximize returns on IT investments and free up internal resources.</p> |
| <p><i>Supply Chain Optimization</i></p> <p>All three of our solution areas are supported by the foundation of our technology supply chain optimization tools and services, which are designed to help maximize our client's IT investments by streamlining the IT procurement process and simplifying management over their hardware and software assets.</p> | | |

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. Our strategy is to increase our penetration with new and existing clients within the solution areas across our geographic footprint in North America, EMEA and APAC. Powered by Insight's legacy supply chain expertise, we are able to support our services offerings within the hardware, software and cloud solutions from market-leading and emerging manufacturer brands. 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 3,700 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.

INSIGHT ENTERPRISES, INC.

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. 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 growing 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. We have invested 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 hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments consist of largely software and certain software-related services. On a consolidated basis, hardware, software and services represented approximately 61%, 25% and 14%, respectively, of our net sales in 2020. This compares to 60%, 27% and 13%, respectively, of our net sales in 2019 and 61%, 27% and 12%, respectively, of our consolidated net sales in 2018. 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 cloud-solution-based services to help businesses run smarter within our key solutions areas. Our core solutions include:

Digital Innovation – Our clients are looking for business outcomes and we know the best experience wins, whether they are trying to improve their customer engagement, enable their workforce, or improve their operations, our clients face strong competition and digital disruption throughout their industries. We help our clients leverage technology to digitally transform their businesses. Our digital innovation solutions build upon our deep expertise in public cloud, IoT,

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mobility, big data and artificial intelligence as well as our extensive project management and organizational change management capabilities to ensure success across our clients' digital transformation journeys.

- *Intelligent Endpoints*: Gaining intelligent insights to network enabled devices, and spotting patterns and trends through mass analysis of any type of endpoints. We leverage our intellectual property or our partners' solutions to build out artificial intelligence aware IoT solutions.
- *Intelligent Applications*: Starting with digital design and ideation sessions on the art of the possible, we build custom applications to help our clients create disruption. 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 & Analytic*: Custom-developed solutions to help clients quickly review actionable insights within their data, including artificial intelligence for prediction, optimization, cognitive and vision services. Various solutions that have been developed include: drones to inspect railroad tracks and wind farms, predictive analytics to drive health outcomes and optimization models that replicate physical spaces virtually to run millions of simulations to drive agility, efficiencies, and desired outcomes.

Our Digital Innovation team has been named a strong performer in The Forrester New Wave™: Computer Vision Consultancies, Q4 2020. Forrester evaluated 13 of the top computer vision ("CV") providers across 10 criteria to help application development and delivery professionals, line-of-business and IT executives select the right partner for their CV needs. Insight was recognized for its deployment of innovative CV solutions at the edge. Our Digital Innovation team also has won numerous partner awards for innovation, AI Mobile Application, and DevOps/Cloud.

Cloud and Data Center Transformation – Consumption-based models and technology convergence are reinventing decades-old approaches to IT infrastructure. We assess, align, manage and secure our clients' data and workloads, defining and executing platform strategies for optimized IT environments. Our end-to-end services empower companies to effectively leverage technology solutions to overcome challenges, support growth and innovation, reduce risk, and transform the business.

- *Data center and cloud transformation*: Modernizing and optimizing IT across the business. Our services span hybrid cloud, migration and consolidation, workload-platform alignment, converged/hyperconverged solutions, and software-defined data center.
- *Data platform modernization*: Improving how data is stored, protected, consumed, analyzed and restored. We address data protection, backup to cloud — independent software vendor, business continuity and disaster recovery, artificial intelligence/machine learning private infrastructure and graphics processing unit acceleration, and data security.
- *Integrated network and security*: Securing networks and data, including cloud. Our focus areas are security operations and controls, compliance and governance, cloud security, micro-segmentation, and software-defined networking in a wide area network and SD fabric.
- *Comprehensive services*: Our consulting services, professional services, managed services and support services help clients throughout transformation, with advisory, technical needs, 24/7/365 monitoring, residencies and more.

Connected Workforce – The consumerization of IT, increase in the millennial population and proliferation of alternate work models is transforming the workplace. COVID-19 accelerated these changes in our clients. We provide our clients' workforces with solutions to deliver consumer-like technology experiences, enhance employee productivity, and reduce total cost of ownership. We offer a full range of services to clients including discovery, transformation, adoption and management. We deliver secure, managed solutions in three domains:

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- *Digital Workspace*: Desktop, notebook, tablet and mobile devices coupled with cloud-based productivity and collaboration software, provisioned and deployed in a “as-a-service” model and remotely managed by Insight.
- *Workplace Services*: Full support of end users and their technology including virtual technical support, remote service desk and automated self-service.
- *Enhanced Product Lifecycle*: Ability to procure, stage, provision, manage and dispose of hardware assets including overnight “hot-swap” to enable remote workers.

Supply Chain Optimization – As mentioned earlier, our three solution areas are supported by the foundation of our technology supply chain optimization tools and services. 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, refurbish and redeploy 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.

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

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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 have completed the integration of the PCM business to our IT system platforms. In 2021 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 – Risks related to Our Technology, Data and Intellectual Property – 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, SHI, Softchoice, Systemax, Computacenter, Bechtle, SoftwareONE, 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, Rakuten 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. 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 – Risks related to Our Business, Operations and Industry – 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 2020, we purchased products and software from approximately 6,000 partners. Approximately 64% (based on dollar volume) of these purchases were directly from manufacturers or software publishers, with the balance purchased through distributors. Purchases from Microsoft and Tech Data (a distributor) accounted for approximately 21% and 11%, respectively, of our aggregate purchases in 2020. No other partner accounted for more than 10% of purchases in 2020. Our top five partners as a group for 2020 were Microsoft, Tech Data, Dell, Ingram Micro (a distributor) and Cisco Systems, and approximately 56% of our total purchases during 2020 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 2020, sales of Microsoft and Dell products accounted for approximately 19% and 14%, respectively, of our consolidated net sales. No other manufacturer's or publisher's products accounted for more than 10% of our consolidated net sales in 2020. Sales of product from our top five manufacturers/publishers as a group (Microsoft, Dell, Cisco Systems, HP Inc. and Lenovo) accounted for approximately 57% of our consolidated net sales during 2020.

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 four years. These digital marketing investments increase the effectiveness of our marketing campaigns and client interactions. We believe that we are emerging as a leader in our industry in digital marketing, delivering an outstanding service experience to our clients. 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 – Risks related to Our Business, Operations and Industry – 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

Successful execution of our business strategy and strategic initiatives involves attracting, developing and retaining teammates who share our core values: hunger, heart and harmony. The experience, knowledge and dedication of our teammates help drive our operating results. Management regularly evaluates and enhances internal processes, technologies and teammate benefits in order to maintain engaged teammates and drive client satisfaction, productivity and efficiency.

Various ways that we attract, develop and retain qualified and motivated teammates include:

- Insight continues to make strides in becoming an employer of choice and has received honors all around the globe. Some examples include: Forbes World's Best Employers 2020 Number 296 overall and number 27 for IT companies; Number 70 on the Fortune 100 Best Workplaces for Diversity list (2019); Great Place to Work U.K. Number 8; Forbes Best Employers of Veterans (2020), Phoenix Best Places to Work Number 5 – Phoenix Business Journal (2020); Fortune Most Admired Company (2020); Human Rights Campaign Foundation's 2021 Corporate Equality Index scoring of 95; and an employer of choice by Fortune placing #7 in the information technology services industry on the list of the World's Most Admired Companies (2021).
- Insight offers robust leadership training for all people managers. Our training is centered around our Leadership Commitments requiring that leaders: (1) Create clarity; (2) Inspire people; (3) Demonstrate thought leadership; and (4) Deliver results. We believe leaders who excel in these commitments heighten teammate satisfaction and deliver superior business results.
- An important part of the Company's culture is its commitment to diversity and inclusion, and we've been recognized for our dedication to this important area. Insight has supported four Teammate Resource Groups, which represent various diverse groups of teammates and

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consist of approximately 1,200 active members. Those four groups hosted more than 70 events in 2020 and highlighted the concerns of diverse teammates at the Company.

- Our Teammate Pulse Survey has ranked Diversity as our #1 scoring category for the past three years. In the Fortune Best Workplaces process, we learned that “Justice” was rated as the highest category by our teammates – the extent to which employees perceive that management promotes inclusive behavior, avoids discrimination, and is committed to providing fair appeal.
- Our leaders carefully review and monitor our Teammate Pulse Survey results year over year and create action plans to increase teammate engagement. We have seen positive trending over the last five years, and are proud of the culture at Insight.
- To support teammates and their families in crisis situations, the Company provides financial support through its charitable foundation, which has received millions in contributions over the last six years from Insight and its teammates.
- Insight offers all teammates two paid Heart Days annually to volunteer their time to charitable organizations in the communities where we live and work.

As of December 31, 2020, we employed 11,006 teammates. Our teammates by operating segment were as follows:

| Operating Segment | Number of Teammates |
|---------------------|---------------------|
| North America | 8,719 |
| EMEA | 1,875 |
| APAC..... | 412 |

Our teammates in the United States are not represented by a labor union. Our workforces in certain foreign countries, such as the Netherlands, 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.

Our teammates by job function were as follows:

| Job Function | Number of Teammates |
|--|---------------------|
| Sales..... | 3,380 |
| Skilled, certified consulting and service delivery professionals | 4,410 |
| Total client facing teammates..... | 7,790 |
| Management, support services and administration..... | 2,820 |
| Distribution | 396 |

For a discussion of risks associated with our dependence on certain personnel, including sales personnel, see “Risk Factors – General 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 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.

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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 seek to establish and protect our intellectual property through different forms of intellectual property protection, including trademarks, patents, copyrights, trade secrets and other protections that apply in the United States and select foreign countries where we believe it is appropriate to seek such protection, under applicable laws. We also seek to maintain our trade secrets and confidential information by non-disclosure policies and agreements, as applicable, with teammates, clients, partners and others to protect our intellectual property rights. There can be no assurance, however, that the rights obtained can be successfully enforced against infringers in every jurisdiction. Although we believe the protection afforded by our trademarks, patents, copyrights and trade secrets has value, the rapidly changing technology in our industry and uncertainties in the legal process makes our future success dependent primarily on the innovative skills, technological expertise and management abilities of our employees. 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, in particular, have significant value, and we continue to invest in their promotion and protection.

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.

Information about our Executive Officers

The following are our current executive officers:

Glynis A. Bryan, Chief Financial Officer, Age 62

Ms. Bryan joined Insight in December 2007 as our Chief Financial Officer. Prior to joining Insight, Ms. Bryan served as Executive Vice President and Chief Financial Officer at Swift Transportation Co., Inc. from April 2005 to May 2007. Prior to joining Swift, Ms. Bryan served as Chief Financial Officer at APL Logistics in Oakland, California and in various finance roles at Ryder System, Inc., including Chief Financial Officer of Ryder's largest business unit, Ryder Transportation Services. Ms. Bryan is a member of the board of directors and the audit committee of Pentair, Ltd., a diversified industrial manufacturing company and of Pinnacle West Capital Corporation. In January 2018, she was appointed to the Economic Advisory Council for the Federal Reserve Bank of San Francisco.

Samuel C. Cowley, Senior Vice President, General Counsel and Secretary, Age 60

Mr. Cowley joined Insight in June 2016 as our Senior Vice President and General Counsel. Prior to joining Insight, Mr. Cowley served as General Counsel and Vice President, Business Development of Prestige Brands Holdings, Inc., a company that markets and distributes over-the-counter healthcare products, from February 2012 to June 2016. He previously served as Executive Vice President, Business Development and General Counsel of Matrixx Initiatives, Inc. and Executive Vice President and General Counsel of Swift Transportation Co., Inc. Prior to that, he practiced law in the business and finance groups with the law firms of Snell & Wilmer and Reid & Priest.

Rachael A. Bertrandt Crump, Principal Accounting Officer and Global Corporate Controller, Age 45

Ms. Bertrandt Crump joined Insight in December 2016 as Vice President of Finance, Controller – North America and was appointed Principal Accounting Officer and Global Corporate Controller in September 2018. Ms. Bertrandt Crump is a Certified Public Accountant. She began her career in public accounting in 1997 with Ernst & Young LLP. Ms. Bertrandt Crump has held controller positions with several multinational companies in the software, medical services and semiconductor industries. Prior to joining Insight, Ms. Bertrandt Crump served as the Senior Director Controller, Global

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Accounting at Amkor Technology, Inc., a semiconductor product packaging and test services provider, from 2006 to 2016.

Emma de Sousa, President – Insight EMEA, Age 44

Ms. de Sousa joined Insight in 2003. Ms. de Sousa has held various positions of increasing responsibility at Insight including Managing Director of the United Kingdom and Ireland from January 2009 to March 2017, and Senior Vice President of United Kingdom and EMEA Marketing from March 2017 until January 2021, when she was promoted to President of the EMEA business. Prior to joining Insight, Ms. de Sousa held various marketing and sales roles.

Helen K. Johnson, Senior Vice President, Finance – Chief Financial Officer, North America, Age 51

Ms. Johnson joined Insight in October 2007 as Senior Vice President, Treasurer and on January 1, 2013, assumed the role of Chief Financial Officer of our North America operating segment. In her current role, Ms. Johnson is responsible for all finance functions in our North America business. She is also responsible for corporate financial planning and analysis and investor relations activities of the Company. Prior to joining Insight, Ms. Johnson served from 2000 to 2007 at eFunds Corporation, a publicly-held technology solutions provider to the financial institutions market, most recently as Senior Vice President, Treasurer and Investor Relations.

Kenneth T. Lamneck, President and Chief Executive Officer, Age 66

Mr. Lamneck was appointed President and Chief Executive Officer and a director of Insight effective January 1, 2010. From 2004 through 2009, Mr. Lamneck served as President, the Americas, at Tech Data Corporation, a wholesale distributor of technology products, where he led operations in the United States, Canada and Latin America. From 1996 to 2003, he held various executive management positions at Arrow Electronics, including President of Arrow/Richey Electronics and President of Arrow's Industrial Computer Products business. Mr. Lamneck is a member of the board of directors of Benchmark Electronics, Inc., a publicly-held company that provides integrated manufacturing, design and engineering services to original equipment manufacturers of computers and related products.

Joyce Mullen, President, North America Region, Age 58

Ms. Mullen joined Insight in October 2020 as our President of the North America Region. Prior to joining Insight, Ms. Mullen spent 21 years of her career at Dell Technologies in a variety of sales, service delivery, and IT solutions roles. Ms. Mullen also serves on the Board of The Toro Company (NYSE: TTC). She completed her undergraduate studies at Brown University in International Relations, and she holds an MBA from Harvard University.

Jeffery Shumway, Chief Information Officer, Age 62

Mr. Shumway joined Insight September 2005 as a consulting information systems analyst. Mr. Shumway held various positions of increasing responsibility at Insight including Vice President of Application Development from August 2010 to September 2017 and Senior Vice President of Global IT Operations from October 2017 until May 2019, when he was promoted to Global Chief Information Officer. Prior to joining Insight, Mr. Shumway held a variety of leadership positions at Belden Communications. Prior to starting his career in the field of information technology, Mr. Shumway served as a Phoenix, Arizona Police Officer, holding many roles including Sergeant of the Computer Services Bureau.

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 SEC. 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.

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Item 1A. Risk Factors

Risks Related to Our Business, Operations and Industry

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 or higher 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.

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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 client 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.

The recent novel coronavirus ("COVID-19") global pandemic has adversely impacted, and is expected to continue to adversely impact, our business, results of operations and financial condition. The widespread outbreak of any other illnesses or communicable diseases could also adversely affect our business, results of operations and financial condition.

We could be negatively impacted by the widespread outbreak of an illness, any other communicable disease or any other public health crisis that results in economic and trade disruptions, including the disruption of global supply chains. To date, the COVID-19 pandemic has adversely impacted, and is expected to continue to adversely impact, our business, results of operations and financial condition.

In late 2019, there was an outbreak of a new strain of coronavirus, COVID-19, which has since spread globally. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. In an effort to protect the health and safety of our teammates, we took proactive action to adopt social distancing policies at our locations globally, including working from home where possible, limiting the number of teammates attending in-person meetings, reducing the number of people in our locations at any one time, and suspending teammate travel.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation, and initially created significant volatility and disruption of financial markets. As a result of the COVID-19 pandemic and the related responses from government authorities, our business operations, financial performance and results of operations have been, and continue to be, adversely impacted. For example, we observed a pronounced impact of COVID-19 on our 2020 financial results when compared to internal expectations and anticipate demand for our products and services may continue to be impacted going into 2021 as clients continue to evaluate the impact of COVID-19 on their businesses, their profitability and their liquidity. While we experienced a decline in hardware bookings year over year in the first half of 2020, we exited 2020 with elevated bookings going into the first quarter of 2021. In the short run we took steps to accelerate and complete our integration with PCM and to reduce discretionary operating expenditures, such as certain teammate benefits and variable compensation, and travel related expenditures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Impact of COVID-19 to our Business" for additional information.

Additionally, our business operations, financial performance and results of operations have been and could be further adversely impacted in a number of ways, which may include, but is not limited to, the following:

- disruptions to our operations, including any closures of our offices and facilities; restrictions on our operations and sales, marketing and distribution efforts; and interruptions to our other important business activities;

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- further reduced demand for our products and services due to disruptions to the businesses and operations of our clients;
- interruptions, availability or delays in global shipping to transport our products;
- a slowdown or stoppage in the supply chain for our products;
- limitations on employee resources and availability, including due to sickness, government restrictions, the desire of employees to avoid contact with large groups of people or mass transit disruptions;
- the ability of our clients to pay for our products, services and solutions;
- the willingness of clients in the travel, hospitality, retail and other industries significantly impacted by the pandemic to continue with current and expected projects;
- a fluctuation in foreign currency exchange rates or interest rates, which could result from market uncertainties;
- an increase in the cost or the difficulty to obtain debt or equity financing, which could affect our financial condition or our ability to fund operations or future investment opportunities;
- changes to the carrying value of our goodwill and intangible assets; and
- an increase in regulatory restrictions or continued market volatility, which could hinder our ability to execute strategic business activities, including acquisitions, as well as negatively impact our stock price.

The spread of COVID-19 has caused us to modify our business practices (including teammate travel, teammate work locations, and cancellation of physical participation in most meetings, events and conferences), and we anticipate taking further actions as may be required by government authorities or that we determine are in the best interests of our clients, partners and teammates. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed. Further, should any key teammates become ill from COVID-19 and unable to work, the attention of the management team could be diverted.

The potential effects of the COVID-19 pandemic may also impact our other risk factors discussed in this "Risk Factors" section. The ultimate extent of the impact of the COVID-19 pandemic on our business operations, financial performance and results of operation, including our ability to execute our business strategies and initiatives in the expected time frame, will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted. This includes, but is not limited to, the duration and spread of the COVID-19 pandemic, its severity, the actions taken to contain the virus or treat its impact, such as restrictions on travel and transportation, and how quickly and to what extent normal economic and operating conditions can resume.

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, including as a result of the COVID-19 pandemic, 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 public sector clients 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 clients 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.

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Political developments, economic instability or natural disasters impacting international trade, including continued uncertainty surrounding the Referendum on the United Kingdom's Membership in the European Union ("EU") (referred to as "Brexit") and, trade disputes and increased tariffs, particularly between the United States and China, may negatively impact markets and cause weaker macroeconomic conditions or drive sentiment that weakens demand for our products and services. 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.

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.

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.

We are exposed to accounts receivable risks. We extend credit to our clients for a significant portion of our net sales, typically on 30-day payment terms. We are subject to the risk that our clients 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 clients, 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 clients by FedEx, United Parcel Service and other commercial delivery services and invoice clients 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 impacted. Additionally, strikes, inclement weather, natural disasters or other service interruptions, including as a result of the COVID-19 pandemic, sustained by such shippers could adversely impact 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.

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, India, the Philippines 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

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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);
- 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, public health concerns (including health epidemics or outbreaks of communicable diseases such as the COVID-19 pandemic) and other geopolitical uncertainties.

In addition, changes in policies and/or laws of the United States or foreign governments, including data privacy restrictions such as the General Data Protection Regulation ("GDPR") 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.

A natural disaster or other adverse occurrence at one of our primary facilities or client 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, or negatively impacted, by a natural disaster or other adverse occurrence, we could utilize another distribution center or third-party distributors to ship products to our clients. 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 clients and would cause us to incur incremental operating costs. In addition, we operate client data centers and numerous sales offices which may contain both business-critical data and confidential information of our clients. A natural disaster or other adverse occurrence at any of the client data centers or at any of our major sales offices, including any closures or restrictions on operations as a result of the COVID-19 pandemic, could negatively impact our business, results of operations or cash flows.

Risks Related to Our Technology, Data and Intellectual Property

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 impacts 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

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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. In addition, we plan to migrate our EMEA operations to the same IT system used in North America and APAC. 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.

Cyberattacks, data incidents and breaches in the security (i) of our information systems and networks, (ii) of the products we sell and services we provide, and (iii) of the electronic and confidential information in our possession could materially adversely impact our financial condition, results of operations, reputation, and relationships with clients, partners, vendors, and teammates. 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 or have access to certain proprietary confidential, and personal information, including information about teammates and information about partners, vendors, 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 and partners 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. The protection and security of our network systems, our clients' systems, applications, and platforms to which we have access, and our own information, as well as information relating to our clients, partners, vendors, and teammates, is vitally important to us as the compromise, loss, theft, misuse, or unauthorized access to such networks or information could lead to significant reputational or competitive harm, result in litigation involving us or our business partners, expose us to regulatory proceedings, and cause us to incur substantial liability or expenses.

The frequency, intensity, and sophistication of cyberattacks and data security incidents has significantly increased in recent years and is constant. As with many other businesses, we are continually subject to cyber-attacks and the risk of data security incidents. Due to the increased risk of these types of attacks and incidents, we expend significant resources on information technology and data security tools, measures, and processes designed to protect our networks systems, services, and the personal, confidential or proprietary information in our possession, and to ensure an effective response to any cyber-attack or data security incident. We have privacy and data security policies in place that are designed to detect, prevent, and/or mitigate cyberattacks and data security incidents. Whether or not these policies, tools, and measures are ultimately successful, the expenditures could have an adverse impact on our financial condition and results of operations, and divert management's attention from pursuing our strategic objectives. As newer technologies evolve, and the portfolio of the service providers we share confidential information with grows, we could be exposed to increased risks from cyberattacks, data security events, and data breaches, including those from human error, negligence or mismanagement or from illegal or fraudulent acts.

Although we take the security of our network systems and information seriously, there can be no assurance that the security measures we employ will effectively prevent unauthorized persons from obtaining unauthorized access to our systems and information due to the evolving nature and intensity of cyberattacks and threats to data security, in light of new and sophisticated tools and methods used by criminals and cyberterrorists to penetrate and compromise systems, including computer viruses, malware, ransomware, phishing, misrepresentation, social engineering and forgery, which make it increasingly challenging to anticipate, harder to detect, and more difficult to adequately mitigate these risks. Any failure on the part of us or our vendors to maintain the security of our network systems and the proprietary, confidential, and personal data in our possession, including via the penetration of our network security and the misappropriation of proprietary, confidential and personal information, could result in costly investigations and remediation, 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'

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confidence in us and other competitive disadvantages, and thus could have a material adverse effect on our business, financial condition and results of operations.

Cyberthreats are constantly evolving, increasing the difficulty of detecting and successfully defending against them. Malicious individuals, organizations, and nation-state threat actors may attempt to penetrate or compromise our network systems, the products we sell, or services we provide in order to access, acquire, misappropriate, disclose, alter, or otherwise compromise our teammates', clients', and partners' proprietary, confidential, technical business, and/or personal information in our possession or to which we have access, create system disruptions, cause system or operations shutdowns or perpetrate secondary attacks against our clients, partners, and teammates. Such individuals or organizations also may develop or deploy viruses, worms, ransomware or otherwise exploit security vulnerabilities of our systems or our product offerings, or attempt to fraudulently induce our employees, clients or others to disclose passwords or other sensitive information or unwittingly provide access to our systems, data, or client environments. Cyberthreats, cyberattacks, data security incidents, data breaches, malware and similar disruptions from unauthorized access or tampering by malicious actors or inadvertent error could disrupt the security of our systems and business applications, impair our ability to provide services to our clients and protect the privacy of their data, resulting in the unauthorized access to, acquisition, misappropriation, disclosure, alteration, or compromise of confidential, proprietary or technical business information or personal information and thereby could harm our reputation, client relationships, business, and competitive position.

Like many other businesses, we have been, are, and expect to continue to be, subject to cyberattacks, and data security incidents. Additionally, some of the hardware and software products we resell could have defects, viruses, vulnerabilities, or otherwise be the subject of cyberattacks, data security events, or data breaches. 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 clients, regulators and individuals and thereby could be subject to litigation, regulatory inquiry, loss of business, and reputational harm.

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 impact 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.

Risks Related to Regulatory and Legal Matters

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

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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 clients, 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, including data privacy restrictions such as the GDPR or the California Consumer Privacy Act ("CCPA"), data breach notification laws, and certain data security regulations, 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.

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, or stated terms and conditions on our website, 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.

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 is 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 acquisition accounting; 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.

Risks Related to Our Indebtedness

We have a substantial amount of indebtedness, which could have important consequences to our business. We have a substantial amount of indebtedness. As of December 31, 2020, we had \$438.7 million of total long-term debt outstanding, as defined by U.S. generally accepted accounting principles ("GAAP"), and an additional \$356.9 million of obligations outstanding

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under our inventory financing agreements. We also have the ability to borrow an additional \$1.1 billion under our senior secured credit facility. Our substantial indebtedness could have important consequences, that could have a material adverse effect on our business, financial condition and results of operations, including the following:

- making it more difficult for us to satisfy our obligations with respect to our indebtedness;
- requiring us to dedicate a substantial portion of our cash flow from operations to debt service payments on our and our subsidiaries' debt, which reduces the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- requiring us to comply with restrictive covenants in our senior secured debt facility, which limits the manner in which we conduct our business;
- limiting our flexibility in planning for, or reacting to, changes in the industry in which we operate;
- placing us at a competitive disadvantage compared to any of our less-leveraged competitors;
- increasing our vulnerability to both general and industry-specific adverse economic conditions; and
- limiting our ability to obtain additional debt or equity financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements and increasing our cost of borrowing.

The accounting method for convertible debt securities that may be settled in cash, such as the notes, could have a material effect on the Company's reported financial results.

Under Accounting Standards Codification ("ASC") 470-20, "Debt with Conversion and Other Options," an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component is treated as debt discount for purposes of accounting for the debt component of the notes. As a result, we record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report larger net losses (or lower net income) in our financial results because ASC 470-20 requires interest to include both the amortization of the debt discount and the instrument's non-convertible coupon interest rate, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the notes.

In addition, under certain circumstances, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash at the election of the issuer and are in the money at the reporting date may be included in the treasury stock method under ASC 260, "Earnings Per Share." To the extent that the conversion value of the notes exceeds their principal amount, the shares issuable upon conversion of such notes are included in the calculation of diluted earnings per share thus increasing the number of shares included in this calculation. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are required to include the notes in the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share could be adversely affected.

The conditional conversion feature of the notes, if triggered, may adversely affect the Company's financial condition and operating results. In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of notes do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net current assets.

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The Company is subject to counterparty risk with respect to the convertible note hedge transactions. The option counterparties are financial institutions or affiliates of financial institutions, and we are subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transaction. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our common stock market price and in the volatility of the market price of our common stock. In addition, upon a default by the option counterparty, we may suffer adverse tax consequences and dilution with respect to our common stock.

The Company may face risk associated with the discontinuation of and transition from London Interbank Offered Rate (LIBOR) as a benchmark interest rate. The Company has outstanding debt with variable interest rates based on LIBOR, and it is anticipated that LIBOR will be discontinued as of the year ending 2021, if no extensions are authorized. The expected discontinuation of LIBOR will require lenders and their borrowers to transition from LIBOR to an alternative benchmark interest rate, which could have an impact on and risk to the Company if not completed in a timely manner. The Company's current material loan documents include an alternative benchmark interest rate. At this time, however, it is not possible to predict the effect of any changes to LIBOR, any phase out of LIBOR or any establishment of alternative benchmark rates in the future. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts which terminate after 2021. In addition, any changes to benchmark rates in the future may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows.

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, such as with the PCM acquisition. These additional borrowings have the effect of increasing our future interest expenses and require escalating amortization payments. Additionally, certain of our financing facilities have interest rates that vary based on market conditions and on utilization, which increases our exposure to interest rate fluctuations and may result in greater interest expense than we have forecasted.

Our financing facilities contain covenants that we must comply with in order to avoid an occurrence of an event of default. The covenants include, among other things, limitations on the payment of dividends and compliance with certain minimum fixed charge ratio and minimum receivables requirements, as well as meeting 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.

General Risk Factors

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, some of which have been affected by the COVID-19 pandemic. 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

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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.

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.

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 client 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 client reactions. In addition, integration of an acquired business, such as PCM, 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, particularly with the integration of a company the size of PCM, 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.

Future sales of the Company's common stock or equity-linked securities in the public market could lower the market price for our common stock. In the future, we may sell additional shares of our common stock or equity-linked securities to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options, restricted stock units, upon conversion of the notes and in connection with the warrants to be issued in connection with the convertible note hedge and warrant transactions. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities.

Item 1B. Unresolved Staff Comments

Not applicable.

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Item 2. *Properties*

Our principal executive offices are located in Tempe, Arizona. At December 31, 2020, we owned or leased approximately 2.4 million square feet of office and warehouse space, and, while approximately 78% 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 10 countries in APAC. 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. Information about significant sales, distribution, services and administration facilities in use as of December 31, 2020 is summarized in the following table:

| <u>Operating Segment</u> | <u>Location</u> | <u>Primary Activities</u> | <u>Own or Lease</u> |
|---------------------------------|------------------------------------|---|----------------------------|
| North America | Tempe, Arizona, USA | Executive Offices, Sales and Administration and Network Operations Center | Own |
| | Tempe, Arizona, USA | Client Support Center | Own |
| | El Segundo, California, USA | Sales, Services and Administration | Lease |
| | 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 |
| | Lewis Center, Ohio, USA | Services, Distribution and Administration | Own |
| | Worthington, Ohio, USA | Distribution | 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 |
| | Manila, Philippines | Operations Center | Lease |

In addition to those listed above, we have leased sales offices in various cities across North America, EMEA and APAC and during the fourth quarter of 2019, we completed the purchase of real estate in Chandler, Arizona that we intend to use as our global headquarters. For additional information on property and equipment and operating leases, see Notes 4 and 9 to the Consolidated Financial Statements in Part II, Item 8 of this report. For additional information on the subsequent event regarding the sale of our Tempe, Arizona properties see Note 22 to the Consolidated Financial Statements in Part II, Item 8 of this report.

INSIGHT ENTERPRISES, INC.

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 12, 2021, we had 35,103,074 shares of common stock outstanding held by 46 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 senior secured revolving credit facility contains restrictions on the payment of cash dividends.

Issuer Purchases of Equity Securities

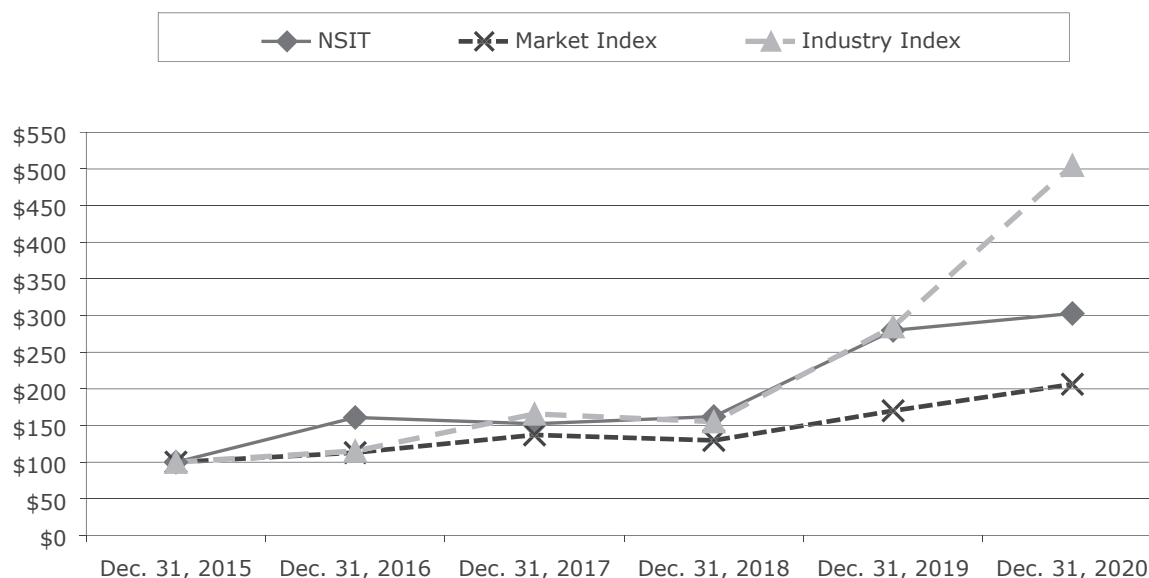
We did not repurchase shares of our common stock during the quarter ended December 31, 2020.

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

INSIGHT ENTERPRISES, INC.

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, 2015 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, 2015 | Dec. 31, 2016 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2020 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Insight Enterprises, Inc. Common Stock (NSIT) | \$100.00 | \$161.00 | \$152.00 | \$162.00 | \$280.00 | \$303.00 |
| Nasdaq US Benchmark TR Index (Market Index)..... | 100.00 | 113.00 | 137.00 | 130.00 | 170.00 | 206.00 |
| Nasdaq US Benchmark Computer Hardware TR Index (Industry Index) | 100.00 | 115.00 | 166.00 | 155.00 | 285.00 | 505.00 |

INSIGHT ENTERPRISES, INC.

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, 2020 is derived from our audited consolidated financial statements. The consolidated financial statements as of December 31, 2020 and 2019, and for each of the years in the three-year period ended December 31, 2020, 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, | | | | |
|--|---------------------------------------|-------------------|-------------------|------------------|------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (in thousands, except per share data) | | | | |
| Consolidated Statements of Operations Data ⁽¹⁾⁽²⁾⁽³⁾ | | | | | |
| Net sales | \$8,340,579 | \$7,731,190 | \$7,080,136 | \$6,703,623 | \$5,485,515 |
| Costs of goods sold | 7,040,637 | 6,593,092 | 6,086,418 | 5,785,053 | 4,742,413 |
| Gross profit | 1,299,942 | 1,138,098 | 993,718 | 918,570 | 743,102 |
| Operating expenses: | | | | | |
| Selling and administrative expenses | 1,013,765 | 880,737 | 756,529 | 723,328 | 585,243 |
| Severance and restructuring expenses | 12,394 | 5,425 | 3,424 | 9,002 | 4,580 |
| Loss on sale of foreign entity | — | — | — | 3,646 | — |
| Acquisition-related expenses | 2,208 | 11,342 | 282 | 3,329 | 4,447 |
| Earnings from operations | 271,575 | 240,594 | 233,483 | 179,265 | 148,832 |
| Non-operating (income) expense: | | | | | |
| Interest expense, net | 41,594 | 28,478 | 21,737 | 17,965 | 7,562 |
| Other expense (income) | 1,529 | 400 | (156) | 2,202 | 1,812 |
| Earnings before income taxes | 228,452 | 211,716 | 211,902 | 159,098 | 139,458 |
| Income tax expense | 55,812 | 52,309 | 48,225 | 68,415 | 54,768 |
| Net earnings | <u>\$ 172,640</u> | <u>\$ 159,407</u> | <u>\$ 163,677</u> | <u>\$ 90,683</u> | <u>\$ 84,690</u> |
| Net earnings per share: | | | | | |
| Basic | <u>\$ 4.92</u> | <u>\$ 4.49</u> | <u>\$ 4.60</u> | <u>\$ 2.54</u> | <u>\$ 2.35</u> |
| Diluted | <u>\$ 4.87</u> | <u>\$ 4.43</u> | <u>\$ 4.55</u> | <u>\$ 2.50</u> | <u>\$ 2.32</u> |
| Shares used in per share calculations: | | | | | |
| Basic | <u>35,117</u> | <u>35,538</u> | <u>35,586</u> | <u>35,741</u> | <u>36,102</u> |
| Diluted | <u>35,444</u> | <u>35,959</u> | <u>36,009</u> | <u>36,207</u> | <u>36,438</u> |

INSIGHT ENTERPRISES, INC.

| | December 31, | | | | |
|---|----------------|--------------|------------|------------|------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data | | | | | |
| Working capital | \$ 948,986 | \$ 1,164,504 | \$ 801,915 | \$ 804,369 | \$ 544,943 |
| Total assets | 4,310,732 | 4,178,179 | 2,775,947 | 2,685,651 | 2,219,300 |
| Short-term debt, including finance leases and other financing obligations ⁽⁴⁾ | 1,105 | 1,691 | 1,395 | 16,592 | 480 |
| Long-term debt, including finance leases and other financing obligations ⁽⁴⁾ | 437,581 | 857,673 | 195,525 | 296,576 | 40,251 |
| Stockholders' equity | 1,342,429 | 1,160,318 | 986,989 | 843,469 | 713,443 |
| 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: vNext from February 28, 2020, PCM from August 30, 2019, 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 2020, 2019 and 2018 includes the impact of adopting ASU No. 2014-09, "Revenue from Contracts with Customers," which created FASB Topic 606 ("Topic 606").

(3) Our consolidated statements of operations for 2017 through 2020 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 facilities of \$356.9 million, \$253.7 million, \$304.1 million, \$319.5 million and \$154.9 million as of December 31, 2020, 2019, 2018, 2017 and 2016, 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 these facilities. These amounts are classified separately as accounts payable-inventory financing facilities on our consolidated balance sheets. See Note 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

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 information technology ("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 solutions, together with our supply chain optimization expertise, 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 2020 financial and operational highlights included the following:

- We generated growth in earnings from operations on a consolidated basis in each of our reporting segments.
- We grew our services net sales by 17% on a consolidated basis with growth in each of our reporting segments.
- We generated cash flows from operations of \$355.6 million.
- The Company completed the integration of the PCM business, including onboarding PCM clients to its systems. The Company has aligned its go-to-market structure in North America and EMEA and believes it is well positioned to compete as a single brand in the marketplace. The Company also began to realize some benefits of its real estate consolidation efforts.

On a consolidated basis, for the year ended December 31, 2020:

- Net sales of \$8.3 billion increased 8% compared to 2019.
- Gross profit of \$1.3 billion increased 14% compared to 2019, also up 14% year over year excluding the effects of fluctuating foreign currency exchange rates.
- Consolidated gross margin improved approximately 90 basis points to 15.6% of net sales in 2020. This increase reflects growth in services net sales.
- Earnings from operations increased to \$271.6 million in 2020, up 13% compared to the prior year, which represented 3.3% of net sales.
- Our effective tax rate in 2020 was 24.4%, which compares to our effective tax rate of 24.7% in 2019.
- Net earnings and diluted net earnings per share were \$172.6 million and \$4.87, respectively, in 2020. In 2019, we reported net earnings of \$159.4 million and diluted net earnings per share of \$4.43.

The results of operations for 2020 include the following items:

- the results of the acquisition of PCM for the full year in 2020;
- the results of the acquisition of vNext, effective February 28, 2020;
- transaction costs totaling \$2.2 million and \$1.6 million net of tax, associated with the acquisition of PCM and vNext, respectively;
- severance and restructuring expenses of \$12.4 million, \$9.3 million net of tax;
- the repurchase of approximately 445,000 shares of the Company's common stock for an aggregate of \$25.0 million.

INSIGHT ENTERPRISES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

The results of operations for 2019 include the following items:

- the results of the acquisition of PCM, effective August 30, 2019;
- transaction costs totaling \$11.3 million, \$9.9 million net of tax, associated with the acquisition of PCM;
- severance and restructuring expenses of \$5.4 million, \$4.0 million net of tax;
- the repurchase of approximately 541,000 shares of the Company's common stock for an aggregate of \$27.9 million; and
- the impact of the adoption of FASB Topic 842 ("Topic 842"), effective January 1, 2019, resulting in the recording of net operating lease right-of-use assets and lease liabilities of \$65.9 million and \$70.5 million, respectively.

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 of Cardinal;
- 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.

Impact of COVID-19 to our Business

On March 11, 2020, the World Health Organization declared a new strain of the coronavirus ("COVID-19") a pandemic. Throughout the pandemic, we have prioritized the safety and well-being of our teammates and have ensured that they feel supported during these uncertain times. When COVID-19 forced the closure of most of Insight's workplaces in March 2020, we quickly enabled remote work for roughly 10,000 teammates. In an effort to protect the health and safety of our teammates, we took proactive action to adopt social distancing policies at our locations globally, limiting the number of teammates attending in-person meetings, reducing the number of people in our locations at any one time, and suspending most teammate travel. At various points throughout 2020, governments around the world also enacted various measures, including orders to close all businesses not deemed "essential," isolate residents to their homes or places of residence, and practice social distancing when engaging in essential activities. While government actions have changed in certain countries, the measures taken by the Company to prioritize the safety and well-being of our teammates were in place for most of 2020 and remain in place to date.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation, and initially created significant volatility and disruption of financial markets. We observed a pronounced impact of COVID-19 on our 2020 financial results when compared to internal expectations and anticipate demand for our products and services may continue to be impacted going into 2021 as clients continue to evaluate the impact of COVID-19 on their businesses, their profitability and their liquidity. Although we exited 2020 with slightly elevated bookings going into the first quarter of 2021, continued impacts of COVID-19 and supply challenges could diminish the effect this has on our financial results.

In the short run, we took steps to accelerate and complete our integration with PCM and to reduce discretionary operating expenditures, such as certain teammate benefits and variable compensation and travel related expenditures. We have also utilized various partner and government incentives available to us temporarily to help offset some of these business impacts. In the second half of 2020, we invested in our sales force, adding key technical talent across our solution areas and additional sales coverage to our geographic footprint. We plan to continue to invest in this area so that we are positioned well to compete in the marketplace in 2021, when we expect the IT market will start to recover.

We paid down most of our debt under our ABL facility during the year and believe we have a strong balance sheet and healthy liquidity position. The Company had current capacity of up to \$1.2 billion under our senior secured revolving credit facility (the "ABL facility"), of which \$1.1 billion was available as of December 31, 2020.

INSIGHT ENTERPRISES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

The ultimate extent of the impact of the COVID-19 pandemic on our business operations, financial performance and results of operations, including our ability to execute our business strategies and initiatives in the expected time frame, is currently unknown and will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted. This includes, but is not limited to, the duration and spread of the COVID-19 pandemic, its severity, the actions taken to contain the virus or treat its impact, such as restrictions on travel and transportation, and how quickly and to what extent normal economic and operating conditions resume.

We will continue to actively monitor the COVID-19 situation and will take further actions as may be required by government authorities or that we determine are in the best interests of our teammates, clients and partners. It is not clear what the effects of any such potential alterations or modifications may have on our business, including the effects on our clients, teammates, and prospects, or on our financial results for 2021.

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 2020, we generated \$355.6 million of cash from operating activities and primarily utilized cash to repay our debt. We repaid \$431.4 million under our senior secured revolving credit facility (the "ABL facility"). We ended the year with \$128.3 million of cash and cash equivalents and \$436.4 million of debt outstanding under our long-term debt facilities.

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 COVID-19 pandemic has negatively impacted the global economy and has disrupted global supply chains and workforce participation. We observed an impact on our 2020 financial results and believe the ultimate extent of the impact of the COVID-19 pandemic on our future business operations, financial performance and results of operations, including our ability to execute our business strategies and initiatives in the expected time frame, is currently unknown and will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted.

The following table sets forth certain financial data as a percentage of net sales for the years ended December 31, 2020, 2019 and 2018:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|--------------------|--------------------|--------------------|
| Net sales | 100.0% | 100.0% | 100.0% |
| Costs of goods sold | <u>84.4</u> | <u>85.3</u> | <u>86.0</u> |
| Gross profit | 15.6 | 14.7 | 14.0 |
| Operating expenses: | | | |
| Selling and administrative expenses..... | 12.1 | 11.4 | 10.6 |
| Severance and restructuring expenses, loss on sale of foreign entity and acquisition-related expenses | <u>0.2</u> | <u>0.2</u> | <u>0.1</u> |
| Earnings from operations..... | 3.3 | 3.1 | 3.3 |
| Non-operating expense, net | <u>0.5</u> | <u>0.4</u> | <u>0.3</u> |
| Earnings before income taxes | 2.8 | 2.7 | 3.0 |
| Income tax expense..... | <u>0.7</u> | <u>0.6</u> | <u>0.7</u> |
| Net earnings..... | <u><u>2.1%</u></u> | <u><u>2.1%</u></u> | <u><u>2.3%</u></u> |

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 shift our focus and respond to them. For a discussion of risks associated with our reliance on partners, see "Risk Factors – Risks related to Our Business, Operations and Industry – 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.

2020 Compared to 2019

Net Sales. Net sales increased 8%, or \$609 million, in 2020 compared to 2019. Net sales of products (hardware and software) increased 7% and net sales of services increased 17% in 2020 compared to 2019. Our net sales by operating segment for 2020 and 2019 were as follows (dollars in thousands):

| | <u>2020</u> | <u>2019</u> | <u>% Change</u> |
|---------------------|----------------------------|----------------------------|------------------|
| North America | \$ 6,615,032 | \$ 6,024,305 | 10% |
| EMEA | 1,555,225 | 1,526,644 | 2% |
| APAC | <u>170,322</u> | <u>180,241</u> | (6%) |
| Consolidated | <u><u>\$ 8,340,579</u></u> | <u><u>\$ 7,731,190</u></u> | <u><u>8%</u></u> |

INSIGHT ENTERPRISES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Our net sales by offering category for North America for 2020 and 2019, were as follows (dollars in thousands):

| Sales Mix | North America | | % Change |
|------------------|----------------------|---------------------|-----------------|
| | 2020 | 2019 | |
| Hardware | \$ 4,418,295 | \$ 3,957,507 | 12% |
| Software | 1,260,757 | 1,269,983 | (1%) |
| Services | 935,980 | 796,815 | 17% |
| | <u>\$ 6,615,032</u> | <u>\$ 6,024,305</u> | <u>10%</u> |

Net sales in North America increased 10%, or \$590.7 million, in 2020 compared to 2019. This increase reflects the inclusion of PCM for the full year in 2020, partially offset by a decline in net sales as a result of the negative impacts of COVID-19 on demand for hardware. Net sales of hardware and services increased 12% and 17%, respectively, year over year with net sales of software declining 1%, year to year. The net changes year over year were primarily the result of the following:

- PCM largely accounted for the higher volume of hardware net sales in 2020 compared to 2019, reflecting a full year of net sales in 2020 compared to only four months in 2019. This was partially offset by lower volume of hardware net sales due to the impacts of COVID-19 on client demand and certain supply challenges.
- The increase in services net sales was primarily due to higher volume of sales of Insight delivered services, reflecting the addition of PCM and the continued trend toward higher sales of cloud solution offerings. Increases in software maintenance, warranty and supplier reimbursements that are recorded on a net sales recognition basis within services net sales also contributed to the increase.
- The decrease in software net sales was primarily due to the migration towards cloud solution offerings.

Our net sales by offering category for EMEA for 2020 and 2019, were as follows (dollars in thousands):

| Sales Mix | EMEA | | % Change |
|------------------|---------------------|---------------------|-----------------|
| | 2020 | 2019 | |
| Hardware | \$ 617,825 | \$ 622,949 | (1%) |
| Software | 760,562 | 753,729 | 1% |
| Services | 176,838 | 149,966 | 18% |
| | <u>\$ 1,555,225</u> | <u>\$ 1,526,644</u> | <u>2%</u> |

Net sales in EMEA increased 2% (increased 1% excluding the effects of fluctuating foreign currency exchange rates), or up \$28.6 million, in 2020 compared to 2019. Net sales of services and software were up 18% and 1%, respectively, year over year, while net sales of hardware declined 1%, year to year. The net changes were primarily the result of the following:

- Higher volume of net sales of cloud solution offerings and increased software referral fees that are recorded on a net sales recognition basis. In addition, there was an increase in the volume of Insight delivered services.
- Higher volume of software net sales to public sector clients, partially offset by the continued trend toward higher sales of cloud solution offerings that are recorded on a net sales recognition basis in the services net sales category.
- Lower volume of net sales of storage hardware, reflecting lower volume of net sales to large enterprise clients. This was partially offset by increases in net sales of devices, including higher net sales to public sector clients.

INSIGHT ENTERPRISES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Our net sales by offering category for APAC for 2020 and 2019, were as follows (dollars in thousands):

| <u>Sales Mix</u> | <u>APAC</u> | | <u>% Change</u> |
|------------------|-------------------|-------------------|-----------------|
| | <u>2020</u> | <u>2019</u> | |
| Hardware | \$ 31,953 | \$ 34,965 | (9%) |
| Software | 82,763 | 92,988 | (11%) |
| Services | 55,606 | 52,288 | 6% |
| | <u>\$ 170,322</u> | <u>\$ 180,241</u> | <u>(6%)</u> |

Net sales in APAC decreased 6% (decreased 4% excluding the effects of fluctuating foreign currency rates), or \$9.9 million, in 2020 compared to 2019. In APAC, decreases in software and hardware net sales of 11% and 9%, year to year, respectively were partially offset by an increase in services net sales of 6% during 2020 compared to 2019. The net changes were primarily the result of the following:

- Lower volume of software net sales primarily due to the loss of a significant public sector client in 2020 and lower volume sales to large enterprise clients. The continued trend toward higher sales of cloud solution offerings that are recorded on a net sales recognition basis in the services net sales category also contributed to the decline in this sales category.
- Lower volume of hardware net sales primarily as a result of decreased demand associated with client responses to COVID-19.
- Higher volume of net sales of cloud solution offerings and software referral fees that are recorded on a net sales recognition basis positively impacted services net sales. Additionally, there were contributions from Insight delivered services from increased net sales of our digital innovation solutions offering.

Net sales by category for North America, EMEA and APAC were as follows for 2020 and 2019:

| <u>Sales Mix</u> | <u>North America</u> | | <u>EMEA</u> | | <u>APAC</u> | |
|------------------|----------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Hardware..... | 67% | 66% | 40% | 41% | 19% | 19% |
| Software..... | 19% | 21% | 49% | 49% | 48% | 52% |
| Services | 14% | 13% | 11% | 10% | 33% | 29% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Gross Profit. Gross profit increased 14%, or \$161.8 million, in 2020 compared to 2019, with gross margin increasing approximately 90 basis points to 15.6% of net sales. Our gross profit and gross profit as a percent of net sales by operating segment for 2020 and 2019 were as follows (dollars in thousands):

| | <u>2020</u> | <u>% of Net Sales</u> | <u>2019</u> | <u>% of Net Sales</u> |
|---------------------|---------------------|-----------------------|---------------------|-----------------------|
| North America | \$ 1,021,388 | 15.4% | \$ 871,114 | 14.5% |
| EMEA | 236,046 | 15.2% | 227,083 | 14.9% |
| APAC | 42,508 | 25.0% | 39,901 | 22.1% |
| Consolidated..... | <u>\$ 1,299,942</u> | 15.6% | <u>\$ 1,138,098</u> | 14.7% |

North America's gross profit in 2020 increased 17% compared to 2019, and as a percentage of net sales, gross margin increased by approximately 90 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 34 basis points year over year. This increase was primarily due to improvements in hardware product margin.

INSIGHT ENTERPRISES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

- Services margin improvement year over year of 64 basis points was generated from increased cloud solution offerings and an increase in Insight delivered services at higher margins than in the prior year.

EMEA's gross profit in 2020 increased 4% (increased 3% excluding the effects of fluctuating foreign currency exchange rates), compared to 2019. As a percentage of net sales, gross margin increased by approximately 30 basis points year over year. APAC's gross profit in 2020 increased 7% (increased 8% excluding the effects of fluctuating foreign currency exchange rates), compared to 2019, with gross margin increasing to 25.0% in 2020 from 22.1% in 2019. The improvement in gross margin for both EMEA and APAC in 2020 compared to 2019 was due primarily to changes in sales mix to higher margin products and services.

While we expanded gross margins in 2020 compared to 2019, we expect that in future periods our gross margin expansion will be muted as our product mix returns to previous levels, including a higher mix of hardware sales with our large enterprise clients which typically carry lower margins.

Operating Expenses.

Selling and Administrative Expenses. Selling and administrative expenses increased \$133.0 million in 2020 compared to 2019. Our selling and administrative expenses by major expense type for 2020 and 2019 were as follows (dollars in thousands):

| | 2020 | 2019 | Change |
|--|---------------------|-------------------|-------------------|
| Personnel costs, including teammate benefits | \$ 782,913 | \$ 684,837 | \$ 98,076 |
| Depreciation and amortization | 63,061 | 46,209 | 16,852 |
| Facility expenses | 38,194 | 30,945 | 7,249 |
| Legal and professional fees | 27,476 | 16,839 | 10,637 |
| Travel and entertainment..... | 11,614 | 28,402 | (16,788) |
| Marketing | 10,480 | 11,597 | (1,117) |
| Other | 80,027 | 61,908 | 18,119 |
| Total | \$ 1,013,765 | \$ 880,737 | \$ 133,028 |
| Percentage of net sales..... | 12.2% | 11.4% | |

Selling and administrative expenses increased approximately 80 basis points as a percentage of net sales in 2020 compared to 2019. The increase in expenses reflects the addition of PCM to our North America and EMEA segments, effective August 30, 2019. The addition of PCM and increased variable compensation resulting from increased sales and gross profit in 2020 compared to 2019 were the primary drivers for the \$98.1 million increase in personnel costs. Depreciation and amortization expense also increased approximately \$16.9 million year over year, primarily due to additional amortization expense on our newly acquired intangible assets. PCM was also the primary driver for year over year increases in other and facility expenses. Legal and professional fees increased as a result of one-time project costs incurred in 2020 with no comparable activity in 2019. These increased costs were partially offset by decreases in travel and entertainment and marketing costs reflecting cost control measures taken in response to COVID-19.

Severance and Restructuring Expenses. During 2020, we recorded severance expense, net of adjustments, totaling \$12.4 million. The charges in all three operating segments primarily related to a realignment of certain roles and responsibilities for North America and EMEA, and to the acquisition of PCM. During 2019, we recorded severance expense, net of adjustments, totaling \$5.4 million.

Acquisition-related Expenses. During 2020 and 2019, we incurred \$2.2 million and \$11.3 million, respectively, in direct third-party costs related to the acquisitions of PCM and vNext. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of acquisitions.

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Earnings from Operations. Earnings from operations increased 13%, or \$31.0 million, year over year, in 2020 compared 2019. Our earnings from operations and earnings from operations as a percentage of net sales by operating segment were as follows for the year ended December 31, 2020 and 2019 (dollars in thousands):

| | <u>2020</u> | <u>% of Net Sales</u> | <u>2019</u> | <u>% of Net Sales</u> |
|---------------------|-------------------|---------------------------|-------------------|---------------------------|
| North America | \$ 219,198 | 3.3% | \$ 190,452 | 3.2% |
| EMEA | 40,368 | 2.6% | 39,792 | 2.6% |
| APAC | 12,009 | 7.1% | 10,350 | 5.7% |
| Consolidated | <u>\$ 271,575</u> | 3.3% | <u>\$ 240,594</u> | 3.1% |

North America's earnings from operations increased 15%, or \$28.7 million, year over year, in 2020 compared to 2019. As a percentage of net sales, earnings from operations increased by approximately 10 basis points to 3.3%. The increase in earnings from operations was primarily driven by an increase in gross profit in excess of increases in selling and administrative expenses and severance and restructuring expenses. Acquisition and restructuring expenses also decreased \$9.3 million in 2020 compared to 2019.

EMEA's earnings from operations increased 1%, or \$576,000, year over year, in 2020 compared to 2019. As a percentage of net sales, earnings from operations remained flat with the prior year at 2.6%. The increase in earnings from operations was primarily driven by an increase in gross profit, partially offset by the increase in selling and administrative expenses and severance and restructuring expenses in 2020 compared to 2019.

APAC's earnings from operations increased 16% (increased 18% excluding the effects of fluctuating foreign currency exchange rates), or \$1.7 million, year over year, in 2020 compared to 2019. As a percentage of net sales, earnings from operations increased by more than 100 basis points to 7.1%. The increase in earnings from operations reflects an increase in gross profit, partially offset by an increase in selling and administrative expenses in 2020 compared to 2019.

Non-Operating (Income) Expense.

Interest Expense, net. Interest expense, net primarily relates to borrowings under our financing facilities and imputed interest under our convertible notes and inventory financing facilities, partially offset by interest income generated from interest earned on cash and cash equivalent bank balances. Interest expense increased 46%, or \$13.1 million, in 2020 compared to 2019 due primarily to imputed interest under our convertible senior notes, higher average daily balances under our ABL facility and convertible senior notes in comparison to our facilities in the prior year and higher imputed interest on our inventory financing facilities. Imputed interest under our convertible senior notes, which were issued in August 2019, was \$10.2 million in 2020 compared to \$3.7 million in 2019. The higher average daily balances under our ABL facility and convertible senior notes in comparison to our facilities in the prior year were largely the result of the PCM acquisition and were substantially paid down in the later part of 2020. Imputed interest under our inventory financing facilities increased \$2.3 million due to higher average daily balances in 2020 compared to 2019. The increases were a result of expanded use of the facilities, including the addition of PCM, in part as a result of extended payment terms during 2020. For a description of our various financing facilities, see Notes 7 and 8 to our Consolidated Financial Statements in Part II, Item 8 of this report.

Other Expense (Income), Net. Other expense (income), net, consists primarily of foreign currency exchange gains and losses. Foreign currency exchange gains and 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.

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Income Tax Expense. Our effective tax rate for 2020 was 24.4% compared to 24.7% in 2019. The decrease in the tax rate from 2019 to 2020 was primarily due to the remeasurement of certain state deferred tax liabilities as well as acquired net operating losses to be carried back to higher tax rate years under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), partially offset by reduced research and development tax credit benefits. The effective tax rate in 2020 was higher than the federal statutory rate of 21.0% primarily due to state income taxes, net of federal income tax benefits, higher taxes on earnings in foreign jurisdictions and non-deductible compensation. These increases to the federal statutory rate in 2020 were offset partially by the recognition of tax benefits, net of reserves, related to research and development activities and the remeasurement of acquired net operating losses to be carried back to higher tax rate years under the CARES Act. See Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of income tax expense.

2019 Compared to 2018

For a comparison of our results of operations for the fiscal years ended December 31, 2019 and 2018, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 21, 2020.

Liquidity and Capital Resources

The following table sets forth certain consolidated cash flow information for 2020, 2019 and 2018 (in thousands):

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|-------------------|
| Net cash provided by operating activities..... | \$ 355,582 | \$ 127,876 | \$ 292,647 |
| Net cash provided by (used in) investing activities..... | 9,706 | (733,373) | (91,710) |
| Net cash (used in) provided by financing activities..... | (361,791) | 577,587 | (159,028) |
| Foreign currency exchange effect on cash and cash equivalent and restricted cash balances | 10,788 | (86) | (5,061) |
| Increase (decrease) in cash and cash equivalents and restricted cash..... | 14,285 | (27,996) | 36,848 |
| Cash and cash equivalents and restricted cash at beginning of year..... | <u>116,297</u> | <u>144,293</u> | <u>107,445</u> |
| Cash and cash equivalents and restricted cash at end of year..... | <u>\$ 130,582</u> | <u>\$ 116,297</u> | <u>\$ 144,293</u> |

Cash and Cash Flow

- Our primary uses of cash during 2020 were to pay down our debt balances.
- Operating activities generated \$355.6 million in cash in 2020.
- We acquired vNext in February 2020 for \$6.4 million and received proceeds from the sale of properties held for sale of \$40.3 million in 2020.
- We had net borrowings under our inventory financing facilities of \$103.3 million in 2020 compared to net repayments of \$50.5 million in 2019.
- Net repayments under our ABL facility were \$431.4 million in 2020. Net borrowings under our ABL facility and our prior senior revolving credit facility and ABS facility combined were \$356.0 million in 2019.
- Capital expenditures were \$24.2 million in 2020, a significant decrease from 2019, which included our purchase of real estate for future use as our global corporate headquarters.
- During 2020, we repurchased an aggregate of \$25.0 million of our common stock, pursuant to a repurchase program approved in February 2020, compared to \$27.9 million repurchased during 2019.

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

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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 operating activities.

- Cash flow from operating activities in 2020 was \$355.6 million, a significant increase in cash generation compared to 2019. The increase in cash flow from operating activities was primarily driven by an increase in accounts payable compared to prior year.
- The significant changes in both other assets and accrued expenses and other liabilities for 2019 compared to 2020 resulted from a single significant transaction in 2019 with no comparable activity in the current year.

Our consolidated cash flow operating metrics for the quarters ended December 31, 2020, 2019 and 2018 were as follows:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|-------------|
| Days sales outstanding in ending accounts receivable (“DSOs”) (a)..... | 108 | 100 | 102 |
| Days inventory outstanding (“DIOs”) (b)..... | 8 | 10 | 10 |
| Days purchases outstanding in ending accounts payable (“DPOs”) (c)..... | (86) | (72) | (79) |
| Cash conversion cycle (days) (d)..... | <u>30</u> | <u>38</u> | <u>33</u> |

- (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 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 30 days in the quarter ended December 31, 2020, compared to 38 days in the fourth quarter of 2019.
- The decrease resulted from the net effect of an eight day increase in DSOs offset by a two day decrease in DIOs and a fourteen day increase in DPOs.
- Excluding the impact of netting on DSOs and DPOs, the changes in our cash conversion cycle year over year were primarily the result of:
 - the benefit to DPOs of expanded use of our inventory financing facilities, including the effect of recently negotiated extended payment terms;
 - the benefit to DIOs of tight discipline around investments in inventory; and
 - the benefit to DSOs of improved aging performance of our accounts receivable as we deployed Insight’s collection practices to the PCM business.
- 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 2021 in excess of working capital needs, given current market conditions, to pay down our ABL facility and our inventory financing facilities.
- We expect that in 2021 our cash flows from operations will normalize as our business mix returns to previous levels.

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Net cash provided by/(used in) investing activities.

- We acquired vNext in February 2020 for \$6.4 million and received proceeds from the sale of properties held for sale of \$40.3 million.
- Capital expenditures of \$24.2 million in 2020 were used primarily for technology-related upgrade projects and the integration of our prior acquisitions. During 2020 we decided to defer the buildout of our new global corporate headquarters until early 2021.
- We expect total capital expenditures in 2021 to be in the range of \$75.0 to \$85.0 million, of which approximately \$60.0 million will be used to ready our global corporate headquarters, and the remaining amount will be used primarily for technology-related upgrade projects.

Net cash provided by/(used in) financing activities.

- During 2020, we had net repayments on our long-term debt under our ABL facility of \$431.4 million and had net borrowings under our inventory financing facilities of \$103.3 million.
- In 2020, we also funded \$25.0 million of repurchases of our common stock, compared to \$27.9 million purchased during 2019.
- During 2019, we had net combined borrowing on our long-term debt under our revolving credit facility, our Term Loan A and ABS facility of \$356.0 million and had net repayments under our inventory financing facility of \$50.5 million.
- During 2019 we issued convertible senior notes with an aggregate principal value of \$350.0 million, receiving proceeds upon issuance of \$341.3 million.
 - In connection with the issuance of our convertible senior notes, we entered into certain convertible note hedge and warrant transactions with respect to our common stock. We paid approximately \$66.3 million for the convertible note hedge transaction using proceeds from the convertible senior notes offering.
 - In addition, we received aggregate proceeds of approximately \$34.4 million for the sale of related warrants.

2019 Compared to 2018

For a comparison of our cash flows for the fiscal years ended December 31, 2019 and 2018, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 21, 2020.

Financing Facilities

As of December 31, 2020, our long-term debt balance includes \$140.0 million outstanding under our \$1.2 billion ABL facility. As of December 31, 2020, the current portion of our long-term debt relates to our finance leases and other financing obligations.

- Our objective is to pay our debt balances down while retaining adequate cash balances to meet overall business objectives.
- Our convertible senior notes are subject to certain events of default and certain acceleration clauses. As of December 31, 2020, no such events have occurred.
- Our ABL facility contains various covenants customary for transactions of this type, including complying with a minimum receivable and inventory requirement and meeting monthly, quarterly and annual reporting requirements.
 - The credit agreement contains customary affirmative and negative covenants and events of default.
 - At December 31, 2020, we were in compliance with all such covenants.
- While the ABL facility has a stated maximum amount, the actual availability under the ABL facility is limited by a minimum accounts receivable and inventory requirement. As of December 31, 2020, eligible accounts receivables and inventory were sufficient to permit access to the full \$1.2 billion under the ABL facility.

We also have agreements with financial intermediaries to facilitate the purchase of inventory from certain suppliers under certain terms and conditions. These amounts are classified separately as accounts payable - inventory financing facilities in our consolidated balance sheets.

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Notes 7 and 8 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 U.S. tax reform enacted in December 2017, all undistributed foreign earnings as of December 31, 2017 were deemed distributed and we provided for U.S. income and withholding taxes on those earnings. For years subsequent to 2017, we continue to assert indefinite reinvestment of foreign earnings for certain of our foreign subsidiaries. As of December 31, 2020, we had approximately \$112.4 million in cash and cash equivalents in our foreign subsidiaries, the majority of which reside in the Netherlands and Australia. Certain of these cash balances will be remitted to the U.S. by paying down intercompany payables generated in the ordinary course of business or through actual dividend distributions.

Off-Balance Sheet Arrangements

We have entered into off-balance sheet arrangements, which include guarantees 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, 2020, our contractual obligations for continuing operations were as follows (in thousands):

| | Payments due by period | | | | |
|---|-------------------------------|-----------------------------|-------------------------|-------------------------|----------------------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Long-term debt ^(a) | \$436,419 | \$ — | \$ — | \$436,419 | \$ — |
| Estimated interest payments ^(b) | 19,437 | 4,585 | 9,170 | 5,682 | — |
| Inventory financing facilities ^(c) | 356,930 | 356,930 | — | — | — |
| Operating lease obligations ^(d) | 95,714 | 23,144 | 34,002 | 16,019 | 22,549 |
| Other contractual obligations..... | 19,448 | 13,751 | 2,287 | 736 | 2,674 |
| Total | <u>\$927,948</u> | <u>\$398,410</u> | <u>\$ 45,459</u> | <u>\$458,856</u> | <u>\$ 25,223</u> |

(a) Reflects the \$140.0 million outstanding at December 31, 2020 under our ABL facility due in August 2024, the date at which the facility matures, as well as \$296.4 million outstanding at December 31, 2020 under our senior convertible notes due in August 2025. See further discussion in Note 8 to the Consolidated Financial Statements in Part II, Item 8 of this report.

(b) The table above includes:

- I. Estimated interest payments of \$2.0 million in each of 2021 through 2023, and \$1.3 million in the first eight months of 2024, based on the current debt balance at December 31, 2020 of \$140.0 million under our ABL facility, multiplied by the floating interest rate applicable at December 31, 2020 of 1.40% per annum.
- II. Estimated interest payments of \$2.6 million in each of 2021 through 2024, and \$1.8 million in the first eight months of 2025, based on the principal debt balance at December 31, 2020 of \$350.0 million under our senior convertible notes, multiplied by the stated interest rate applicable at December 31, 2020 of 0.75% per annum.

(c) As of December 31, 2020, this amount has been included in our contractual obligations table above as being due in less than 1 year due to the 30- to 120-day stated vendor terms. See further discussion in Note 7 to the Consolidated Financial Statements in Part II, Item 8 of this report.

(d) Amounts in the table above exclude non-cancellable rental income.

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The table above excludes unrecognized tax benefits, which include accrued interest, as we are unable to reasonably estimate the ultimate amount or timing of settlement. See further discussion in Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Although we set purchase targets with our partners tied to the amount of supplier reimbursements we receive, we have no material contractual purchase obligations with our partners.

Acquisitions

Our strategy includes the possible acquisition of or investments in other businesses to expand or complement our operations or to add certain services capabilities. The magnitude, timing and nature of any future acquisitions or investments will depend on a number of factors, including the availability of suitable candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Financing for future transactions would result in the utilization of cash, incurrence of additional debt, issuance of stock or some combination of the three. See Note 20 to the Consolidated Financial Statements in Part II, Item 8 of this report for a discussion of our acquisition of PCM on August 30, 2019.

Inflation

We have historically not been adversely affected by inflation, as technological advances and competition within the IT industry have generally caused the prices of the products we sell to decline and product life cycles tend to be short. This requires our growth in unit sales to exceed the decline in prices in order to increase our net sales. We believe that most price increases could be passed on to our clients, as prices charged by us are not set by long-term contracts; however, as a result of competitive pressure, there can be no assurance that the full effect of any such price increases could be passed on to our clients.

Critical Accounting Estimates

General

Our consolidated financial statements have been prepared in accordance with GAAP. For a summary of significant accounting policies, see Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results, however, may differ from our estimates. Members of our senior management have discussed the critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

We consider the following to be our critical accounting estimates used in the preparation of our consolidated financial statements:

Sales Recognition

Description

We sell hardware and software products on both a stand-alone basis without any services and as solutions bundled with services. When we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under our contract with the client as the distinct goods (hardware and/or software products) or services that will be provided. For each of our product and services offerings, described in detail at Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report, the determination needs to be made as to whether we are the principal or the agent in the transaction. This determination leads to how the revenue for each offering is recognized, either gross, where we are the principal in the

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transaction, or net, where we are the agent in the transaction. This determination is made by assessing whether or not we control the product or service prior to delivery to the client.

Judgments and Uncertainties

The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is the price at which we would sell a promised good or service separately to a client. We estimate the price based on observable inputs, including direct labor hours and allocable costs, or use observable stand-alone prices when they are available.

With respect to recognition of transactions as a principal or agent, if we take control of the product or service prior to delivery to the client, then we are the principal in the transaction. If we do not take control of the product or service prior to delivery to the client, we are the agent in the transaction. The determination of whether we take control of products or services prior to delivery to the client is judgmental and depends upon the specific facts and circumstances for each transaction.

Effect if actual results differ from assumptions

We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to recognize net sales. However, if actual results are not consistent with our estimates or assumptions, it could have a material effect on our reported net sales, timing of revenue recognition and our results of operations. We have not made any material changes in accounting methodology used to recognize net sales during the past three fiscal years.

Partner Funding

Description

We receive payments and credits from partners, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Partner funding received pursuant to volume sales incentive programs is recognized as it is earned as a reduction to costs of goods sold. Partner funding received pursuant to volume purchase incentive programs is allocated as a reduction to inventories based on the applicable incentives earned from each partner and is recorded in costs of goods sold as the related inventory is sold. Partner funding received pursuant to shared marketing expense programs is recorded as it is earned as a reduction of the related selling and administrative expenses in the period the program takes place if the consideration represents a reimbursement of specific, incremental, identifiable costs. Partner funding received pursuant to certain services delivered is recorded as services net sales. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of costs of goods sold.

Judgements and Uncertainties

We make period-end estimates about the anticipated achievement levels under the various partner programs in order to accrue amounts earned and establish reserves for any uncollectible amounts. These estimates and assumptions primarily include whether we have met key net sales targets under the various partner programs.

Effect if actual results differ from assumptions

We have not made any material changes in the methodology used to evaluate estimates of anticipated achievement levels under individual partner programs during the past three fiscal years. We believe that we have made reasonable estimates and assumptions to calculate the achievement levels. However, if our actual results are not consistent with our assumptions it could have a material effect on our results of operations and our cash flows.

See Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion of our accounting policies related to partner funding.

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Goodwill

Description

We perform an annual review of our goodwill in the fourth quarter of every year. We continually assess if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value and assess whether any indicators of impairment exist. Events or circumstances that could trigger an impairment review include a significant adverse change in legal factors or in the business climate, unanticipated competition, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, significant declines in our stock price for a sustained period or significant underperformance relative to expected historical or projected future cash flows or results of operations. Any adverse change in these factors, among others, could have a significant effect on the recoverability of goodwill and could have a material effect on our consolidated financial statements.

Judgements and Uncertainties

We may first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform a quantitative goodwill impairment test. Otherwise, the goodwill impairment test is not required. In completing a quantitative test for a potential impairment of goodwill, we compare the estimated fair value of each reporting unit in which the goodwill resides to its book value, including goodwill. Our reporting units are our operating segments. Management must apply judgment in determining the reporting units and in estimating the fair value of our reporting units. Multiple valuation techniques can be used to assess the fair value of the reporting unit, including the market and income approaches. All of these techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially impact the determination of fair value or goodwill impairment, or both. These estimates and assumptions primarily include, but are not limited to, an appropriate control premium in excess of the market capitalization of the Company, future market growth, forecasted sales and costs and appropriate discount rates. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. Management evaluates the merits of each significant assumption, both individually and in the aggregate, used to determine the fair value of the reporting units. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If the carrying amount of the reporting unit exceeds its fair value, then an impairment charge is recognized for the amount by which the carrying value exceeds the fair value. To ensure the reasonableness of the estimated fair values of our reporting units, we perform a reconciliation of our total market capitalization to the estimated fair value of all of our reporting units.

Effect if Actual Results Differ from Assumptions

We have not made any material changes in the methodology used to evaluate impairment of goodwill during the past three fiscal years. Additionally, during the three years ended December 31, 2020, 2019 and 2018 we analyzed each of our reporting units and determined that no impairment charge was necessary.

Income Taxes

Description

We record a provision for income taxes which reflects a mix of earnings in the jurisdictions in which we operate. Our provision for income taxes primarily reflects a combination of income earned and taxed in the various US federal and state, as well as foreign, jurisdictions. Our annual effective tax rate is based on our income, the jurisdiction(s) in which the income is earned and subjected to taxation, the tax laws in those various jurisdictions and any tax law changes which may occur, increases or decreases in permanent differences between book and tax items, and accruals or adjustments of accruals for unrecognized tax benefits or valuation allowances.

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We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. If we were to determine that it is more likely than not that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made.

We record liabilities for potentially unfavorable outcomes associated with uncertain tax positions taken on specific tax matters using a two-step process. These liabilities are based on management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. There may be differences between the anticipated and actual outcomes of these matters that may result in subsequent recognition or derecognition of a tax position based on all the available information at the time. If material adjustments are warranted, it could affect our effective tax rate.

Judgements and Uncertainties

The determination of our provision and evaluation of our tax positions requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. Changes in tax laws and rates could affect recorded assets and liabilities in the future. Changes in projected earnings could affect the recorded valuation allowances in the future. Our calculations related to income taxes contain uncertainties due to judgment used to calculate tax liabilities in the application of complex tax regulations across the tax jurisdictions where we operate. Our analysis of unrecognized tax benefits contains uncertainties based on judgment used to apply the more likely than not recognition and measurement thresholds.

Effect if Actual Results Differ from Assumptions

We do not believe there is a reasonable likelihood there will be a material change in the tax related balances or valuation allowances. However, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. To the extent we prevail in matters for which unrecognized tax benefit liabilities have been established or are required to pay amounts in excess of recorded unrecognized tax benefit liabilities, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of our cash and generally result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement would generally be recognized as a reduction in our effective tax rate in the period of resolution.

Additional information about the valuation allowance and uncertain tax positions can be found in Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this report.

Recently Issued Accounting Standards

The information contained in Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this report concerning a description of recent accounting pronouncements, including our expected dates of adoption and the estimated effects on our results of operations and financial condition, is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in Note 12 to the Consolidated Financial Statements in Part II, Item 8 of this report concerning a description of market risk management, including interest rate risk and foreign currency exchange risk, is incorporated by reference herein.

INSIGHT ENTERPRISES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Item 8. *Financial Statements and Supplementary Data*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Insight Enterprises, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Insight Enterprises, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 16, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 9 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of the FASB's Accounting Standards Codification (ASC) Topic 842, Leases.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of revenue recognition

As discussed in Note 1 to the consolidated financial statements, the Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service or by arranging for the sales of a vendor's product or service to a client. The Company measures revenue based on the consideration received in a contract with a client, and excludes any sales incentives and amounts collected on behalf of third parties. The Company offers hardware and software products, as well as services. Given the number of product and service offerings, significant judgment is exercised by the Company in recognizing revenue, including the following decisions:

- Determining the point in time when a customer takes control of hardware.
- Determining the point in time when the customer acquires or renews the right to use or copy software under license and control transfers to the customer.
- Evaluating the Company as either a principal or an agent for hardware and software products and services, and the related recognition of revenue from the customer on a gross or a net basis.
- Determining an appropriate pattern of revenue recognition for service performance obligations.

We identified the evaluation of revenue recognition as a critical audit matter because the audit effort to evaluate the Company's revenue recognition judgments, including those noted above, was extensive and required a high degree of auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the revenue recognition process, including controls related to the timing and pattern of revenue recognition and gross versus net revenue recognition. As part of testing the Company's internal controls, we also involved information technology (IT) professionals with specialized skills and knowledge, who assisted in testing of general IT controls over significant systems and the evaluation of system interface controls and automated controls designed to determine the existence, accuracy, and completeness of revenue. We evaluated the Company's significant accounting policies related to its product and service offerings by reviewing the terms of certain vendor and customer contracts and comparing the policies to the revenue recognition standard. We selected a sample of revenue transactions and performed the following for each selection:

- Obtained evidence of a contract with the customer.
- Compared the amounts recognized and timing of revenue recognition to underlying documentation, including purchase orders, shipping documentation, and evidence of payment, if applicable.
- Evaluated the Company's application of their accounting policies to determine the timing and amount of revenue to be recognized.
- Tested the presentation of revenue as gross or net by comparing the Company's gross or net presentation to the attributes of the underlying vendor support and the Company's accounting policy.

/s/ KPMG LLP

We have served as the Company's auditor since 1990.

Phoenix, Arizona
February 16, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Insight Enterprises, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Insight Enterprises, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 16, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A(a) Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Phoenix, Arizona
February 16, 2021

INSIGHT ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

| ASSETS | December 31, | |
|--|--------------|--------------|
| | 2020 | 2019 |
| Current assets: | | |
| Cash and cash equivalents | \$ 128,313 | \$ 114,668 |
| Accounts receivable, net | 2,685,448 | 2,511,383 |
| Inventories | 185,650 | 190,833 |
| Other current assets | 177,039 | 231,148 |
| Total current assets | 3,176,450 | 3,048,032 |
| Property and equipment, net | 146,016 | 130,907 |
| Goodwill | 429,368 | 415,149 |
| Intangible assets, net | 246,915 | 278,584 |
| Other assets | 311,983 | 305,507 |
| | \$ 4,310,732 | \$ 4,178,179 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable—trade | \$ 1,461,312 | \$ 1,275,957 |
| Accounts payable—inventory financing facilities | 356,930 | 253,676 |
| Accrued expenses and other current liabilities | 408,117 | 352,204 |
| Current portion of long-term debt | 1,105 | 1,691 |
| Total current liabilities | 2,227,464 | 1,883,528 |
| Long-term debt | 437,581 | 857,673 |
| Deferred income taxes | 33,209 | 44,633 |
| Other liabilities | 270,049 | 232,027 |
| | 2,968,303 | 3,017,861 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 3,000 shares authorized; no shares issued | — | — |
| Common stock, \$0.01 par value, 100,000 shares authorized; 35,103 and 35,263 shares issued and outstanding, respectively | 351 | 353 |
| Additional paid-in capital | 364,288 | 357,032 |
| Retained earnings | 993,245 | 841,097 |
| Accumulated other comprehensive loss – foreign currency translation adjustments | (15,455) | (38,164) |
| Total stockholders' equity | 1,342,429 | 1,160,318 |
| | \$ 4,310,732 | \$ 4,178,179 |

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

| | Years Ended December 31, | | |
|---|---------------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Net sales: | | | |
| Products | \$ 7,172,155 | \$ 6,732,121 | \$ 6,249,938 |
| Services | 1,168,424 | 999,069 | 830,198 |
| Total net sales..... | <u>8,340,579</u> | <u>7,731,190</u> | <u>7,080,136</u> |
| Costs of goods sold: | | | |
| Products | 6,497,001 | 6,125,360 | 5,711,400 |
| Services | 543,636 | 467,732 | 375,018 |
| Total costs of goods sold..... | <u>7,040,637</u> | <u>6,593,092</u> | <u>6,086,418</u> |
| Gross profit..... | 1,299,942 | 1,138,098 | 993,718 |
| Operating expenses: | | | |
| Selling and administrative expenses | 1,013,765 | 880,737 | 756,529 |
| Severance and restructuring expenses..... | 12,394 | 5,425 | 3,424 |
| Acquisition-related expenses | 2,208 | 11,342 | 282 |
| Earnings from operations..... | <u>271,575</u> | <u>240,594</u> | <u>233,483</u> |
| Non-operating (income) expense: | | | |
| Interest expense, net | 41,594 | 28,478 | 21,737 |
| Other expense (income), net..... | 1,529 | 400 | (156) |
| Earnings before income taxes..... | <u>228,452</u> | <u>211,716</u> | <u>211,902</u> |
| Income tax expense | 55,812 | 52,309 | 48,225 |
| Net earnings | <u>\$ 172,640</u> | <u>\$ 159,407</u> | <u>\$ 163,677</u> |
| Net earnings per share: | | | |
| Basic..... | <u>\$ 4.92</u> | <u>\$ 4.49</u> | <u>\$ 4.60</u> |
| Diluted | <u>\$ 4.87</u> | <u>\$ 4.43</u> | <u>\$ 4.55</u> |
| Shares used in per share calculations: | | | |
| Basic..... | <u>35,117</u> | <u>35,538</u> | <u>35,586</u> |
| Diluted | <u>35,444</u> | <u>35,959</u> | <u>36,009</u> |

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| Net earnings | \$ 172,640 | \$ 159,407 | \$ 163,677 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments | 22,710 | 3,489 | (17,389) |
| Total comprehensive income | \$ 195,350 | \$ 162,896 | \$ 146,288 |

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total Stockholders' Equity |
|---|--------------|-----------|----------------|----------|----------------------------------|---|----------------------|----------------------------------|
| | Shares | Par Value | Shares | Amount | | | | |
| Balances at December 31, 2017..... | 35,829 | \$ 358 | — | \$ — | \$ 317,155 | \$ (24,264) | \$ 550,220 | \$ 843,469 |
| Cumulative effect of accounting change | — | — | — | — | — | — | 7,176 | 7,176 |
| Issuance of common stock under employee stock plans, net of shares withheld for payroll taxes | 294 | 3 | — | — | (3,233) | — | — | (3,230) |
| Stock-based compensation expense | — | — | — | — | 15,355 | — | — | 15,355 |
| Repurchase of treasury stock | — | — | (641) | (22,069) | — | — | — | (22,069) |
| Retirement of treasury stock | (641) | (6) | 641 | 22,069 | (5,655) | — | (16,408) | — |
| Foreign currency translation adjustments, net of tax | — | — | — | — | — | (17,389) | — | (17,389) |
| Net earnings | — | — | — | — | — | — | 163,677 | 163,677 |
| Balances at December 31, 2018..... | 35,482 | 355 | — | — | 323,622 | (41,653) | 704,665 | 986,989 |
| Issuance of common stock under employee stock plans, net of shares withheld for payroll taxes | 322 | 3 | — | — | (6,575) | — | — | (6,572) |
| Stock-based compensation expense | — | — | — | — | 16,011 | — | — | 16,011 |
| Equity component of convertible senior notes, net of deferred tax of \$14,819 and issuance costs of \$1,700 | — | — | — | — | 44,731 | — | — | 44,731 |
| Issuance of warrants related to convertible senior notes | — | — | — | — | 34,440 | — | — | 34,440 |
| Purchase of note hedge related to convertible senior notes, net of deferred tax of \$16,047 | — | — | — | — | (50,278) | — | — | (50,278) |
| Repurchase of treasury stock | — | — | (541) | (27,899) | — | — | — | (27,899) |
| Retirement of treasury stock | (541) | (5) | 541 | 27,899 | (4,919) | — | (22,975) | — |
| Foreign currency translation adjustments, net of tax | — | — | — | — | — | 3,489 | — | 3,489 |
| Net earnings | — | — | — | — | — | — | 159,407 | 159,407 |
| Balances at December 31, 2019..... | 35,263 | 353 | — | — | 357,032 | (38,164) | 841,097 | 1,160,318 |

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(in thousands)

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total Stockholders' Equity |
|---|---------------------|------------------|-----------------------|---------------|---|---|------------------------------|---|
| | Shares | Par Value | Shares | Amount | | | | |
| Balances at December 31, 2019 | 35,263 | 353 | — | — | 357,032 | (38,164) | 841,097 | 1,160,318 |
| Issuance of common stock under employee stock plans, net of shares withheld for payroll taxes | 285 | 3 | — | — | (5,967) | — | — | (5,964) |
| Stock-based compensation expense | — | — | — | — | 17,727 | — | — | 17,727 |
| Repurchase of treasury stock | — | — | (445) | (25,000) | — | — | — | (25,000) |
| Retirement of treasury stock | (445) | (5) | 445 | 25,000 | (4,504) | (1) | (20,492) | (2) |
| Foreign currency translation adjustments, net of tax | — | — | — | — | — | 22,710 | — | 22,710 |
| Net earnings | — | — | — | — | — | — | 172,640 | 172,640 |
| Balances at December 31, 2020 | <u>35,103</u> | <u>\$ 351</u> | <u>—</u> | <u>\$ —</u> | <u>\$ 364,288</u> | <u>\$ (15,455)</u> | <u>\$ 993,245</u> | <u>\$ 1,342,429</u> |

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Years Ended December 31, | | |
|--|---------------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Cash flows from operating activities: | | | |
| Net earnings | \$ 172,640 | \$ 159,407 | \$ 163,677 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 65,560 | 46,209 | 37,458 |
| Provision for losses on accounts receivable..... | 10,163 | 5,079 | 4,776 |
| Non-cash stock-based compensation | 17,727 | 16,011 | 15,355 |
| Deferred income taxes | (13,246) | 7,418 | 9,126 |
| Amortization of debt discount and issuance costs | 16,217 | 6,652 | — |
| Other adjustments | 6,272 | 4,894 | 3,929 |
| Changes in assets and liabilities: | | | |
| Increase in accounts receivable | (132,599) | (118,971) | (46,883) |
| Decrease in inventories | 1,029 | 11,944 | 46,534 |
| Decrease (increase) in other assets..... | 7,367 | (129,745) | 12,424 |
| Increase (decrease) in accounts payable..... | 152,235 | (612) | 29,844 |
| Increase in accrued expenses and other liabilities..... | 52,217 | 119,590 | 16,407 |
| Net cash provided by operating activities | <u>355,582</u> | <u>127,876</u> | <u>292,647</u> |
| Cash flows from investing activities: | | | |
| Proceeds from sale of assets held for sale | 40,295 | — | — |
| Acquisitions, net of cash and cash equivalents acquired | (6,405) | (664,287) | (74,938) |
| Purchases of property and equipment..... | (24,184) | (69,086) | (17,251) |
| Proceeds from sale of foreign entity | — | — | 479 |
| Net cash provided by (used in) investing activities | <u>9,706</u> | <u>(733,373)</u> | <u>(91,710)</u> |
| Cash flows from financing activities: | | | |
| Borrowings on senior revolving credit facility | — | 242,936 | 569,232 |
| Repayments on senior revolving credit facility | — | (242,936) | (686,732) |
| Borrowings on ABL revolving credit facility, net of initial lender fees | 3,030,679 | 1,680,515 | — |
| Repayments on ABL revolving credit facility..... | (3,462,063) | (1,130,544) | — |
| Borrowings on accounts receivable securitization financing facility | — | 2,364,500 | 3,357,000 |
| Repayments on accounts receivable securitization financing facility | — | (2,558,500) | (3,188,000) |
| Repayments under Term Loan A | — | — | (166,250) |
| Net borrowing (repayments) under inventory financing facility.. | 103,254 | (50,454) | (15,338) |
| Proceeds from issuance of convertible senior notes | — | 341,250 | — |
| Proceeds from issuance of warrants | — | 34,440 | — |
| Purchase of note hedge related to convertible senior notes..... | — | (66,325) | — |
| Repurchases of treasury stock | (25,000) | (27,899) | (22,069) |
| Other payments | (8,661) | (9,396) | (6,871) |
| Net cash (used in) provided by financing activities | <u>(361,791)</u> | <u>577,587</u> | <u>(159,028)</u> |
| Foreign currency exchange effect on cash, cash equivalents and restricted cash balances..... | 10,788 | (86) | (5,061) |
| Increase (decrease) in cash, cash equivalents and restricted cash | 14,285 | (27,996) | 36,848 |
| Cash, cash equivalents and restricted cash at beginning of year | 116,297 | 144,293 | 107,445 |
| Cash, cash equivalents and restricted cash at end of year | <u>\$ 130,582</u> | <u>\$ 116,297</u> | <u>\$ 144,293</u> |

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations and Summary of Significant Accounting Policies

Description of Business

We empower organizations of all sizes with Intelligent Technology Solutions™ and services to maximize the business value of Information Technology ("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 solutions, together with our supply chain optimization expertise, we help clients innovate and optimize their operations to run smarter. Our company is organized in the following three operating segments, which are primarily defined by their related geographies:

| <u>Operating Segment</u> | <u>Geography</u> |
|---------------------------------|-----------------------------------|
| North America | United States ("U.S.") and Canada |
| EMEA | Europe, Middle East and Africa |
| APAC | Asia-Pacific |

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.

Acquisitions

Effective February 28, 2020, we acquired vNext SAS ("vNext"), a French digital consulting services and managed services provider. The acquisition was funded using cash on hand.

Effective August 30, 2019, we acquired PCM, Inc. ("PCM"), a provider of multi-vendor technology offerings, including hardware, software and services, for a purchase price of approximately \$745,562,000, including cash and cash equivalents of \$84,637,000 and the payment of PCM's outstanding debt. The acquisition was funded through a combination of using cash on hand and borrowings under our senior secured revolving credit facility (the "ABL facility").

Effective August 1, 2018, we acquired Cardinal Solutions Group, Inc. ("Cardinal"), a digital solutions provider, for a purchase price, net of cash acquired, of approximately \$78,400,000, including the final working capital adjustment and tax gross up adjustments. The acquisition was funded using cash on hand.

Our results of operations include the results of vNext, PCM and Cardinal from their respective acquisition dates. (See Note 20 for a discussion of our acquisitions).

Principles of Consolidation and Presentation

The consolidated financial statements include the accounts of Insight Enterprises, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Included in our accounts receivable, net balance at December 31, 2020 and 2019 is \$8,398,000 and \$15,078,000, respectively, of accounts receivable from an unconsolidated affiliate. References to "the Company," "Insight," "we," "us," "our" and other similar words refer to Insight Enterprises, Inc. and its consolidated subsidiaries, unless the context suggests otherwise.

Acquisition Accounting

The Company accounts for all business combinations using the acquisition method of accounting, which allocates the fair value of the purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes estimates and assumptions. Initial purchase price allocations are subject to revision within the measurement period, not to exceed one year from the date of acquisition. Acquisition-related expenses and transaction costs associated with business combinations are expensed as incurred.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to sales recognition, anticipated achievement levels under partner funding programs, assumptions related to stock-based compensation valuation, allowances for doubtful accounts, valuation of inventories, litigation-related obligations, valuation allowances for deferred tax assets and impairment of long-lived assets, including purchased intangibles and goodwill, if indicators of potential impairment exist.

Cash, Cash Equivalents and Restricted Cash

We consider all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

Book overdrafts represent the amount by which outstanding checks issued, but not yet presented to our banks for disbursement, exceed balances on deposit in applicable bank accounts and a legal right of offset with our positive cash balances in other financial institution accounts does not exist. Our book overdrafts, which are not directly linked to a credit facility or other bank overdraft arrangement, do not result in an actual bank financing, but rather constitute normal unpaid trade payables at the end of a reporting period. These amounts are included within our accounts payable balance in our consolidated balance sheets. The changes in these book overdrafts are included within the changes in accounts payable line item as a component of cash flows from operating activities in our consolidated statements of cash flows.

Restricted cash generally includes any cash that is restricted as to withdrawal or usage. These amounts are included with cash and cash equivalents on the consolidated statement of cash flows. All cash receipts/payments with third parties directly to/from restricted cash accounts are reported as an operating, investing or financing cash flow, based on the nature of the transaction.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts to reflect our best estimate of probable losses inherent in our accounts receivable balance. The allowance is based on our evaluation of the aging of the receivables, historical write-offs and the current economic environment. We write off individual accounts against the reserve when we no longer believe that it is probable that we will collect the receivable because we become aware of a client's or partner's inability to meet its financial obligations. Such awareness may be as a result of bankruptcy filings, or deterioration in the client's or partner's operating results or financial position.

Inventories

We state inventories, principally purchased IT hardware, at the lower of weighted average cost (which approximates cost under the first-in, first-out method) or net realizable value. We evaluate inventories for excess, obsolescence or other factors that may render inventories unmarketable at normal margins. Write-downs are recorded so that inventories reflect the approximate net realizable value and take into account contractual provisions with our partners governing price protection, stock rotation and return privileges relating to obsolescence. Because of the large number of transactions and the complexity of managing the price protection and stock rotation process, estimates are made regarding write-downs of the carrying amount of inventories. Additionally, assumptions about future demand, market conditions and decisions by manufacturers/publishers to discontinue certain products or product lines can affect our decision to write down inventories.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Property and Equipment

We record property and equipment at cost. We capitalize major improvements and betterments, while maintenance, repairs and minor replacements are expensed as incurred. Depreciation or amortization is provided using the straight-line method over the following estimated economic lives of the assets:

| | <u>Estimated Economic Life</u> |
|------------------------------|--|
| Leasehold improvements | Shorter of underlying lease term or asset life |
| Furniture and fixtures | 2 – 7 years |
| Equipment..... | 3 – 5 years |
| Software | 3 – 10 years |
| Buildings | 29 years |

External direct costs of materials and services consumed in developing or obtaining internal-use computer software and payroll and payroll-related costs for teammates who are directly associated with and who devote time to internal-use computer software development projects, to the extent of the time spent directly on the project and specific to application development, are capitalized.

Reviews are regularly performed to determine whether facts and circumstances exist which indicate that the economic life is shorter than originally estimated or the carrying amount of assets may not be recoverable. When an indication exists that the carrying amount of long-lived assets may not be recoverable, we assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Impairment, if any, is based on the excess of the carrying amount over the estimated fair value of those assets.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of net identified tangible and intangible assets acquired. Goodwill is tested for impairment at the reporting unit level on an annual basis in the fourth quarter and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. We may first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform a quantitative goodwill impairment test. Otherwise, the goodwill impairment test is not required. The quantitative goodwill impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. The Company has three reporting units, which are the same as our operating segments. Multiple valuation techniques would likely be used to assess the fair value of the reporting unit. These techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both.

Intangible Assets

We amortize finite lived intangible assets acquired in business combinations using the straight-line method over the estimated economic lives of the intangible assets from the date of acquisition.

We regularly perform reviews to determine if facts and circumstances exist which indicate that the economic lives of our intangible assets are shorter than originally estimated or the carrying amount of these assets may not be recoverable. When an indication exists that the carrying amount of intangible assets may not be recoverable, we assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Impairment, if any, is based on the excess of the carrying amount over the estimated fair value of those assets.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Leases

We adopted ASU No. 2016-02, "Leases" (Topic 842) with a date of initial application of January 1, 2019. As a result, we updated our accounting policy for leases. We determine if a contract or arrangement is, or contains, a lease at inception. Balances related to operating leases are included in other assets, other current liabilities, and other liabilities in our consolidated balance sheet. Balances related to financing leases are included in property and equipment, current portion of long-term debt, and long-term debt in our consolidated balance sheet. Right of use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating lease ROU assets and liabilities of \$65,922,000 and \$70,512,000, respectively, were recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset includes any prepaid lease payments and additional direct costs and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Self-Insurance

We are self-insured in the U.S. for medical insurance up to certain annual stop-loss limits and workers' compensation claims up to certain deductible limits. We establish reserves for claims, both reported and incurred but not reported, using currently available information as well as our historical claims experience.

Treasury Stock

We record repurchases of our common stock as treasury stock at cost. We also record the subsequent retirement of these treasury shares at cost. The excess of the cost of the shares retired over their par value is allocated between additional paid-in capital and retained earnings. The amount recorded as a reduction of paid-in capital is based on the excess of the average original issue price of the shares over par value. The remaining amount is recorded as a reduction of retained earnings.

Sales Recognition

Revenue is measured based on the consideration specified in a contract with a client, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service or by arranging for the sales of a vendor's products or service to a client.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a client, are excluded from revenue.

We record the freight we bill to our clients as product net sales and the related freight costs we pay as product costs of goods sold.

Nature of Goods and Services

We sell hardware and software products on both a stand-alone basis without any services and as solutions bundled with services.

When we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under our contract with the client as the distinct goods (hardware and/or software products) or services that will be provided. The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is the price at which we would sell a promised good or service separately to a client. We estimate the price based on observable inputs, including direct labor hours and allocable costs, or use observable stand-alone prices when they are available.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Product Offerings

Hardware

We recognize hardware product revenue on a gross basis at the point in time when a client takes control of the hardware, which typically occurs when title and risk of loss have passed to the client at its destination. Our selling terms and conditions specify Free On Board ("F.O.B.") destination contractual terms such that control is transferred from the Company at the point in time when the product is received by the client. The transaction price for hardware sales is adjusted for estimated product returns that we expect to occur under our return policy based upon historical return rates.

We leverage drop-shipment arrangements with many of our partners and suppliers to deliver products to our clients without having to physically hold the inventory at our warehouses, thereby increasing efficiency and reducing costs. We recognize revenue for drop-shipment arrangements on a gross basis as the principal in the transaction when the product is received by the client because we control the product prior to transfer to the client. In addition to other factors considered, we assume primary responsibility for fulfillment in the arrangement, we assume inventory risk if the product is returned by the client, we set the price of the product charged to the client and we work closely with our clients to determine their hardware specifications.

Bill and Hold Transactions

We offer a service to our customers whereby clients may purchase product that we procure on their behalf and, at our clients' direction, store the product in our warehouse for a designated period of time, with the intention of deploying the product to the clients' designated locations at a later date. These warehousing services are designed to help our clients with inventory management challenges associated with technology roll-outs, product that is moving to end of life, or clients needing integrated stock available for immediate deployment. The client is invoiced and title transfers to the client upon receipt of the product at our warehouse. These product contracts are non-cancelable with customary credit terms beginning the date the product is received in our warehouse and the warranty periods begin on the date of invoice. Revenue is recognized for the sale of the product to the client upon receipt of the product at our warehouse.

Software

We recognize revenue from software sales on a gross basis at the point in time when the client acquires the right to use or copy software under license and control transfers to the client. For renewals, revenue is recognized upon the commencement of the software license agreement or when the renewal term begins, as applicable.

A substantial portion of the software licenses we sell are perpetual software licenses and do not require renewal or extension after their initial purchase by the client. Such perpetual licenses are periodically subject to true-up, whereby additional perpetual licenses are sold under the client's pre-existing master agreement. Such true-ups are generally sold in arrears, and clients are invoiced for the additional licenses they had already been utilizing. Since the client already possessed copies of the licensed software prior to the true-up, software revenue related to the underlying additional licenses is recognized when we agree to the true-up with our client and the partner.

For sales transactions for certain security software products that are sold with integral third-party delivered software maintenance, we record the software license on a net basis, as the agent in the arrangement.

Services Offerings

Software Maintenance

Software maintenance agreements provide our clients with the right to obtain any software upgrades, bug fixes and help desk and other support services directly from the software publisher at no additional charge during the term of the software maintenance agreements. We act as the software publisher's agent in selling these software maintenance agreements and do not assume any performance obligation to the client under the agreements. As a result, we are the agent in these transactions and these sales are recorded on a net sales recognition basis. Under net sales recognition, the cost of the software maintenance agreement is recorded as a reduction to sales, resulting in net sales equal to the gross profit on the transaction, and there are no costs of goods sold.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Because we are acting as the software publisher's agent, revenue is recognized when the parties agree to the initial purchase, renewal or extension as our agency services are then complete. We report all fees earned from activities reported net within our services net sales category in our consolidated statements of operations.

Vendor Direct Support Services Contracts

Clients may purchase a vendor direct support services contract through us. Under these contracts, our clients call the manufacturer/publisher or its designated service organization directly for both the initial technical triage and any follow-up assistance. We act as the manufacturer/publisher's agent in selling these support service contracts and do not assume any performance obligation to the client under the arrangements. As a result, these sales are recorded on a net sales recognition basis similar to software maintenance agreements, as discussed above. Because we are acting as the agent, revenue is recognized when the parties agree to the purchase of the support services contract as our agency services are then complete.

Cloud / Software-as-a-Service Offerings

Cloud or software-as-a-service ("SaaS") subscription products provide our clients with access to software products hosted in the public cloud without the client taking possession of the software. We act as the agent in selling these software-as-a service subscription products. We do not take control of the software products or assume any performance obligations to the clients related to the provisioning of the offerings in the cloud. As a result, these sales are recorded on a net sales recognition basis. We report all fees earned from activities recognized net within our services net sales category in our consolidated statements of operations. Because we are acting as the agent in the transaction, revenue is recognized when the parties agree to the purchase of the cloud or SaaS offerings as our agency services are then complete. Often, these agency fees are based on end-client usage and therefore are variable throughout the term of the service contract. Where this variable consideration is uncertain, we recognize our agency revenue to the extent that a significant reversal will not occur.

Insight Delivered Services

We design, procure, deploy, implement and manage solutions that combine hardware, software and services to help businesses run smarter. Such services are provided by us or third-party sub-contract vendors as part of bundled arrangements, or are provided separately on a stand-alone basis as technical, consulting or managed services engagements. If the services are provided as part of a bundled arrangement with hardware and software, the hardware, software and services are generally distinct performance obligations. In general, we recognize revenue from services engagements as we perform the underlying services and satisfy our performance obligations.

We recognize revenue from sales of services by measuring progress toward complete satisfaction of the related service performance obligation. Billings for such services that are made in advance of the related revenue recognized are recorded as a contract liability.

Specific revenue recognition practices for certain of our services offerings are described in further detail below.

Time and Materials Services Contracts

We recognize revenue for professional services engagements that are on a time and materials basis based upon hours incurred for the performance completed to date for which we have the right to consideration, even if such amounts have not yet been invoiced as of period end.

Fixed Fee Services Contracts

We recognize revenue on fixed fee professional services contracts using a proportional performance method of revenue recognition based on the ratio of direct labor and other allocated costs incurred to total estimated direct labor and other allocated costs.

OneCall Support Services Contracts

When we sell certain hardware and/or software products to our clients, we also enter into service contracts with them. These contracts are support service agreements for the hardware and/or

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

software products that were purchased from us. Under certain support services contracts, although we purchase third-party support contracts for maintenance on the specific hardware or software products we have sold, our internal support desk assists the client first by performing an initial technical triage to determine the source of the problem and whether we can direct the client on how to fix the problem. We refer to these services as "OneCall." We act as the principal in the transaction because we perform the OneCall services over the term of the support service contract and we set the price of the service charged to the client. As a result, we recognize revenue from OneCall extended service contracts on a gross sales recognition basis. We recognize the revenue ratably over the contract term of the stand ready obligation, generally one to three years.

On our consolidated balance sheet, a significant portion of our contract liabilities balance relates to OneCall support services agreements for which clients have paid or have been invoiced but for which we have not yet recognized the applicable services revenue. We also defer incremental direct costs to fulfill our service contracts that we prepay to third parties for direct support of our fulfillment of the service contract to our clients under our contract terms and amortize them into operations over the term of the contracts.

Third-party Provided Services

A majority of our third-party sub-contractor services contracts are entered into in conjunction with other services contracts under which the services are performed by Insight teammates. We have concluded that we control all services under the contract and can direct the third-party sub-contractor to provide the requested services. As such, we act as the principal in the transaction and record the services under a gross sales recognition basis, with the selling price being recorded in sales and our cost to the third-party service provider being recorded in costs of goods sold. For certain third-party service contracts in which we do not control the services prior to transferring to our clients because we are not responsible for fulfillment of the services, we have concluded that we are an agent in the transaction and record revenue on a net sales recognition basis.

Costs of Goods Sold

Costs of goods sold include product costs, direct costs incurred associated with delivering services, outbound and inbound freight costs and provisions for inventory reserves. These costs are reduced by provisions for supplier discounts and certain payments and credits received from partners, as described under "Partner Funding" below.

Selling and Administrative Expenses

Selling and administrative expenses include salaries and wages for teammates who are not directly associated with delivering services, bonuses and incentives, stock-based compensation expense, employee-related expenses, facility-related expenses, marketing and advertising expense, reduced by certain payments and credits received from partners related to shared marketing expense programs, as described under "Partner Funding" below, depreciation of property and equipment, professional fees, amortization of intangible assets, provisions for losses on accounts receivable and other operating expenses.

Partner Funding

We receive payments and credits from partners, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Partner funding received pursuant to volume sales incentive programs is recognized as it is earned as a reduction to costs of goods sold. Partner funding received pursuant to volume purchase incentive programs is allocated as a reduction to inventories based on the applicable incentives earned from each partner and is recorded in cost of goods sold as the related inventory is sold. Partner funding received pursuant to shared marketing expense programs is recorded as it is earned as a reduction of the related selling and administrative expenses in the period the program takes place if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of costs of goods sold. The amount of partner funding recorded as a reduction of selling and administrative expenses in our statements of operations totaled \$85,888,000, \$77,668,000 and \$68,571,000 in 2020, 2019 and 2018, respectively.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Concentrations of Risk

Credit Risk

Although we are affected by the international economic climate, management does not believe material credit risk concentration existed at December 31, 2020. We monitor our clients' financial condition and do not require collateral. No single client accounted for more than 10% of our consolidated net sales in 2020.

Partner Risk

Purchases from Microsoft and Tech Data (a distributor) accounted for approximately 21% and 11%, respectively, of our aggregate purchases in 2020. No other partner accounted for more than 10% of purchases in 2020. Our top five partners as a group for 2020 were Microsoft, Tech Data (a distributor), Dell, Ingram Micro (a distributor) and Cisco Systems, and approximately 56% of our total purchases during 2020 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.

Advertising Costs

Advertising costs are expensed as they are incurred. Advertising expense of \$60,865,000, \$62,913,000 and \$57,448,000 was recorded in 2020, 2019 and 2018, respectively. These amounts were predominantly offset by partner funding earned pursuant to shared marketing expense programs recorded as a reduction of selling and administrative expenses, as discussed in "Partner Funding" above.

Stock-Based Compensation

Stock-based compensation is measured based on the fair value of the award on the date of grant and the corresponding expense is recognized over the period during which an employee is required to provide service in exchange for the reward. Stock-based compensation expense is classified in the same line item of our consolidated statements of operations as other payroll-related expenses specific to the employee. Compensation expense related to service-based restricted stock units ("RSUs") is recognized on a straight-line basis over the requisite service period for the entire award. Compensation expense related to performance-based RSUs is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards (i.e., a graded vesting basis). Forfeitures are recognized as they occur.

Foreign Currencies

We use the U.S. dollar as our reporting currency. The functional currencies of our foreign subsidiaries are the local currencies. Accordingly, assets and liabilities of the subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet dates. Income and expense items are translated at the average exchange rate for each month within the year. The resulting translation adjustments are recorded directly in accumulated other comprehensive income, net of tax – foreign currency translation adjustments as a separate component of stockholders' equity. Net foreign currency transaction gains/losses, including transaction gains/losses on intercompany balances that are not of a long-term investment nature and non-functional currency cash balances, are reported in other expense (income), net within non-operating (income) expense in our consolidated statements of operations.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable earnings in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We recognize net deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Interest and penalties related to unrecognized tax benefits are recognized within the income tax expense line in our consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in our consolidated balance sheets.

Contingencies

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various government agency, client and partner audits. We continually assess whether or not such claims have merit and warrant accrual. An accrual is made if it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such estimates are subject to change and may affect our results of operations and our cash flows.

Net Earnings Per Share ("EPS")

Basic EPS is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted EPS is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding RSUs.

A reconciliation of the denominators of the basic and diluted EPS calculations follows (in thousands, except per share data):

| | Years Ended December 31, | | |
|--|---------------------------------|----------------|----------------|
| | 2020 | 2019 | 2018 |
| Numerator: | | | |
| Net earnings..... | \$ 172,640 | \$ 159,407 | \$ 163,677 |
| Denominator: | | | |
| Weighted-average shares used to compute basic EPS | 35,117 | 35,538 | 35,586 |
| Dilutive potential common shares due to dilutive: | | | |
| RSUs, net of tax effect | 327 | 421 | 423 |
| Weighted-average shares used to compute diluted EPS..... | <u>35,444</u> | <u>35,959</u> | <u>36,009</u> |
| Net earnings per share: | | | |
| Basic | <u>\$ 4.92</u> | <u>\$ 4.49</u> | <u>\$ 4.60</u> |
| Diluted | <u>\$ 4.87</u> | <u>\$ 4.43</u> | <u>\$ 4.55</u> |

In 2020, 2019 and 2018, approximately 122,000, 42,000 and 17,000, respectively, of our RSUs were not included in the diluted EPS calculations because their inclusion would have been anti-dilutive. These share-based awards could be dilutive in the future. In the years ended December 31, 2020 and 2019, certain potential outstanding shares from convertible senior notes and warrants were not included in the diluted EPS calculations because their inclusion would have been anti-dilutive.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Recently Issued Accounting Standards

In August 2020, the FASB issued ASU No. 2020-06, "Accounting for Convertible Instruments and Contracts in an Equity's Own Equity". The new guidance is intended to simplify the accounting for certain convertible instruments with characteristics of both liability and equity. The guidance removes certain accounting models which separate the embedded conversion features from the host contract for convertible instruments. As a result, after the adoption of this guidance, an entity's convertible debt instrument will be wholly accounted for as debt. The guidance also expands disclosure requirements for convertible instruments and simplifies areas of the guidance for diluted earnings-per-share calculations by requiring the use of the if-converted method. The guidance will be effective for fiscal years beginning after December 15, 2021, with early adoption permitted for fiscal years beginning after December 15, 2020 and can be adopted on either a fully retrospective or modified retrospective basis. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In December 2019, the Financial Accounting Standards Board's ("FASB") issued Accounting Standard Update ("ASU") No. 2019-12, "Simplifying the Accounting for Income Taxes." The new standard is intended to simplify various aspects of accounting for income taxes by removing specific exceptions and amending certain requirements. The new standard is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. We adopted the new standard as of January 1, 2021. The adoption of this new standard did not have a material effect on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses." The new standard is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held at each reporting date. The new standard is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. We adopted the new standard as of January 1, 2020. The adoption of this new standard did not have a material effect on our consolidated financial statements.

In November 2019, the FASB issued ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." The new standard provides amendments to the reporting of expected recoveries. The new standard is effective with the adoption of ASU No. 2016-13. We adopted the new standard as of January 1, 2020. The adoption of this new standard did not have a material effect on our consolidated financial statements.

In April 2019, the FASB issued ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." The new standard provides changes for how a company considers expected recoveries and contractual extensions or renewal options when estimating expected credit losses. The new standard is effective with the adoption of ASU No. 2016-13. We adopted the new standard as of January 1, 2020. The adoption of this new standard did not have a material effect on our consolidated financial statements.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Sales Recognition

Disaggregation of Revenue

In the following table, revenue is disaggregated by our reportable operating segments, which are primarily defined by their related geographies, as well as by major product offering, by major client group and by recognition on either a gross basis as a principal in the arrangement, or on a net basis as an agent, for the years ended December 31, 2020, 2019 and 2018 (in thousands):

| | <u>Year Ended December 31, 2020</u> | | | |
|---|-------------------------------------|---------------------|-------------------|---------------------|
| | <u>North America</u> | <u>EMEA</u> | <u>APAC</u> | <u>Consolidated</u> |
| Major Offerings | | | | |
| Hardware | \$ 4,418,295 | \$ 617,825 | \$ 31,953 | \$ 5,068,073 |
| Software | 1,260,757 | 760,562 | 82,763 | 2,104,082 |
| Services..... | 935,980 | 176,838 | 55,606 | 1,168,424 |
| | <u>\$ 6,615,032</u> | <u>\$ 1,555,225</u> | <u>\$ 170,322</u> | <u>\$ 8,340,579</u> |
| Major Client Groups | | | | |
| Large Enterprise / Corporate..... | \$ 4,507,041 | \$ 1,101,557 | \$ 62,734 | \$ 5,671,332 |
| Small and Medium-Sized Businesses | 1,395,298 | 61,535 | 60,740 | 1,517,573 |
| Public Sector | 712,693 | 392,133 | 46,848 | 1,151,674 |
| | <u>\$ 6,615,032</u> | <u>\$ 1,555,225</u> | <u>\$ 170,322</u> | <u>\$ 8,340,579</u> |
| Revenue Recognition based on acting as Principal or Agent in the Transaction | | | | |
| Gross revenue recognition (Principal) | \$ 6,284,948 | \$ 1,452,115 | \$ 146,770 | \$ 7,883,833 |
| Net revenue recognition (Agent) | 330,084 | 103,110 | 23,552 | 456,746 |
| | <u>\$ 6,615,032</u> | <u>\$ 1,555,225</u> | <u>\$ 170,322</u> | <u>\$ 8,340,579</u> |
| Year Ended December 31, 2019 | | | | |
| | <u>North America</u> | <u>EMEA</u> | <u>APAC</u> | <u>Consolidated</u> |
| Major Offerings | | | | |
| Hardware | \$ 3,957,507 | \$ 622,949 | \$ 34,965 | \$ 4,615,421 |
| Software | 1,269,983 | 753,729 | 92,988 | 2,116,700 |
| Services..... | 796,815 | 149,966 | 52,288 | 999,069 |
| | <u>\$ 6,024,305</u> | <u>\$ 1,526,644</u> | <u>\$ 180,241</u> | <u>\$ 7,731,190</u> |
| Major Client Groups | | | | |
| Large Enterprise / Corporate..... | \$ 4,466,384 | \$ 1,126,388 | \$ 59,786 | \$ 5,652,558 |
| Small and Medium-Sized Businesses | 960,432 | 76,666 | 65,033 | 1,102,131 |
| Public Sector | 597,489 | 323,590 | 55,422 | 976,501 |
| | <u>\$ 6,024,305</u> | <u>\$ 1,526,644</u> | <u>\$ 180,241</u> | <u>\$ 7,731,190</u> |
| Revenue Recognition based on acting as Principal or Agent in the Transaction | | | | |
| Gross revenue recognition (Principal) | \$ 5,759,247 | \$ 1,432,300 | \$ 156,279 | \$ 7,347,826 |
| Net revenue recognition (Agent) | 265,058 | 94,344 | 23,962 | 383,364 |
| | <u>\$ 6,024,305</u> | <u>\$ 1,526,644</u> | <u>\$ 180,241</u> | <u>\$ 7,731,190</u> |

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Year Ended December 31, 2018 | | | |
|---|-------------------------------------|---------------------|-------------------|---------------------|
| | North America | EMEA | APAC | Consolidated |
| Major Offerings | | | | |
| Hardware | \$ 3,610,356 | \$ 653,499 | \$ 29,496 | \$ 4,293,351 |
| Software | 1,112,715 | 736,509 | 107,363 | 1,956,587 |
| Services | 639,910 | 140,233 | 50,055 | 830,198 |
| | <u>\$ 5,362,981</u> | <u>\$ 1,530,241</u> | <u>\$ 186,914</u> | <u>\$ 7,080,136</u> |
| Major Client Groups | | | | |
| Large Enterprise / Corporate | \$ 3,951,900 | \$ 1,134,696 | \$ 49,826 | \$ 5,136,422 |
| Small and Medium-Sized Businesses | 912,208 | 67,727 | 60,521 | 1,040,456 |
| Public Sector | 498,873 | 327,818 | 76,567 | 903,258 |
| | <u>\$ 5,362,981</u> | <u>\$ 1,530,241</u> | <u>\$ 186,914</u> | <u>\$ 7,080,136</u> |
| Revenue Recognition based on acting as Principal or Agent in the Transaction | | | | |
| Gross revenue recognition (Principal) | \$ 5,143,228 | \$ 1,439,979 | \$ 164,394 | \$ 6,747,601 |
| Net revenue recognition (Agent) | 219,753 | 90,262 | 22,520 | 332,535 |
| | <u>\$ 5,362,981</u> | <u>\$ 1,530,241</u> | <u>\$ 186,914</u> | <u>\$ 7,080,136</u> |

Contract Balances

The following table provides information about receivables and contract liabilities as of December 31, 2020 and 2019 (in thousands):

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Current receivables, which are included in “Accounts receivable, net” | \$ 2,685,448 | \$ 2,511,383 |
| Non-current receivables, which are included in “Other assets” | 154,662 | 154,417 |
| Contract liabilities, which are included in “Accrued expenses and other current liabilities” and “Other liabilities” | 107,158 | 84,814 |

Significant changes in the contract liabilities balances during the year ended December 31, 2020 are as follows (in thousands):

| | Increase (Decrease) |
|--|--------------------------------|
| Balances at December 31, 2018 | \$ 82,117 |
| Recognition of the beginning contract liabilities to revenue, as the result of performance obligations satisfied | (73,750) |
| Cash received in advance and not recognized as revenue | 69,376 |
| Contract liabilities assumed in an acquisition | 7,071 |
| Balances at December 31, 2019 | \$ 84,814 |
| Recognition of the beginning contract liabilities to revenue, as the result of performance obligations satisfied | (59,553) |
| Cash received in advance and not recognized as revenue | 81,897 |
| Balances at December 31, 2020 | <u>\$ 107,158</u> |

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Transaction price allocated to the remaining performance obligations

The following table includes estimated net sales related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2020 that are expected to be recognized in the future (in thousands):

| | <u>Services</u> |
|--|-------------------|
| 2021 | 111,295 |
| 2022 | 34,948 |
| 2023 | 14,105 |
| 2024 and thereafter | 6,631 |
| Total remaining performance obligations..... | <u>\$ 166,979</u> |

With the exception of remaining performance obligations associated with our OneCall Support Services contracts which are included in the table above regardless of original duration, remaining performance obligations that have original expected duration of one year or less are not included in the table above. Amounts not included in the table above have an average original expected duration of nine months. Additionally, for our time and material services contracts, whereby we have the right to consideration from a client in an amount that corresponds directly with the value to the client of our performance completed to date, we recognized revenue in the amount to which we have a right to invoice as of December 31, 2020 and do not disclose information about related remaining performance obligations in the table above. Our open time and material contracts at December 31, 2020, have an average expected duration of 21 months.

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, therefore we do not include performance obligations under open cancelable purchase orders, which do not qualify for revenue recognition as of December 31, 2020, in the table above.

(3) Assets Held for Sale

During 2020, we completed the sale of our properties in Irvine, California and El Segundo, California for approximately \$14,218,000 and \$26,404,000, respectively. Our property in Santa Monica, California was reclassified as held-in-use as we reevaluate our sale options. Our properties in Tempe, Arizona and Woodbridge, Illinois continued to be classified as held-for-sale for the remainder of 2020. During 2019, we completed the purchase of real estate in Chandler, Arizona that we intend to use as our global corporate headquarters. See note 22 for additional information on the subsequent event regarding the sale of our Tempe, Arizona and Woodbridge, Illinois properties.

(4) Property and Equipment

Property and equipment consist of the following (in thousands):

| | <u>December 31,</u> | |
|---|---------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Software | \$ 159,413 | \$ 114,674 |
| Buildings | 66,842 | 92,092 |
| Equipment..... | 62,209 | 60,661 |
| Furniture and fixtures | 38,133 | 34,768 |
| Leasehold improvements | 35,665 | 33,668 |
| Land | <u>39,819</u> | <u>31,374</u> |
| | 402,081 | 367,237 |
| Accumulated depreciation and amortization | <u>(256,065)</u> | <u>(236,330)</u> |
| Property and equipment, net..... | <u>\$ 146,016</u> | <u>\$ 130,907</u> |

Depreciation and amortization expense related to property and equipment was \$28,025,000, \$22,538,000 and \$21,721,000 in 2020, 2019 and 2018, respectively.

On November 1, 2019, we completed the purchase of real estate in Chandler, Arizona for approximately \$48,000,000 that we intend to use as our global corporate headquarters. The property contains a building and some infrastructure in place that we will complete readying for our use in 2021.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We intend to sell our current properties in Tempe, Arizona. See note 22 for additional information on the subsequent event regarding the sale of our Tempe, Arizona and Woodbridge, Illinois properties. In 2020, we completed the sale of our property in Irvine, California and El Segundo, California for approximately \$14,218,000 and \$26,404,000, respectively.

Included within the software, buildings and land values presented above are assets in the process of being readied for use in the amounts of approximately \$5,650,000, \$29,427,000 and \$11,700,000, respectively. Depreciation on these assets will commence, as appropriate, when they are ready for use and placed in service.

(5) Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 2020 are as follows (in thousands):

| | <u>North America</u> | <u>EMEA</u> | <u>APAC</u> | <u>Consolidated</u> |
|--|--------------------------|-------------------------|------------------------|--------------------------|
| Goodwill..... | \$ 479,690 | \$ 155,188 | \$ 20,797 | \$ 655,675 |
| Accumulated impairment losses | (323,422) | (151,439) | (13,973) | (488,834) |
| Goodwill acquired during 2019 | 240,550 | 7,910 | — | 248,460 |
| Foreign currency translation adjustment..... | — | (87) | (65) | (152) |
| Balance at December 31, 2019 | \$ 396,818 | \$ 11,572 | \$ 6,759 | \$ 415,149 |
| Goodwill acquired during 2020 | — | 4,865 | — | 4,865 |
| Measurement period adjustments during 2020 | 5,711 | (677) | — | 5,034 |
| Foreign currency translation adjustment..... | 947 | 2,767 | 606 | 4,320 |
| Balance at December 31, 2020 | <u>\$ 403,476</u> | <u>\$ 18,527</u> | <u>\$ 7,365</u> | <u>\$ 429,368</u> |

On February 28, 2020, we acquired vNext, which has been integrated into our EMEA business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired was recorded as goodwill in the EMEA reporting unit. The primary driver for this acquisition was to strengthen our capacity to deliver consulting and implementation services to support clients' digital transformation initiatives.

On August 30, 2019, we acquired PCM, which has been integrated into our North America and EMEA businesses. Under the acquisition method of accounting, the preliminary purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$253,894,000, net of measurement period adjustment of \$5,034,000 recognized in 2020, was recorded as goodwill in the North America and EMEA reporting units (see Note 20). The primary driver for this acquisition was to help existing PCM clients in positioning their businesses for future growth, transforming and securing their data platforms, creating modern and mobile experiences for their workforce and optimizing the procurement of technology. The addition of PCM complements our supply chain optimization solution offering, adding scale and clients in the mid-market and corporate space in North America.

On August 1, 2018, we acquired Cardinal, which has been integrated into our North America business. Under the acquisition method of accounting, the purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of approximately \$36,040,000, net of a measurement period adjustment of \$400,000 recognized in 2019, was recorded as goodwill in the North America reporting unit (see Note 20). The primary driver for this acquisition was to strengthen our services capabilities and bring value to our clients within our digital innovation services solution offering.

During 2020, we periodically assessed whether any indicators of impairment existed which would require us to perform an interim impairment review. As of each interim period end during the year, we concluded that a triggering event had not occurred that would more likely than not reduce the fair value of our reporting units below their carrying values. We performed our annual test of goodwill for impairment during the fourth quarter of 2020. The results of the qualitative goodwill impairment test

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

indicated that the fair values of our North America, EMEA and APAC reporting units were in excess of their respective carrying values.

(6) Intangible Assets

Intangible assets consist of the following (in thousands):

| | December 31, | |
|--------------------------------|--------------|------------|
| | 2020 | 2019 |
| Customer relationships..... | \$ 342,492 | \$ 336,455 |
| Other..... | 7,906 | 15,621 |
| | 350,398 | 352,076 |
| Accumulated amortization | (103,483) | (73,492) |
| Intangible assets, net | \$ 246,915 | \$ 278,584 |

During 2020, we periodically assessed whether any indicators of impairment existed related to our intangible assets. As of each interim period end during the year, we concluded that a triggering event had not occurred that would more likely than not reduce the fair value of our intangible assets below their carrying values.

Amortization expense recognized in 2020, 2019 and 2018 was \$37,535,000, \$23,671,000 and \$15,737,000, respectively.

Future amortization expense for the remaining unamortized balance as of December 31, 2020 is estimated as follows (in thousands):

| Years Ending December 31, | Amortization Expense |
|----------------------------------|-------------------------|
| 2021..... | \$ 31,957 |
| 2022..... | 31,084 |
| 2023..... | 29,825 |
| 2024..... | 28,344 |
| 2025..... | 28,008 |
| Thereafter | 97,697 |
| Total amortization expense | \$ 246,915 |

(7) Accounts Payable - Inventory Financing Facilities

We have entered into agreements with financial intermediaries to facilitate the purchase of inventory from various suppliers under certain terms and conditions, as described below. These amounts outstanding under these facilities are classified separately as accounts payable - inventory financing facilities in the accompanying consolidated balance sheets.

Inventory Financing Facilities

During 2020, we increased our maximum availability for vendor purchases under our unsecured inventory financing facility with MUFG Bank Ltd ("MUFG") from \$200,000,000 to \$250,000,000. On July 6, 2020, we entered into a new unsecured inventory financing facility with a subsidiary of PNC Bank, N.A. ("PNC"), which replaced our previous facility with Wells Fargo Capital Finance, LLC. The aggregate availability for vendor purchases under the PNC facility is \$250,000,000. As of December 31, 2020, our combined inventory financing facilities had a total maximum capacity of \$500,000,000, of which \$356,930,000 was outstanding at December 31, 2020. The facilities remain in effect until they are terminated by any of the parties. If balances are not paid within stated vendor terms, they will accrue interest at prime plus 2.00% and LIBOR plus 4.50% on the MUFG and PNC facilities, respectively. The PNC facility allows for an alternative rate to be identified if LIBOR is no longer available. Net amounts drawn down or repaid during the year on these facilities are classified within cash flows from financing activities in the accompanying consolidated statements of cash flows. Interest does not accrue on accounts payable under these facilities provided the accounts payable are paid within stated vendor terms (typically 60 days); however, we impute interest on the average daily balance outstanding during these stated vendor terms based on our incremental borrowing rate during

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

the period. Imputed interest of \$13,076,000, \$10,801,000 and \$10,593,000 was recorded in 2020, 2019 and 2018, respectively.

(8) Debt, Finance Leases and Other Financing Obligations

Debt

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

| | <u>December 31,</u> | |
|--|---------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| ABL revolving credit facility | \$ 140,000 | \$ 570,706 |
| Convertible senior notes due 2025 | 296,419 | 284,836 |
| Finance leases and other financing obligations | <u>2,267</u> | <u>3,822</u> |
| Total | 438,686 | 859,364 |
| Less: current portion of long-term debt | <u>(1,105)</u> | <u>(1,691)</u> |
| Long-term debt | <u>\$ 437,581</u> | <u>\$ 857,673</u> |

On August 30, 2019, we entered into a credit agreement (the "credit agreement") providing for a senior secured revolving credit facility (the "ABL facility"), which has an aggregate U.S. dollar equivalent maximum borrowing amount of \$1,200,000,000, including a maximum borrowing capacity that could be used for borrowing in certain foreign currencies of \$150,000,000. While the ABL facility has a stated maximum amount, the actual availability under the ABL facility is limited by specified percentages of eligible accounts receivable and certain eligible inventory, in each case as set forth in the credit agreement. From time to time and at our option, we may request to increase the aggregate amount available for borrowing under the ABL facility by up to an aggregate of the U.S. dollar equivalent of \$500,000,000, subject to customary conditions, including receipt of commitments from lenders. The ABL facility is guaranteed by certain of our material subsidiaries and is secured by a lien on certain of our assets and certain of each other borrower's and each guarantor's assets. The ABL facility matures on August 30, 2024. As of December 31, 2020, eligible accounts receivable and inventory were sufficient to permit access to the full \$1,200,000,000 facility amount, of which \$140,000,000 was outstanding.

The interest rates applicable to borrowings under the ABL facility are based on the average aggregate excess availability under the ABL facility as set forth on a pricing grid in the credit agreement. Amounts outstanding under the ABL facility bear interest, payable quarterly, at a floating rate equal to a LIBOR rate plus a pre-determined spread of 1.25% to 1.50%. The floating interest rate applicable at December 31, 2020 was 1.40% per annum for the ABL facility. In addition, we pay a quarterly commitment fee on the unused portion of the facility of 0.25%, and our letter of credit participation fee ranges from 1.25% to 1.50%. During 2020, weighted average borrowings under our ABL facility were \$339,474,000. Interest expense associated with the ABL facility was \$14,541,000 in 2020, including the commitment fee and amortization of deferred financing fees.

The ABL facility contains customary affirmative and negative covenants and events of default. If a default occurs (subject to customary grace periods and materiality thresholds) under the credit agreement, certain actions may be taken, including, but not limited to, possible termination of commitments and required payment of all outstanding principal amounts plus accrued interest and fees payable under the credit agreement.

Convertible Senior Notes

On August 15, 2019, we issued \$300,000,000 aggregate principal amount of convertible senior notes (the "notes") that mature on February 15, 2025. On August 23, 2019, we issued an additional \$50,000,000 aggregate principal amount of the notes pursuant to the exercise in full by the initial purchasers of the notes of their option to purchase additional notes. The notes bear interest at an annual rate of 0.75% payable semiannually, in arrears, on February 15th and August 15th of each year. The notes are general unsecured obligations of Insight and are guaranteed on a senior unsecured basis by Insight Direct USA, Inc., a wholly owned subsidiary of Insight.

Holders of the notes may convert their notes at their option at any time prior to the close of business on the business day immediately preceding June 15, 2024, under the following

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2019 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price of our common stock per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call any or all of the notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after June 15, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, the holders may convert their notes at any time, regardless of the foregoing circumstances.

Upon conversion, we will pay or deliver cash, shares of our common stock or a combination of the two, at our discretion. The conversion rate will initially be 14.6376 shares of common stock per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$68.32 per share of common stock). The conversion rate is subject to change in certain circumstances and will not be adjusted for any accrued and unpaid interest. In addition, following certain events that occur prior to the maturity date or following our issuance of a notice of redemption, the conversion rate is subject to an increase for a holder who elects to convert their notes in connection with those events or during the related redemption period in certain circumstances.

If we undergo a fundamental change, the holders may require us to repurchase for cash all or any portion of their notes at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. As of December 31, 2020, none of the criteria for a fundamental change or a conversion rate adjustment had been met.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to other conversion rate adjustments, would be 6,788,208.

We may redeem for cash all or any portion of the notes, at our option, on or after August 20, 2022 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the notes.

The notes are subject to certain customary events of default and acceleration clauses. As of December 31, 2020, no such events have occurred.

The notes consist of the following balances reported within the consolidated balance sheet as of December 31, 2020 and 2019 (in thousands):

| | December 31, | |
|---|---------------------|-------------|
| | 2020 | 2019 |
| Liability: | | |
| Principal | \$ 350,000 | \$ 350,000 |
| Less: debt discount and issuance costs, net of accumulated accretion..... | (53,581) | (65,164) |
| Net carrying amount | \$ 296,419 | \$ 284,836 |
| Equity, net of deferred tax..... | \$ 44,731 | \$ 44,731 |

The remaining life of the debt discount and issuance cost accretion is approximately 4.125 years. The effective interest rate on the liability component of the notes is 4.325%.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the interest expense components resulting from the notes reported within the consolidated statement of operations for the year ended December 31, 2020 and 2019 (in thousands):

| | December 31, | |
|---|--------------|----------|
| | 2020 | 2019 |
| Contractual coupon interest | \$ 2,625 | \$ 984 |
| Amortization of debt discount..... | \$ 10,226 | \$ 3,728 |
| Amortization of debt issuance costs | \$ 1,359 | \$ 479 |

Convertible Note Hedge and Warrant Transaction

In connection with the issuance of the notes, we entered into certain convertible note hedge and warrant transactions (the "Call Spread Transactions") with respect to the Company's common stock.

The convertible note hedge consists of an option to purchase up to 5,123,160 common stock shares at a price of \$68.32 per share. The hedge expires on February 15, 2025 and can only be concurrently executed upon the conversion of the notes. We paid approximately \$66,325,000 for the convertible note hedge transaction.

Additionally, we sold warrants to purchase 5,123,160 shares of common stock at a price of \$103.12 per share. The warrants expire on May 15, 2025 and can only be exercised at maturity. The Company received aggregate proceeds of approximately \$34,440,000 for the sale of the warrants.

The Call Spread Transactions have no effect on the terms of the notes and reduce potential dilution by effectively increasing the initial conversion price of the notes to \$103.12 per share of the Company's common stock.

Finance Leases and Other Financing Obligations

From time to time, we enter into finance leases and other financing agreements with financial intermediaries to facilitate the purchase of products from certain vendors.

The current and long-term portions of our finance lease and other financing obligations are included in the current and long-term portions of long-term debt in the table above and in our consolidated balance sheets as of December 31, 2020 and 2019.

(9) Leases

We lease office space, distribution centers, land, vehicles and equipment. Lease agreements with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Certain lease agreements include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The exercise of lease renewal options is at our sole discretion. Some agreements also include options to purchase the leased property. The estimated life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table provides information about the financial statement classification of our lease balances reported within the consolidated balance sheets as of December 31, 2020 and December 31, 2019 (in thousands):

| Leases | Classification | December 31, 2020 | December 31, 2019 |
|--------------------------------------|--|------------------------------|------------------------------|
| Assets | | | |
| Operating lease assets | Other assets | \$ 79,418 | \$ 74,684 |
| Finance lease assets | Property and equipment ^(a) | 2,103 | 3,297 |
| Total lease assets | | <u>\$ 81,521</u> | <u>\$ 77,981</u> |
| Liabilities | | | |
| Current | | | |
| Operating lease liabilities | Accrued expenses and other current liabilities | \$ 20,848 | \$ 19,648 |
| Finance lease liabilities | Current portion of long-term debt | 1,105 | 1,691 |
| Non-current | | | |
| Operating lease liabilities | Other liabilities | 65,192 | 60,285 |
| Finance lease liabilities | Long-term debt | 1,162 | 2,131 |
| Total lease liabilities | | <u>\$ 88,307</u> | <u>\$ 83,755</u> |

(a) Recorded net of accumulated amortization of \$2,162,000 and \$861,000 as of December 31, 2020 and 2019, respectively.

The following table provides information about the financial statement classification of our lease expenses reported within the consolidated statement of operations for the year ended December 31, 2020 and 2019 (in thousands):

| Lease cost | Classification | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|-------------------------------------|---|---|
| Operating lease cost ^{(a) (b)} | Selling and administrative expenses | \$ 25,918 | \$ 21,393 |
| Finance lease cost | | | |
| Amortization of leased assets | Selling and administrative expenses | 1,301 | 861 |
| Interest on lease liabilities | Interest expense, net | 104 | 110 |
| Total lease cost | | <u>\$ 27,323</u> | <u>\$ 22,364</u> |

(a) Includes immaterial amounts recorded to cost of goods sold.

(b) Excludes short-term and variable lease costs, which are immaterial.

Future minimum lease payments under non-cancelable leases as of December 31, 2020 are as follows (in thousands):

| | Operating leases | Finance leases | Total |
|---|-------------------------|------------------------|-------------------------|
| 2021 | \$ 23,144 | \$ 1,114 | \$ 24,258 |
| 2022 | 19,898 | 682 | 20,580 |
| 2023 | 14,104 | 476 | 14,580 |
| 2024 | 8,958 | 45 | 9,003 |
| 2025 | 7,061 | — | 7,061 |
| After 2025 | 22,549 | — | 22,549 |
| Total lease payments | <u>95,714</u> | <u>2,317</u> | <u>98,031</u> |
| Less: Interest | (9,674) | (50) | (9,724) |
| Present value of lease liabilities | <u>\$ 86,040</u> | <u>\$ 2,267</u> | <u>\$ 88,307</u> |

Operating lease payments include \$13.4 million related to options to extend lease terms that are reasonably certain of being exercised.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table provides information about the remaining lease terms and discount rates applied as of December 31, 2020 and 2019:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Weighted average remaining lease term (years) | | |
| Operating leases | 6.01 | 6.03 |
| Finance leases | 2.37 | 2.92 |
| Weighted average discount rate (%) | | |
| Operating leases | 3.35 | 3.62 |
| Finance leases | 3.27 | 3.65 |

The following table provides other information related to leases for the year ended December 31, 2020 and 2019 (in thousands):

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 25,849 | \$ 20,928 |
| Leased assets obtained in exchange for new operating lease liabilities ^(a) | 25,583 | 10,460 |

(a) Excludes operating lease assets acquired as part of the PCM acquisition of \$17,951,000 in 2019. There were no major acquisitions in 2020.

(10) Stock-Based Compensation

We recorded the following pre-tax amounts in selling and administrative expenses for stock-based compensation, by operating segment, in the accompanying consolidated financial statements (in thousands):

| | Years Ended December 31, | | |
|--------------------------|---------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| North America | \$ 13,151 | \$ 12,055 | \$ 11,697 |
| EMEA | 3,953 | 3,437 | 3,170 |
| APAC | 623 | 519 | 488 |
| Total Consolidated | <u>\$ 17,727</u> | <u>\$ 16,011</u> | <u>\$ 15,355</u> |

Company Plan

On April 3, 2020, our Board of Directors adopted and approved the new Insight Enterprises, Inc. 2020 Omnibus Plan (the "Plan"), subject to stockholder approval. The Plan was approved by our stockholders at our 2020 annual meeting on May 20, 2020 and, unless sooner terminated, will remain in place until May 30, 2030. The Plan allows the Company to grant options, stock appreciation rights, stock awards, restricted stock, stock units (which may also be referred to as "restricted stock units"), performance shares, performance units, cash-based awards and other awards payable in cash or shares of common stock to eligible non-employee directors, employees and consultants. Consultants and independent contractors are eligible if they provide bona fide services that are not related to capital raising or promoting or maintaining a market for the Company's stock.

The Company previously adopted the Amended Insight Enterprises, Inc. 2007 Omnibus Plan (the "Prior Plan"). The Prior Plan was approved by our stockholders on May 18, 2011 at our 2011 annual meeting. The Prior Plan shall remain in effect until all awards granted under the Prior Plan have been exercised, forfeited or cancelled or have otherwise expired or terminated. Any shares that remain outstanding or otherwise become available under the terms of the Prior Plan following the date the Plan is approved by the Company's stockholders shall become available for issuance under the Plan. No further awards will be made under the Prior Plan.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Plan is administered by the Compensation Committee of Insight’s Board of Directors, and, except as provided below, the Compensation Committee has the exclusive authority to administer the Plan, including the power to determine eligibility, the types of awards to be granted, the price and the timing of awards. Under the Plan, the Compensation Committee may delegate some of its authority to our Chief Executive Officer to grant awards to individuals other than individuals who are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended. As of December 31, 2020, of the 2,571,000 shares of common stock reserved and available for grant under the Plan, 2,491,000 shares of common stock remain available for grant under the Plan.

Accounting for Restricted Stock Units

We issue RSUs as incentives to certain officers and teammates and as compensation to members of our Board of Directors. We recognize compensation expense associated with the issuance of such RSUs over the vesting period for each respective RSU. The total compensation expense associated with RSUs represents the value based upon the number of RSUs awarded multiplied by the closing price of our common stock on the date of grant. The number of RSUs to be awarded under our service-based RSUs is fixed at the grant date. The number of RSUs ultimately awarded under our performance-based RSUs varies based on whether the Company achieves certain financial results. We record compensation expense each period based on our estimate of the most probable number of RSUs that will be issued under the grants of performance-based RSUs. Recipients of RSUs do not have voting or dividend rights until the vesting conditions are satisfied and shares are released.

As of December 31, 2020, total compensation cost related to nonvested RSUs not yet recognized is \$27,413,000, which is expected to be recognized over the next 1.27 years on a weighted-average basis.

The following table summarizes our RSU activity during 2020:

| | Number | Weighted Average Grant Date Fair Value | Fair Value |
|--|----------------|---|-------------------------|
| Nonvested at the beginning of year | 923,400 | \$ 45.58 | |
| Granted | 401,805 | \$ 59.31 | |
| Vested, including shares withheld to cover taxes | (385,216) | \$ 42.60 | <u>\$16,410,202</u> (a) |
| Forfeited | (76,271) | \$ 51.60 | |
| Nonvested at the end of year | <u>863,718</u> | \$ 52.77 | <u>\$65,720,303</u> (b) |

- (a) The aggregate fair value of vested RSUs represents the total pre-tax fair value, based on the closing stock price on the day of vesting, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date. The aggregate intrinsic value for RSUs which vested during 2019 and 2018 was \$24,837,997 and \$14,302,223, respectively.
- (b) The aggregate fair value of the nonvested RSUs and the RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$76.09 as of December 31, 2020, which would have been received by holders of RSUs had all such holders sold their underlying shares on that date.

During each of the years in the three-year period ended December 31, 2020, the RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates’ minimum statutory United States tax obligation for the applicable income and other employment taxes and remitted the equivalent cash amount to the appropriate taxing authorities. The total shares withheld during 2020, 2019 and 2018 of 101,159, 115,831 and 88,638, respectively, were based on the value of the RSUs on their vesting dates as determined by our closing stock price on such dates. For 2020, 2019 and 2018, total payments for our teammates’ tax obligations to the taxing authorities were \$5,964,000, \$6,572,000 and \$3,230,000, respectively, and are reflected as a financing activity within the accompanying consolidated statements of cash flows. These net-share settlements had the effect of repurchases of our common stock as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to us.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(11) Income Taxes

The following table presents the U.S. and foreign components of earnings before income taxes and the related income tax expense (in thousands):

| | <u>Years Ended December 31,</u> | | |
|--------------------------------------|---------------------------------|-------------------|-------------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| <u>Earnings before income taxes:</u> | | | |
| United States | \$ 154,788 | \$ 142,410 | \$ 145,907 |
| Foreign..... | 73,664 | 69,306 | 65,995 |
| | <u>\$ 228,452</u> | <u>\$ 211,716</u> | <u>\$ 211,902</u> |
| <u>Income tax expense:</u> | | | |
| Current: | | | |
| U.S. Federal..... | \$ 38,732 | \$ 20,254 | \$ 18,334 |
| U.S. State and local | 8,203 | 5,457 | 3,218 |
| Foreign | 22,123 | 19,180 | 17,547 |
| | <u>69,058</u> | <u>44,891</u> | <u>39,099</u> |
| Deferred: | | | |
| U.S. Federal..... | (10,048) | 9,180 | 8,123 |
| U.S. State and local | (1,779) | 1,210 | 1,142 |
| Foreign | (1,419) | (2,972) | (139) |
| | <u>(13,246)</u> | <u>7,418</u> | <u>9,126</u> |
| | <u>\$ 55,812</u> | <u>\$ 52,309</u> | <u>\$ 48,225</u> |

The following schedule reconciles the differences between the U.S. federal income taxes at the U.S. statutory rate and our income tax expense (dollars in thousands):

| | <u>2020</u> | | <u>2019</u> | | <u>2018</u> | |
|---|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| Statutory federal income tax rate..... | \$47,975 | 21.0% | \$44,460 | 21.0% | \$44,499 | 21.0% |
| State income tax expense, net of federal income tax benefit..... | 6,280 | 2.7 | 7,239 | 3.4 | 6,767 | 3.2 |
| Audits and adjustments, net..... | 662 | 0.3 | 2,556 | 1.2 | 2,659 | 1.3 |
| Change in valuation allowances..... | 476 | 0.2 | (2,739) | (1.3) | 60 | — |
| Foreign income taxed at different rates.. | 3,825 | 1.7 | 4,024 | 1.9 | 2,639 | 1.2 |
| Effects of U.S. tax reform..... | — | — | — | — | (5,594) | (2.7) |
| Research and development credits | (1,858) | (0.8) | (5,438) | (2.6) | (4,132) | (1.9) |
| Other, net..... | (1,548) | (0.7) | 2,207 | 1.1 | 1,327 | 0.7 |
| Effective tax rate | <u>\$55,812</u> | <u>24.4%</u> | <u>\$52,309</u> | <u>24.7%</u> | <u>\$48,225</u> | <u>22.8%</u> |

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("TCJA 2017"), which significantly changed the U.S. tax law. In 2018 we completed our accounting for the tax effects of TCJA 2017 and recorded an incremental benefit of \$5,600,000 against provisional amounts previously reported.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to provide certain relief as a result of the COVID-19 pandemic, which included, among other things, provisions relating to net operating loss carrybacks and other beneficial income tax changes. In 2020, we recorded a tax benefit of approximately \$1,712,000 related to the CARES Act, which was reflected in our effective tax rate reconciliation in 'Other, net'.

As of December 31, 2020, we have accumulated undistributed earnings generated by our foreign subsidiaries, most of which have been taxed in the U.S. as a result of TCJA 2017. For foreign subsidiary earnings not yet taxed under these provisions, we continue to assert permanent reinvestment of earnings earned in foreign jurisdictions which impose a withholding tax on dividends and, accordingly, have not accrued any additional income or withholding taxes on the potential repatriation of these earnings. At the present time, given the various complexities involved in repatriating earnings, it is not practicable to estimate the amount of tax that may be payable if these earnings were not reinvested indefinitely.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The significant components of deferred tax assets and liabilities are as follows (in thousands):

| | December 31, | |
|---|--------------------|--------------------|
| | 2020 | 2019 |
| Deferred tax assets: | | |
| Net operating losses | \$ 27,453 | \$ 27,328 |
| Foreign tax credits | 16,027 | 16,091 |
| Other | <u>25,786</u> | <u>20,153</u> |
| Gross deferred tax assets | 69,266 | 63,572 |
| Valuation allowances | <u>(40,098)</u> | <u>(38,247)</u> |
| Total deferred tax assets | <u>29,168</u> | <u>25,325</u> |
| Deferred tax liabilities: | | |
| Goodwill and other intangibles | (48,831) | (48,279) |
| Property and equipment | (6,715) | (12,702) |
| Other | <u>(2,540)</u> | <u>(5,406)</u> |
| Total deferred tax liabilities | <u>(58,086)</u> | <u>(66,387)</u> |
| Net deferred tax (liabilities) assets | <u>\$ (28,918)</u> | <u>\$ (41,062)</u> |

The net non-current deferred tax assets and liabilities are as follows (in thousands):

| | December 31, | |
|---|--------------------|--------------------|
| | 2020 | 2019 |
| Net non-current deferred tax assets, which are included in "Other assets" | \$ 4,291 | \$ 3,571 |
| Net non-current deferred tax liabilities | <u>(33,209)</u> | <u>(44,633)</u> |
| Net deferred tax (liabilities) assets | <u>\$ (28,918)</u> | <u>\$ (41,062)</u> |

As of December 31, 2020, we have U.S. state net operating loss carryforward ("NOLs") that will expire between 2021 and 2039. We also have foreign NOLs of \$100,070,000, certain of which will expire between 2022 and 2027, while the majority have no expiration date. Certain state NOLs relate to pre-acquisition losses from acquired subsidiaries and are subject to annual limitations as to their use under the provisions of Internal Revenue Code Section 382.

We have provided valuation allowances for certain of our deferred tax assets where we believe it is more likely than not that the related tax benefits will not be realized. At December 31, 2020 and 2019, our valuation allowances totaled \$40,098,000 and \$38,247,000, respectively, relating primarily to state and foreign NOLs and foreign tax credits. Changes to our valuation allowance for the year ended December 31, 2020 were driven by the utilization of foreign tax credits and changes in our foreign and state NOLs.

As of December 31, 2020 and 2019, we had approximately \$10,546,000 and \$9,736,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$749,000 and \$442,000, respectively, related to accrued interest. The changes in the unrecognized tax benefits balance during the year reflect additions for tax positions taken in prior and current periods, net of reductions related to audit settlements and statute expirations.

In the future, if recognized, the liability associated with uncertain tax positions would affect our effective tax rate. We do not believe there will be any changes over the next 12 months that would have a material effect on our effective tax rate.

We are currently under audit in various jurisdictions for tax years 2014 through 2018. Although the timing of the resolutions and/or closures of audits is highly uncertain, it is reasonably possible that the examination phase of these audits may be concluded within the next 12 months which could significantly increase or decrease the balance of our gross unrecognized tax benefits. However, based on the status of the various examinations in multiple jurisdictions, an estimate of the range of reasonably possible outcomes cannot be made at this time, but the estimated effect on our income tax expense and net earnings is not expected to be significant.

In the U.S., federal income tax returns for years subsequent to 2015 remain open to examination. For state and foreign jurisdictions, the statute of limitations generally varies between three and ten years. However, to the extent allowable by law, the tax authorities may have a right to examine and

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

make adjustment to prior periods when amended returns have been filed, or when net operating losses or tax credits were generated and carried forward for subsequent utilization.

(12) Market Risk Management

Interest Rate Risk

We have interest rate exposure arising from our financing facilities, which have variable interest rates. These variable interest rates are affected by changes in short-term interest rates. We currently do not hedge our interest rate exposure.

We do not believe that the effect of reasonably possible near-term changes in interest rates will be material to our financial position, results of operations and cash flows. Our financing facilities expose our net earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. We had \$140,000,000 outstanding under our ABL facility and \$296,419,000 outstanding under our senior convertible notes at December 31, 2020. The interest rate attributable to the borrowings under our ABL facility and our senior convertible notes was 1.40% and 0.75%, respectively, per annum at December 31, 2020. The change in annual pre-tax earnings from operations resulting from a hypothetical 10% increase or decrease in the applicable interest rate would have been immaterial.

Although our senior convertible notes are based on a fixed rate, changes in interest rates could impact the fair market value of such notes. As of December 31, 2020, the fair market value of our convertible senior notes was \$454,790,000.

Foreign Currency Exchange Risk

We have foreign currency exchange risk related to the translation of our foreign subsidiaries' operating results, assets and liabilities (see Note 1 for a description of our Foreign Currencies policy). We also maintain cash accounts denominated in currencies other than the functional currency, which expose us to fluctuations in foreign exchange rates. Remeasurement of these cash balances results in gains/losses that are also reported in other expense (income), net within non-operating (income) expense. We monitor our foreign currency exposure and selectively enter into forward exchange contracts to mitigate risk associated with certain non-functional currency monetary assets and liabilities related to foreign denominated payables, receivables and cash balances. Transaction gains and losses resulting from non-functional currency assets and liabilities are offset by gains and losses on forward contracts in non-operating (income) expense, net in our consolidated statements of operations. The counterparties associated with our foreign exchange forward contracts are large creditworthy commercial banks. The derivatives transacted with these institutions are short in duration and, therefore, we do not consider counterparty concentration and non-performance to be material risks. The Company does not have a significant concentration of credit risk with any single counterparty.

(13) Fair Value Measurements

Fair value measurements are determined based on the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

As of December 31, 2020, we have no non-financial assets or liabilities that are measured and recorded at fair value on a recurring basis, and our other financial assets or liabilities generally consist of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities and long-term debt. The estimated fair values of our cash and cash equivalents approximate their carrying values and are determined based on quoted prices in active markets for identical assets. The estimated fair values of our long-term debt balances approximate their carrying values based on their variable interest rate terms that are based on current market interest rates for similar debt instruments. The fair values of the other financial assets and liabilities are based on the values that would be received or paid in an orderly transaction between market participants and approximate their carrying values due to their nature and short duration.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(14) Benefit Plans

We adopted a defined contribution benefit plan (the “Defined Contribution Plan”) for our U.S. teammates which complies with section 401(k) of the Internal Revenue Code. The Company provides a discretionary match to all participants who make 401(k) contributions pursuant to the Defined Contribution Plan. On May 15, 2020, our matching contributions were temporarily suspended due to the global health crises. Company matching contributions are expected to return in 2021. The discretionary match provided to participants is equivalent to 50% of a participant’s pre-tax contributions up to a maximum of 6% of eligible compensation per pay period. Additionally, we offer several defined contribution benefit plans to our teammates outside of the United States. These plans and their related terms vary by country. Total consolidated contribution expense under these plans was \$11,974,000, \$19,126,000 and \$15,216,000 for 2020, 2019 and 2018, respectively.

(15) Share Repurchase Programs

In each of February 2020 and February 2018, our Board of Directors authorized the repurchase of up to \$50,000,000 of our common stock. As of December 31, 2020, \$25 million remained available under the February 2020 share repurchase plan and none remained available under the February 2018 share repurchase plan. Our share repurchases may be made on the open market, subject to Rule 10b-18 or in privately negotiated transactions, through block trades, through 10b5-1 plans or otherwise, at management’s discretion. No share repurchase program was authorized in 2019.

The following table summarizes the shares of our common stock that we repurchased on the open market under these repurchase programs during the years ended December 31, 2020, 2019 and 2018, respectively, in thousands, except per share amounts:

| Year | Total Number of Shares Purchased | Average Price Paid per Share | Approximate Dollar Value of Shares Purchased |
|-------------|---|---------------------------------------|---|
| 2020 | 445 | \$ 56.20 | \$ 25,000 |
| 2019 | 541 | 51.56 | 27,899 |
| 2018 | 641 | 34.42 | 22,069 |
| Total | <u>1,627</u> | | <u>\$ 74,968</u> |

All shares repurchased were retired.

(16) Commitments and Contingencies

Contractual

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse the surety company.

Management believes that payments, if any, related to these performance bonds are not probable at December 31, 2020. Accordingly, we have not accrued any liabilities related to such performance bonds in our consolidated financial statements.

Employment Contracts and Severance Plans

We have employment contracts with, and plans covering, certain officers and management teammates under which severance payments would become payable in the event of specified terminations without cause or terminations under certain circumstances after a change in control. In addition, vesting of outstanding nonvested RSUs would accelerate following a change in control. If severance payments under the current employment agreements or plan payments were to become payable, the severance payments would generally range from three to twenty-four months of salary.

Indemnifications

From time to time, in the ordinary course of business, we enter into contractual arrangements under which we agree to indemnify either our clients or third-party service providers from certain losses incurred relating to services performed on our behalf or for losses arising from defined events, which may include litigation or claims relating to past performance. These arrangements include, but

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

are not limited to, the indemnification of our clients for certain claims arising out of our performance under our sales contracts, the indemnification of our landlords for certain claims arising from our use of leased facilities and the indemnification of the lenders that provide our credit facilities for certain claims arising from their extension of credit to us. Such indemnification obligations may not be subject to maximum loss clauses.

Management believes that payments, if any, related to these indemnifications are not probable at December 31, 2020. Accordingly, we have not accrued any liabilities related to such indemnifications in the accompanying consolidated financial statements.

We have entered into separate indemnification agreements with certain of our executive officers and with each of our directors. These agreements require us, among other requirements, to indemnify such officers and directors against expenses (including attorneys' fees), judgments and settlements incurred by such individual in connection with any action arising out of such individual's status or service as our executive officer or director (subject to exceptions such as where the individual failed to act in good faith or in a manner the individual reasonably believed to be in, or not opposed to, the best interests of the Company) and to advance expenses incurred by such individual with respect to which such individual may be entitled to indemnification by us. There are no pending legal proceedings that involve the indemnification of any of the Company's directors or officers.

Contingencies Related to Third-Party Review

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, client and partner audits. We continually assess whether or not such claims have merit and warrant accrual. Where appropriate, we accrue estimates of anticipated liabilities in our consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

Legal Proceedings

From time to time, we are party to various legal proceedings incidental to the business, including preference payment claims asserted in client bankruptcy proceedings, indemnification claims, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, employment claims, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss, or an additional loss, may have been incurred and determine if accruals are appropriate. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of possible loss or range of possible loss can be made. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that our consolidated financial position, results of operations or liquidity could be materially and adversely affected in any particular period by the work required pursuant to any legal proceedings or the resolution of any legal proceedings during such period. Legal expenses related to defense of any legal proceeding or the negotiations, settlements, rulings and advice of outside legal counsel in connection with any legal proceedings are expensed as incurred.

In connection with the acquisition of PCM, the Company has effectively assumed responsibility for PCM litigation matters, including various disputes related to PCM's acquisition of certain assets of En Pointe Technologies in 2015. The seller of En Pointe Technologies and related entities providing various post-closing support functions to PCM have asserted claims regarding the sufficiency of earnout payments paid by PCM under the asset purchase agreement and the unwinding of the support functions post-closing. PCM has rejected and vigorously responded to those claims and is pursuing various counterclaims. The disputes are being heard by multiple courts and arbitrators in several different jurisdictions including California, Delaware and Pakistan. The Company cannot determine with certainty the costs or outcome of these matters. However, the Company is not involved in any pending or threatened legal proceedings, including the PCM litigation matters, that it believes would reasonably be expected to have a material adverse effect on its business, financial condition or results of operations.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(17) Supplemental Financial Information

Additions and deductions related to the allowance for doubtful accounts receivable for 2020, 2019 and 2018 were as follows (in thousands):

| | <u>Balance at Beginning of Year</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at End of Year</u> |
|---|---|------------------|-------------------|-----------------------------------|
| Allowance for doubtful accounts receivable: | | | | |
| Year ended December 31, 2020..... | \$ 10,762 | \$ 10,163 | \$ (5,819) | \$ 15,106 |
| Year ended December 31, 2019..... | \$ 10,462 | \$ 5,079 | \$ (4,779) | \$ 10,762 |
| Year ended December 31, 2018..... | \$ 10,158 | \$ 4,776 | \$ (4,472) | \$ 10,462 |

(18) Cash Flows

Cash payments for interest on indebtedness and cash payments for taxes on income were as follows (in thousands):

| | <u>Years Ended December 31,</u> | | |
|---|---------------------------------|-------------|-------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for interest..... | \$ 16,605 | \$ 6,246 | \$ 10,155 |
| Cash paid during the year for income taxes, net of refunds..... | \$ 62,545 | \$ 42,484 | \$ 31,218 |

(19) Segment and Geographic Information

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Our offerings in North America and certain countries in EMEA and APAC include IT hardware, software and services. Our offerings in the remainder of our EMEA and APAC segments are largely software and certain software-related services.

The following tables summarize net sales by offering for North America, EMEA and APAC by sales mix amounts (in thousands):

| | <u>North America</u> <u>Years Ended December 31,</u> | | |
|------------------|---|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Sales Mix | | | |
| Hardware..... | \$ 4,418,295 | \$ 3,957,507 | \$ 3,610,356 |
| Software..... | 1,260,757 | 1,269,983 | 1,112,715 |
| Services | 935,980 | 796,815 | 639,910 |
| | <u>\$ 6,615,032</u> | <u>\$ 6,024,305</u> | <u>\$ 5,362,981</u> |
| | | | |
| | <u>EMEA</u> <u>Years Ended December 31,</u> | | |
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Sales Mix | | | |
| Hardware..... | \$ 617,825 | \$ 622,949 | \$ 653,499 |
| Software..... | 760,562 | 753,729 | 736,509 |
| Services | 176,838 | 149,966 | 140,233 |
| | <u>\$ 1,555,225</u> | <u>\$ 1,526,644</u> | <u>\$ 1,530,241</u> |

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| Sales Mix | APAC | | |
|------------------|---------------------------------|-------------------|-------------------|
| | Years Ended December 31, | | |
| | 2020 | 2019 | 2018 |
| Hardware..... | \$ 31,953 | \$ 34,965 | \$ 29,496 |
| Software..... | 82,763 | 92,988 | 107,363 |
| Services | 55,606 | 52,288 | 50,055 |
| | <u>\$ 170,322</u> | <u>\$ 180,241</u> | <u>\$ 186,914</u> |

The method for determining what information regarding operating segments, products and services, geographic areas of operation and major clients to report is based upon the “management approach,” or the way that management organizes the operating segments within a company, for which separate financial information is evaluated regularly by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources. Our CODM is our Chief Executive Officer.

All significant intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments or on a consolidated basis. Net sales are defined as net sales to external clients. None of our clients exceeded ten percent of consolidated net sales in 2020, 2019 or 2018.

A portion of our operating segments’ selling and administrative expenses arise from shared services and infrastructure that we have historically provided to them in order to realize economies of scale and to use resources efficiently. These expenses, collectively identified as corporate charges, include senior management expenses, internal audit, legal, tax, insurance services, treasury and other corporate infrastructure expenses. Charges are allocated to our operating segments, and the allocations have been determined on a basis that we considered to be a reasonable reflection of the utilization of services provided to or benefits received by the operating segments.

The tables below present information about our reportable operating segments (in thousands):

| | Year Ended December 31, 2020 | | | |
|---|-------------------------------------|------------------|------------------|---------------------|
| | North America | EMEA | APAC | Consolidated |
| Net Sales: | | | | |
| Products | \$5,679,052 | \$1,378,387 | \$ 114,716 | \$ 7,172,155 |
| Services | 935,980 | 176,838 | 55,606 | 1,168,424 |
| Total net sales..... | <u>6,615,032</u> | <u>1,555,225</u> | <u>170,322</u> | <u>8,340,579</u> |
| Costs of goods sold: | | | | |
| Products | 5,130,851 | 1,261,236 | 104,914 | 6,497,001 |
| Services | 462,793 | 57,943 | 22,900 | 543,636 |
| Total costs of goods sold..... | <u>5,593,644</u> | <u>1,319,179</u> | <u>127,814</u> | <u>7,040,637</u> |
| Gross profit..... | 1,021,388 | 236,046 | 42,508 | 1,299,942 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 790,913 | 192,485 | 30,367 | 1,013,765 |
| Severance and restructuring expenses..... | 9,273 | 2,989 | 132 | 12,394 |
| Acquisition-related expenses | 2,004 | 204 | — | 2,208 |
| Earnings from operations..... | <u>\$ 219,198</u> | <u>\$ 40,368</u> | <u>\$ 12,009</u> | <u>\$ 271,575</u> |

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Year Ended December 31, 2019 | | | |
|--|-------------------------------------|------------------|------------------|---------------------|
| | North America | EMEA | APAC | Consolidated |
| Net Sales: | | | | |
| Products | \$ 5,227,490 | \$ 1,376,678 | \$ 127,953 | \$ 6,732,121 |
| Services..... | 796,815 | 149,966 | 52,288 | 999,069 |
| Total net sales..... | <u>6,024,305</u> | <u>1,526,644</u> | <u>180,241</u> | <u>7,731,190</u> |
| Costs of goods sold: | | | | |
| Products | 4,748,608 | 1,258,974 | 117,778 | 6,125,360 |
| Services..... | 404,583 | 40,587 | 22,562 | 467,732 |
| Total costs of goods sold..... | <u>5,153,191</u> | <u>1,299,561</u> | <u>140,340</u> | <u>6,593,092</u> |
| Gross profit..... | 871,114 | 227,083 | 39,901 | 1,138,098 |
| Operating expenses: | | | | |
| Selling and administrative expenses..... | 664,374 | 186,957 | 29,406 | 880,737 |
| Severance and restructuring expenses | 4,946 | 334 | 145 | 5,425 |
| Acquisition-related expenses..... | 11,342 | — | — | 11,342 |
| Earnings from operations | <u>\$ 190,452</u> | <u>\$ 39,792</u> | <u>\$ 10,350</u> | <u>\$ 240,594</u> |

| | Year Ended December 31, 2018 | | | |
|--|-------------------------------------|------------------|------------------|---------------------|
| | North America | EMEA | APAC | Consolidated |
| Net Sales: | | | | |
| Products | \$ 4,723,071 | \$ 1,390,008 | \$ 136,859 | \$ 6,249,938 |
| Services | 639,910 | 140,233 | 50,055 | 830,198 |
| Total net sales..... | <u>5,362,981</u> | <u>1,530,241</u> | <u>186,914</u> | <u>7,080,136</u> |
| Costs of goods sold: | | | | |
| Products | 4,313,070 | 1,273,422 | 124,908 | 5,711,400 |
| Services | 317,216 | 35,352 | 22,450 | 375,018 |
| Total costs of goods sold..... | <u>4,630,286</u> | <u>1,308,774</u> | <u>147,358</u> | <u>6,086,418</u> |
| Gross profit..... | 732,695 | 221,467 | 39,556 | 993,718 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 545,091 | 182,470 | 28,968 | 756,529 |
| Severance and restructuring expenses | 1,617 | 1,677 | 130 | 3,424 |
| Acquisition-related expenses | 282 | — | — | 282 |
| Earnings from operations..... | <u>\$ 185,705</u> | <u>\$ 37,320</u> | <u>\$ 10,458</u> | <u>\$ 233,483</u> |

The following table is a summary of our total assets by reportable operating segment (in thousands):

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| North America..... | \$ 4,837,155 | \$ 3,814,408 |
| EMEA..... | 735,771 | 699,856 |
| APAC | 155,761 | 123,349 |
| Corporate assets and intercompany eliminations, net | <u>(1,417,955)</u> | <u>(459,434)</u> |
| Total assets..... | <u>\$ 4,310,732</u> | <u>\$ 4,178,179</u> |

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following is a summary of our geographic net sales and long-lived assets, consisting of property and equipment, net (in thousands):

| | <u>United States</u> | <u>United Kingdom</u> | <u>Other Foreign</u> | <u>Total</u> |
|-------------------------------|----------------------|-----------------------|----------------------|--------------|
| <u>2020</u> | | | | |
| Net sales..... | \$6,237,901 | \$ 805,401 | \$1,297,277 | \$8,340,579 |
| Total long-lived assets | \$ 110,161 | \$ 11,042 | \$ 24,813 | \$ 146,016 |
| <u>2019</u> | | | | |
| Net sales..... | \$5,696,422 | \$ 776,051 | \$1,258,717 | \$7,731,190 |
| Total long-lived assets | \$ 103,678 | \$ 13,448 | \$ 13,781 | \$ 130,907 |
| <u>2018</u> | | | | |
| Net sales..... | \$5,100,456 | \$ 843,145 | \$1,136,535 | \$7,080,136 |

Net sales by geographic area are presented by attributing net sales to external customers based on the domicile of the selling location.

We recorded the following pre-tax amounts, by operating segment, for depreciation and amortization in the accompanying consolidated financial statements (in thousands):

| | <u>Years Ended December 31,</u> | | |
|---|---------------------------------|------------------|------------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Depreciation and amortization of property and equipment: | | | |
| North America | \$ 22,396 | \$ 17,827 | \$ 17,164 |
| EMEA | 5,073 | 4,166 | 4,058 |
| APAC..... | 556 | 545 | 499 |
| | <u>28,025</u> | <u>22,538</u> | <u>21,721</u> |
| Amortization of intangible assets: | | | |
| North America | 34,990 | 22,382 | 14,791 |
| EMEA | 2,088 | 828 | 285 |
| APAC..... | 457 | 461 | 661 |
| | <u>37,535</u> | <u>23,671</u> | <u>15,737</u> |
| Total | <u>\$ 65,560</u> | <u>\$ 46,209</u> | <u>\$ 37,458</u> |

(20) Acquisitions

PCM

On August 30, 2019, we completed our acquisition of PCM, acquiring 100 percent of the issued and outstanding shares of PCM for a cash purchase price of \$745,562,000, which included cash and cash equivalents acquired of \$84,637,000 and the payment of PCM's outstanding debt. PCM is a provider of multi-vendor technology offerings, including hardware, software and services to small, mid-sized and corporate/enterprise commercial clients, state, local and federal governments and educational institutions across the United States, Canada and the United Kingdom. Based in El Segundo, California, PCM has 40 office locations in North America and the United Kingdom and more than 4,000 teammates. We believe that this acquisition allows us to help existing PCM clients in positioning their businesses for future growth, transforming and securing their data platforms, creating modern and mobile experiences for their workforce and optimizing the procurement of technology. The addition of PCM complements our supply chain optimization solution offering, adding scale and clients in the mid-market and corporate space primarily in North America.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the purchase price and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

| | | |
|--|----|----------------|
| Purchase price net of cash and cash equivalents acquired | \$ | 660,925 |
| Fair value of net assets acquired: | | |
| Current assets | \$ | 531,941 |
| Identifiable intangible assets - see description below | | 191,370 |
| Property and equipment..... | | 91,213 |
| Other assets..... | | 32,699 |
| Current liabilities..... | | (369,183) |
| Long-term liabilities, including deferred taxes | | (71,009) |
| Total fair value of net assets acquired | | <u>407,031</u> |
| Excess purchase price over fair value of net assets acquired ("goodwill") | \$ | <u>253,894</u> |

Under the acquisition method of accounting, the total purchase price as shown in the table above was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over fair value of net assets acquired was recorded as goodwill. In the fourth quarter of 2019, an adjustment of \$56,700,000 was recorded to goodwill primarily due to a change in the customer relationships valuation based on updated information received for key inputs as well as an associated change in deferred taxes.

The estimated fair values of current assets and liabilities are based upon their historical costs on the date of acquisition due to their short-term nature. The estimated fair values of the majority of property and equipment excluding acquired real estate are also based upon historical costs as they approximate fair value. Certain long-term assets, including PCM's IT systems, have been written down to the estimated fair value.

The estimated fair value of net assets acquired was approximately \$407,031,000, including \$191,370,000 of identifiable intangible assets, consisting primarily of customer relationships of \$178,900,000. The fair value of the customer relationships were determined using the multiple-period excess earnings method.

The identifiable intangibles resulting from the acquisition are amortized using the straight-line method over the following estimated useful lives:

| Intangible Assets | Estimated Economic Life |
|------------------------------|--------------------------------|
| Customer relationships | 10 - 12 Years |
| Trade name | 1 Year |
| Non-compete agreements | 2 - 3 Years |

Goodwill of \$253,894,000, which was recorded in our North America and EMEA operating segments, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from PCM. The goodwill is not amortized and will be tested for impairment annually in the fourth quarter of our fiscal year. The addition of the PCM technical employees to our team and the opportunity to grow our business are the primary factors making up the goodwill recognized as part of the transaction. None of the goodwill is tax deductible. The purchase price allocation was finalized during the third quarter of 2020.

We have consolidated the results of operations for PCM since its acquisition on August 30, 2019.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table reports pro forma information as if the acquisition of PCM had been completed at the beginning of the earliest period presented (in thousands, except per share amounts):

| | | Year Ended December 31, | |
|----------------------------------|-------------|--------------------------------|--------------|
| | | 2019 | 2018 |
| Net sales | As reported | \$ 7,731,190 | \$ 7,080,136 |
| | Pro forma | \$ 9,207,512 | \$ 9,241,183 |
| Net earnings | As reported | \$ 159,407 | \$ 163,677 |
| | Pro forma | \$ 171,102 | \$ 167,499 |
| Diluted earnings per share | As reported | \$ 4.43 | \$ 4.55 |
| | Pro forma | \$ 4.76 | \$ 4.65 |

Cardinal

Effective August 1, 2018, we acquired 100 percent of the issued and outstanding shares of Cardinal, a digital solutions provider based in Cincinnati, Ohio, with offices across the Midwest and Southeast United States, for a cash purchase price, net of cash acquired, of approximately \$78,400,000, including final working capital and tax gross up adjustments of \$3,400,000. Cardinal provides technology solutions to digitally transform organizations through their expertise in mobile applications development, Internet of Things and cloud enabled business intelligence. We believe that this acquisition strengthens our services capabilities and will bring value to our clients within our digital innovation services solution offering.

The fair value of net assets acquired was approximately \$42,360,000, including \$27,540,000 of identifiable intangible assets, consisting primarily of customer relationships that will be amortized using the straight line method over the estimated economic life of ten years. The fair value of the customer relationships was determined using the multiple-period excess earnings method. The preliminary purchase price was allocated using the acquisition method of accounting using the information available at the time. During the fourth quarter of 2018, we finalized the fair value assumptions for identifiable intangible assets with no changes being made to amounts previously recorded. Goodwill acquired approximated \$36,040,000 which was recorded in our North America operating segment. The goodwill is tax deductible. The working capital adjustment was finalized in the fourth quarter of 2018 and paid in January 2019. Additionally, we finalized the purchase price allocation when the tax gross up adjustment was agreed upon in April 2019. This resulted in a reduction of the previously recorded purchase price in the second quarter of 2019.

We consolidated the results of operations for Cardinal within our North America operating segment beginning on August 1, 2018, the effective date of the acquisition. Our historical results would not have been materially affected by the acquisition of Cardinal and, accordingly, we have not presented pro forma information as if the acquisition had been completed at the beginning of each period presented in our statement of operations.

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Selected Quarterly Financial Information (unaudited)

The following tables set forth selected unaudited consolidated quarterly financial information for 2020 and 2019 (in thousands, except per share data):

| | Quarters Ended | | | |
|--|----------------------|-----------------------|------------------|-------------------|
| | December 31, 2020 | September 30, 2020 | June 30, 2020 | March 31, 2020 |
| Net sales | \$ 2,291,315 | \$ 1,936,478 | \$ 1,968,735 | \$ 2,144,051 |
| Costs of goods sold | 1,948,661 | 1,628,915 | 1,644,346 | 1,818,715 |
| Gross profit | 342,654 | 307,563 | 324,389 | 325,336 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 257,167 | 245,155 | 242,580 | 268,863 |
| Severance and restructuring expenses | 2,432 | 808 | 7,010 | 2,144 |
| Acquisition-related expenses | 13 | 118 | 611 | 1,466 |
| Earnings from operations..... | 83,042 | 61,482 | 74,188 | 52,863 |
| Non-operating (income) expense: | | | | |
| Interest expense, net..... | 10,434 | 9,115 | 10,219 | 11,826 |
| Other (income) expense, net..... | 693 | 1,301 | 1,098 | (1,563) |
| Earnings before income taxes | 71,915 | 51,066 | 62,871 | 42,600 |
| Income tax expense..... | 18,527 | 12,160 | 16,486 | 8,639 |
| Net earnings | <u>\$ 53,388</u> | <u>\$ 38,906</u> | <u>\$ 46,385</u> | <u>\$ 33,961</u> |
| Net earnings per share: | | | | |
| Basic | <u>\$ 1.52</u> | <u>\$ 1.11</u> | <u>\$ 1.32</u> | <u>\$ 0.96</u> |
| Diluted | <u>\$ 1.50</u> | <u>\$ 1.10</u> | <u>\$ 1.32</u> | <u>\$ 0.95</u> |
| Shares used in per share calculations: | | | | |
| Basic | <u>35,098</u> | <u>35,077</u> | <u>35,060</u> | <u>35,233</u> |
| Diluted..... | <u>35,523</u> | <u>35,348</u> | <u>35,260</u> | <u>35,646</u> |

| | Quarters Ended | | | |
|---|----------------------|-----------------------|------------------|-------------------|
| | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 |
| Net sales | \$ 2,297,156 | \$ 1,912,547 | \$ 1,836,021 | \$ 1,685,466 |
| Costs of goods sold | 1,959,174 | 1,636,352 | 1,560,572 | 1,436,994 |
| Gross profit..... | 337,982 | 276,195 | 275,449 | 248,472 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 266,970 | 223,215 | 199,489 | 191,063 |
| Severance and restructuring expenses..... | 1,713 | 2,662 | 680 | 370 |
| Acquisition-related expenses | 2,283 | 5,896 | 3,163 | — |
| Earnings from operations..... | 67,016 | 44,422 | 72,117 | 57,039 |
| Non-operating (income) expense: | | | | |
| Interest expense, net | 11,897 | 7,694 | 4,335 | 4,552 |
| Other (income) expense, net..... | (458) | (538) | 346 | 1,050 |
| Earnings before income taxes..... | 55,577 | 37,266 | 67,436 | 51,437 |
| Income tax expense | 12,627 | 10,134 | 17,438 | 12,110 |
| Net earnings | <u>\$ 42,950</u> | <u>\$ 27,132</u> | <u>\$ 49,998</u> | <u>\$ 39,327</u> |
| Net earnings per share: | | | | |
| Basic..... | <u>\$ 1.22</u> | <u>\$ 0.76</u> | <u>\$ 1.40</u> | <u>\$ 1.10</u> |
| Diluted | <u>\$ 1.20</u> | <u>\$ 0.76</u> | <u>\$ 1.38</u> | <u>\$ 1.09</u> |
| Shares used in per share calculations: | | | | |
| Basic..... | <u>35,259</u> | <u>35,512</u> | <u>35,772</u> | <u>35,609</u> |
| Diluted | <u>35,755</u> | <u>35,868</u> | <u>36,111</u> | <u>36,103</u> |

INSIGHT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(22) Subsequent Events

In January 2021, we completed the sales of our three properties in Tempe, Arizona and of our property in Woodbridge, Illinois for total net proceeds of approximately \$27,211,000. We intend to use the proceeds from the sales to ready our property in Chandler, Arizona to be used as our global corporate headquarters.

INSIGHT ENTERPRISES, INC.

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

Not applicable.

Item 9A. Controls and Procedures

(a) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined under Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, our management used the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2020, based on the criteria established in COSO's Internal Control – Integrated Framework (2013).

KPMG LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements in Part II, Item 8 of this report, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2020.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, evaluated the effectiveness of our disclosure controls and procedures and determined that as of December 31, 2020 our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(d) Inherent Limitations of Disclosure Controls and Internal Control Over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. Other Information

Not applicable.

INSIGHT ENTERPRISES, INC.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The names of the executive officers of Insight and their ages, titles and biographies as of the date hereof are incorporated by reference from Part I, Item 1 of this report under the caption "Information about our Executive Officers."

Other information required by this item can be found in our definitive Proxy Statement relating to our 2021 Annual Meeting of Stockholders (our "Proxy Statement") and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

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

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

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

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item can be found in our Proxy Statement and is incorporated herein by reference.

INSIGHT ENTERPRISES, INC.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules

The Consolidated Financial Statements of Insight Enterprises, Inc. and subsidiaries and the related Reports of Independent Registered Public Accounting Firm are filed herein as set forth under Part II, Item 8 of this report.

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits

The exhibits list is incorporated herein by reference as the list of exhibits required as part of this report.

Item 16. Form 10-K Summary

None.

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K
YEAR ENDED DECEMBER 31, 2020
Commission File No. 000-25092

| Exhibit Number | Exhibit Description | Form | Incorporated by Reference | | | Filed/Furnished Herewith |
|-----------------------|--|-----------------|----------------------------------|-----------------------|--------------------|---------------------------------|
| | | | File No. | Exhibit Number | Filing Date | |
| 2.1 ⁽¹⁾ | Agreement and Plan of Merger, dated as of November 6, 2016, by and among Insight Enterprises, Inc., Reef Acquisition Co., and Datalink Corporation | 8-K | 000-25092 | 2.1 | November 7, 2016 | |
| 2.2 ⁽¹⁾ | Agreement and Plan of Merger, dated as of June 23, 2019, by and among Insight Enterprises, Inc., Trojan Acquisition Corp. and PCM | 8-K | 000-25092 | 2.1 | June 24, 2019 | |
| 3.1 | Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc. | 10-K | 000-25092 | 3.1 | February 17, 2006 | |
| 3.2 | Certificate of Amendment of Amended and Restated Certificate of Incorporation of Insight Enterprises, Inc. | 8-K | 000-25092 | 3.1 | May 21, 2015 | |
| 3.3 | Amended and Restated Bylaws of Insight Enterprises, Inc. | 8-K | 000-25092 | 3.2 | May 21, 2015 | |
| 4.1 (P) | Specimen Common Stock Certificate | S-1 | 33-86142 | 4.1 | January 20, 1995 | |
| 4.2 | Indenture (including Form of Note) with respect to Insight Enterprises, Inc.'s 0.750% Convertible Senior Notes due 2025, dated August 15, 2019, by and among Insight Enterprises, Inc., Insight Direct USA, Inc. and U.S. Bank National Association, as trustee. | 8-K | 000-25092 | 4.1 | August 15, 2019 | |
| 4.3 | Description of Company's securities | 10-K | 000-25092 | 4.3 | February 21, 2020 | |
| 10.1 ⁽²⁾ | Form of Indemnification Agreement | 10-K | 000-25092 | 10.1 | July 26, 2007 | |
| 10.2 ⁽³⁾ | Amended Insight Enterprises, Inc. 2007 Omnibus Plan | Proxy Statement | 000-25092 | Annex A | April 4, 2011 | |
| 10.3 ⁽³⁾ | First Amendment to the Amended Insight Enterprises, Inc. 2007 Omnibus Plan | Proxy Statement | 000-25092 | Annex A | April 5, 2016 | |
| 10.4 ⁽³⁾ | Insight Enterprises, Inc. 2020 Omnibus Plan | S-8 | 333-238543 | 99.1 | May 20, 2020 | |
| 10.5 ⁽³⁾ | Executive Management Separation Plan effective as of January 1, 2008 | 10-Q | 000-25092 | 10.5 | November 7, 2008 | |
| 10.6 ⁽³⁾ | First Amendment to the Insight Enterprises, Inc. Executive Management Separation Plan effective as of February 1, 2020 | 10-K | 000-25092 | 10.5 | February 21, 2020 | |
| 10.7 ⁽³⁾ | Amended and Restated Employment Agreement between Insight Enterprises, Inc. and Glynis A. Bryan dated as of January 1, 2009 | 8-K | 000-25092 | 10.3 | January 7, 2009 | |
| 10.8 ⁽³⁾ | Executive Employment Agreement between Insight Enterprises, Inc. and Kenneth T. Lamneck, dated as of December 14, 2009 | 10-K | 000-25092 | 10.24 | February 25, 2010 | |

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K (continued)
YEAR ENDED DECEMBER 31, 2019
Commission File No. 000-25092

| Exhibit Number | Exhibit Description | Form | <u>Incorporated by Reference</u> | | | Filed/Furnished Herewith |
|---------------------------|--|-------------|---|----------------------------------|-------------------------------|-------------------------------------|
| | | | <u>File No.</u> | <u>Exhibit Number</u> | <u>Filing Date</u> | |
| 10.9 ⁽³⁾ | Employment Agreement between Insight Enterprises, Inc. and Rachael A. Bertrandt, dated as of September 30, 2018 | 10-Q | 000-25092 | 10.1 | November 7, 2018 | |
| 10.10 ⁽³⁾ | Managing Director Service Agreement dated October 25, 2013 between Insight Technology Solutions GmbH and Wolfgang Ebermann | 8-K | 000-25092 | 10.1 | October 30, 2013 | |
| 10.11 ⁽³⁾ | Amendment to the Service Agreement dated October 25, 2013 between Insight Technology Solutions GmbH and Wolfgang Ebermann | 8-K | 000-25092 | 10.1 | January 6, 2021 | |
| 10.12 ⁽³⁾ | Executive Employment Agreement between Insight Enterprises, Inc. and Samuel C. Cowley, dated June 7, 2016 | 10-K | 000-25092 | 10.12 | February 2, 2017 | |
| 10.13 ⁽³⁾ | Executive Employment Agreement between Insight Enterprises, Inc. and Jeffery Shumway, dated May 6, 2019 | 10-K | 000-25092 | 10.12 | February 21, 2020 | |
| 10.14 ⁽³⁾ | Executive Employment Agreement between Insight Enterprises, Inc. and Joyce Mullen dated as of September 15, 2020 | 10-Q | 000-25092 | 10.1 | November 3, 2020 | |
| 10.15 | Form of Bond Hedge Confirmation. | 8-K | 000-25092 | 10.1 | August 15, 2019 | |
| 10.16 | Form of Warrant Confirmation. | 8-K | 000-25092 | 10.2 | August 15, 2019 | |
| 10.17 ⁽⁴⁾ | Credit Agreement, dated as of August 30, 2019, by and among Insight Enterprises, Inc., the subsidiaries of Insight Enterprises, Inc. party thereto as borrowers and guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto. | 8-K | 000-25092 | 10.1 | August 30, 2019 | |
| 10.18 | First Amendment to Credit Agreement, dated as of July 31, 2020, by and among Insight Enterprises, Inc., the subsidiaries of Insight Enterprises, Inc. party thereto as borrowers and grantors, JPMorgan, N.A., as administrative agent, and the lenders party thereto. | 10-Q | 000-25092 | 10.2 | August 6, 2020 | |
| 21 | Subsidiaries of Insight Enterprises, Inc. | | | | | X |
| 23.1 | Consent of KPMG LLP | | | | | X |
| 24.1 | Power of Attorney for Timothy A. Crown dated February 5, 2021 | | | | | X |
| 24.2 | Power of Attorney for Richard E. Allen dated February 5, 2021 | | | | | X |
| 24.3 | Power of Attorney for Bruce W. Armstrong dated February 5, 2021 | | | | | X |
| 24.4 | Power of Attorney for Linda M. Breard dated February 6, 2021 | | | | | X |

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K (continued)
YEAR ENDED DECEMBER 31, 2019
Commission File No. 000-25092

| <u>Exhibit Number</u> | <u>Exhibit Description</u> | <u>Incorporated by Reference</u> | | | <u>Filed/Furnished Herewith</u> |
|---------------------------|--|----------------------------------|---------------------|---------------------------|-------------------------------------|
| | | <u>Form</u> | <u>File No.</u> | <u>Exhibit Number</u> | |
| 24.5 | Power of Attorney for Catherine Courage dated February 5, 2021 | | | | X |
| 24.6 | Power of Attorney for Anthony A. Ibarguen dated February 5, 2021 | | | | X |
| 24.7 | Power of Attorney for Kathleen S. Pushor dated February 5, 2021 | | | | X |
| 24.8 | Power of Attorney for Girish Rishi dated February 12, 2021 | | | | X |
| 31.1 | Certification of Chief Executive Officer Pursuant to Securities and Exchange Act Rule 13a-14 | | | | X |
| 31.2 | Certification of Chief Financial Officer Pursuant to Securities and Exchange Act Rule 13a-14 | | | | X |
| 32.1 | Certification of Chief Executive Office and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | | | | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | | X |

INSIGHT ENTERPRISES, INC.
EXHIBITS TO FORM 10-K (continued)
YEAR ENDED DECEMBER 31, 2019
Commission File No. 000-25092

| <u>Exhibit Number</u> | <u>Exhibit Description</u> | <u>Form</u> | <u>Incorporated by Reference</u> | | | <u>Filed/Furnished Herewith</u> |
|---------------------------|---|-------------|----------------------------------|---------------------------|------------------------|-------------------------------------|
| | | | <u>File No.</u> | <u>Exhibit Number</u> | <u>Filing Date</u> | |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101) | | | | | X |
| | (1) Certain schedules and exhibits (or similar attachments) have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish copies of any such schedules and exhibits (or similar attachments) to the SEC upon request. | | | | | |
| | (2) We have entered into a separate indemnification agreement with each of the following directors and executive officers that differ only in names and dates: Richard E. Allen, Bruce W. Armstrong, Rachael A. Bertrandt Crump, Linda Breard, Glynis A. Bryan, Catherine Courage, Samuel C. Cowley, Timothy A. Crown, Wolfgang Ebermann, Anthony A. Ibarguen, Helen K. Johnson, Kenneth T. Lamneck, Joyce Mullen, Kathleen S. Pushor, Girish Rishi and Jeffery Shumway. Pursuant to the instructions accompanying Item 601 of Regulation S-K, the Registrant is filing the form of such indemnification agreement. | | | | | |
| | (3) Management contract or compensatory plan or arrangement. | | | | | |
| | (4) Certain schedules and exhibits (or similar attachments) have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The Company agrees to furnish copies of any such schedules and exhibits (or similar attachments) to the SEC upon request. | | | | | |
| | (P) Paper exhibit. | | | | | |

INSIGHT ENTERPRISES, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INSIGHT ENTERPRISES, INC.

By /s/ Kenneth T. Lamneck
Kenneth T. Lamneck
Chief Executive Officer

Dated: February 16, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|-------------------|
| <u>/s/ Kenneth T. Lamneck</u> Kenneth T. Lamneck | President, Chief Executive Officer and Director (principal executive officer) | February 16, 2021 |
| <u>/s/ Glynis A. Bryan</u> Glynis A. Bryan | Chief Financial Officer (principal financial officer) | February 16, 2021 |
| <u>/s/ Rachael A. Bertrandt Crump</u> Rachael A. Bertrandt Crump | Global Corporate Controller (principal accounting officer) | February 16, 2021 |
| <u>/s/ Timothy A. Crown*</u> Timothy A. Crown | Chairman of the Board | February 16, 2021 |
| <u>/s/ Richard E. Allen*</u> Richard E. Allen | Director | February 16, 2021 |
| <u>/s/ Bruce W. Armstrong*</u> Bruce W. Armstrong | Director | February 16, 2021 |
| <u>/s/ Linda M. Breard*</u> Linda M. Breard | Director | February 16, 2021 |
| <u>/s/ Catherine Courage*</u> Catherine Courage | Director | February 16, 2021 |
| <u>/s/ Anthony A. Ibargüen*</u> Anthony A. Ibargüen | Director | February 16, 2021 |
| <u>/s/ Kathleen S. Pushor*</u> Kathleen S. Pushor | Director | February 16, 2021 |
| <u>/s/ Girish Rishi*</u> Girish Rishi | Director | February 16, 2021 |

* **By: /s/ Samuel C. Cowley**
Samuel C. Cowley, Attorney in Fact

INSIGHT ENTERPRISES, INC.

Exhibit 31.1

CERTIFICATION

I, Kenneth T. Lamneck, certify that:

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

Date: February 16, 2021

**By: /s/ Kenneth T. Lamneck
Kenneth T. Lamneck
Chief Executive Officer**

INSIGHT ENTERPRISES, INC.

Exhibit 31.2

CERTIFICATION

I, Glynis A. Bryan, certify that:

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

Date: February 16, 2021

**By: /s/ Glynis A. Bryan
Glynis A. Bryan
Chief Financial Officer**

INSIGHT ENTERPRISES, INC.

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Insight Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kenneth T. Lamneck, Chief Executive Officer of the Company, and Glynis A. Bryan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Kenneth T. Lamneck
Kenneth T. Lamneck
Chief Executive Officer
February 16, 2021

By: /s/ Glynis A. Bryan
Glynis A. Bryan
Chief Financial Officer
February 16, 2021

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Board of Directors



Timothy A. Crown
Chairman of the Board
Investor / Entrepreneur



Ken Lamneck
President and Chief
Executive Officer
Insight Enterprises, Inc.



Richard E. Allen
Investor



Bruce Armstrong
Operating Partner,
Khosla Ventures



Linda Breard
Investor



Catherine Courage
Vice President,
Experience for Ads
and Commerce,
Google, Inc.



Anthony A. Ibarguen
Chief Executive Officer,
Quench USA, Inc.



Kathleen S. Pushor
Independent
Consultant



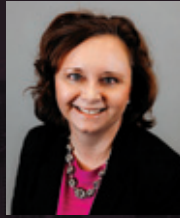
Girish Rishi
Chief Executive
Officer of Blue Yonder



Insight's Leadership



Glynis Bryan
Chief Financial
Officer
Insight



Rachael A. Crump
Principal Accounting
Officer and Global
Corporate Controller
Insight



John Dathan
Senior Vice President
and General Manager
Insight Canada



Emma de Sousa
President
Insight EMEA



Helen K. Johnson
Senior Vice President
and Chief Financial
Officer
Insight North America



Samuel C. Cowley
Senior Vice President
General Counsel
and Secretary
Insight



Joyce Mullen
President
Insight North America



Jeff Shumway
Chief Information
Officer
Insight



Jen Vasin
Senior Vice President
Human Resources
Insight



Mike Morgan
Vice President and
Managing Director
Insight APAC

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