

INSIGHT ENTERPRISES INC
Form 10-Q
May 01, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 0-25092

INSIGHT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware 86-0766246
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification Number)

6820 South Harl Avenue, Tempe, Arizona 85283

(Address of principal executive offices) (Zip Code)

(480) 333-3000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the issuer’s common stock as of April 26, 2019 was 35,762,268.

INSIGHT ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q

Three Months Ended March 31, 2019

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INSIGHT ENTERPRISES, INC.

Forward-Looking Information

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. Certain statements in this Quarterly Report on Form 10-Q, including statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 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: expectations regarding net sales, gross profit, gross margin, operating expenses, earnings from operations, non-operating income and expenses, net earnings or cash flows, cash needs and the payment of accrued expenses and liabilities; the expected effects of seasonality on our business; expectations of further consolidation in the Information Technology (“IT”) industry; our intentions concerning the payment of dividends; our acquisition strategy; projections of capital expenditures; the sufficiency of our capital resources, the availability of financing and our needs and plans relating thereto; the estimated effect of new accounting principles and expected dates of adoption; the effect of indemnification obligations; projections about the outcome of ongoing tax audits; expectations regarding future employee termination benefits; estimates regarding future asset-retirement activities; adequate provisions for and our positions and strategies with respect to ongoing and threatened litigation; our expectations regarding the use of cash flow from operations for working capital, to pay down debt, repurchase shares of our common stock, make capital expenditures and fund acquisitions; our expectations regarding stock-based compensation and future income tax expense; our compliance with leverage ratio requirements; our exposure to off-balance sheet arrangements; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” “project,” “will,” “may” and variations of such words and similar expressions. Forward-looking statements 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2018:

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

INSIGHT ENTERPRISES, INC.

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

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the Securities and Exchange Commission. Any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. 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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 124,831	\$ 142,655
Accounts receivable, net of allowance for doubtful accounts		
of \$10,903 and \$10,462, respectively	1,723,817	1,931,736
Inventories	187,146	148,503
Other current assets	117,199	115,683
Total current assets	2,152,993	2,338,577
Property and equipment, net of accumulated depreciation and		
amortization of \$273,379 and \$331,700, respectively	74,038	72,954
Goodwill	166,073	166,841
Intangible assets, net of accumulated amortization of		
\$56,255 and \$52,942, respectively	108,856	112,179
Deferred income taxes	7,345	7,967
Other assets	247,162	77,429
	\$ 2,756,467	\$ 2,775,947
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable—trade	\$ 897,609	\$ 978,104
Accounts payable—inventory financing facility	260,160	304,130
Accrued expenses and other current liabilities	183,678	190,733
Current portion of long-term debt	1,161	1,395
Deferred revenue	66,646	62,300
Total current liabilities	1,409,254	1,536,662
Long-term debt	113,227	195,525
Deferred income taxes	604	683
Other liabilities	207,164	56,088
	1,730,249	1,788,958

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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;

35,762 shares at March 31, 2019 and 35,482 shares at

December 31, 2018 issued and outstanding

358

355

Additional paid-in capital

321,606

323,622

Retained earnings

743,992

704,665

Accumulated other comprehensive loss – foreign currency

translation adjustments

(39,738)

(41,653)

Total stockholders' equity

1,026,218

986,989

\$2,756,467

\$2,775,947

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Net sales:		
Products	\$ 1,466,672	\$ 1,557,792
Services	218,794	184,702
Total net sales	1,685,466	1,742,494
Costs of goods sold:		
Products	1,337,308	1,414,986
Services	99,686	87,245
Total costs of goods sold	1,436,994	1,502,231
Gross profit	248,472	240,263
Operating expenses:		
Selling and administrative expenses	191,063	188,180
Severance and restructuring expenses	370	1,644
Earnings from operations	57,039	50,439
Non-operating (income) expense:		
Interest income	(271)	(153)
Interest expense	4,823	6,015
Net foreign currency exchange loss (gain)	711	(245)
Other expense, net	339	302
Earnings before income taxes	51,437	44,520
Income tax expense	12,110	11,517
Net earnings	\$39,327	\$33,003
Net earnings per share:		
Basic	\$ 1.10	\$ 0.92
Diluted	\$ 1.09	\$ 0.91
Shares used in per share calculations:		
Basic	35,609	35,913
Diluted	36,103	36,263

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Net earnings	\$39,327	\$33,003
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	1,915	4,591
Total comprehensive income	\$41,242	\$37,594

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

					Accumulated			Total Stockholders' Equity
	Common Stock Shares	Common Stock Par Value	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Other Comprehensive Loss	Retained Earnings	
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	279	3	—	—	(6,131)	—	—	(6,128)
Stock-based compensation expense	—	—	—	—	4,115	—	—	4,115
Foreign currency translation adjustments, net of tax	—	—	—	—	—	1,915	—	1,915
Net earnings	—	—	—	—	—	—	39,327	39,327
Balances at March 31, 2019	35,761	\$ 358	—	\$—	\$ 321,606	\$ (39,738)	\$ 743,992	\$ 1,026,218
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	240	2	—	—	(2,887)	—	—	(2,885)
Stock-based compensation expense	—	—	—	—	3,184	—	—	3,184
Repurchase of treasury stock	—	—	(221)	(7,679)	—	—	—	(7,679)
Retirement of treasury stock	(221)	(2)	221	7,679	(1,959)	—	(5,718)	—
Foreign currency translation adjustments, net of tax	—	—	—	—	—	4,591	—	4,591

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Net earnings	—	—	—	—	—	—	33,003	33,003
Balances at March 31, 2018	35,848	\$ 358	—	\$—	\$ 315,493	\$ (19,673)	\$ 584,681	\$ 880,859

See accompanying notes to consolidated financial statements.

INSIGHT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Cash flows from operating activities:		
Net earnings	\$39,327	\$33,003
Adjustments to reconcile net earnings to net cash provided by		
operating activities:		
Depreciation and amortization of property and equipment	5,044	5,433
Amortization of intangible assets	3,823	3,611
Provision for losses on accounts receivable	1,413	346
Write-downs of inventories	1,408	629
Write-off of property and equipment	—	303
Non-cash stock-based compensation	4,115	3,184
Deferred income taxes	547	979
Changes in assets and liabilities:		
Decrease in accounts receivable	210,691	184,877
(Increase) Decrease in inventories	(39,658)	4,444
Increase in other assets	(107,314)	(25,514)
Decrease in accounts payable	(82,246)	(97,104)
Increase in deferred revenue	7,117	16,177
Increase in accrued expenses and other liabilities	77,646	20,377