

## CDW Corporation (CDW)

**\$130.45** (As of 01/31/20)

Price Target (6-12 Months): **\$137.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

### Summary

CDW is benefiting from growth across all the end markets with strength in particularly small business, government and healthcare is a key driver. Strength in corporate and government end markets is aided by the device refresh cycle. Moreover, the buyout of Scalar Decisions is boosting growth in Canada. Progress in network management, storage management and operating system software is a tailwind as well. Estimates have been going up ahead of the company's Q4 earnings release. The company has positive record of earnings surprises in recent quarters. However, high debt load, currency headwind and intensifying competition are concerns. Further, declines in both enterprise storage and servers might dampen data center hardware growth. Moreover, the passage of Window's 10 replacement cycle might mar the company's prospects.

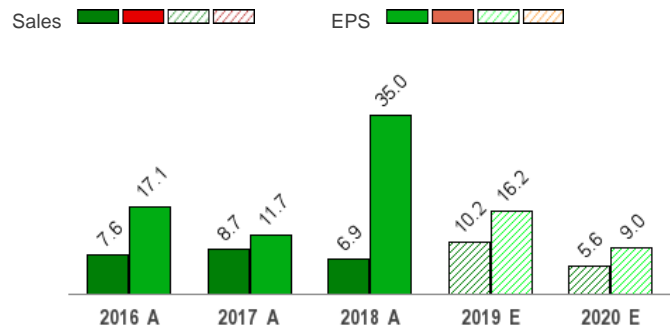
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$146.09 - \$82.76</b>
20 Day Average Volume (sh)	<b>1,006,513</b>
Market Cap	<b>\$18.7 B</b>
YTD Price Change	<b>-8.7%</b>
Beta	<b>1.07</b>
Dividend / Div Yld	<b>\$1.52 / 1.2%</b>
Industry	<b><a href="#">Computers - IT Services</a></b>
Zacks Industry Rank	<b>Top 34% (87 out of 255)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>7.6%</b>
Last Sales Surprise	<b>5.8%</b>
EPS F1 Est- 4 week change	<b>0.4%</b>
Expected Report Date	<b>02/06/2020</b>
Earnings ESP	<b>2.3%</b>
P/E TTM	<b>22.3</b>
P/E F1	<b>19.9</b>
PEG F1	<b>1.5</b>
P/S TTM	<b>1.1</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,286 E	4,901 E	5,080 E	4,662 E	18,902 E
2019	3,958 A	4,630 A	4,908 A	4,395 E	17,892 E
2018	3,606 A	4,186 A	4,373 A	4,075 A	16,241 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.35 E	\$1.72 E	\$1.85 E	\$1.61 E	\$6.55 E
2019	\$1.24 A	\$1.60 A	\$1.70 A	\$1.47 E	\$6.01 E
2018	\$1.05 A	\$1.38 A	\$1.42 A	\$1.32 A	\$5.17 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/31/2020. The reports text is as of 02/03/2020.

## Overview

Headquartered in Vernon Hills, IL, CDW Corporation, founded in 1984, is a leading provider of integrated information technology (IT) solutions to small, medium and large business, government, education and healthcare customers in the United States, United Kingdom and Canada.

CDW offers discrete hardware and software products to integrated IT solutions businesses such as mobility, security, data center optimization, cloud computing, virtualization and collaboration.

The company's hardware products include notebooks/mobile devices (also tablets), network communications, desktop computers, video monitors, enterprise and data storage besides printers and servers. Its software products are application suites, security, virtualization, operating systems and network management. Alongside these, the company offers services like warranties, managed services, consulting design as well as implementation.

CDW's solutions portfolio includes more than 100,000 products and services from above 1,000 leading and emerging brands. Its solutions are delivered in physical, virtual and cloud-based environments through more than 6,000 customer-facing coworkers including sellers, highly-skilled technology specialists and advanced service delivery engineers.

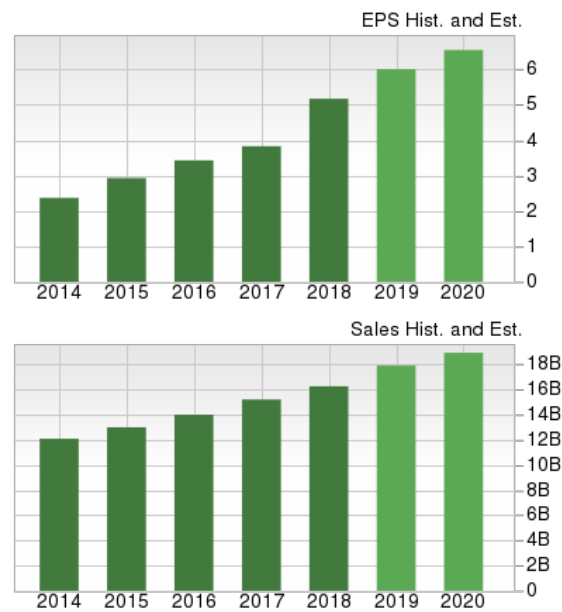
The company provides integrated IT solutions to more than 80 countries for customers with primary locations in the United States, UK and Canada.

The company believes that its addressable markets in the United States, UK and Canada represent more than \$325 billion in annual sales.

In 2018, CDW's total revenues of \$16 billion represented approximately 5% of its addressable markets.

The company has four operating segments, namely Corporate (42% of FY18 revenues), Small Business (8%), Public (38%) and Other (12%).

The company's current competitor includes manufacturers, who sell directly to customers like Adobe, Apple, Dell, HP Inc., Hewlett Packard Enterprise; cloud providers, namely Amazon Web Services, Box and Microsoft; large service providers and system integrators, such as Accenture, Dell, HPE and IBM and communications service providers like AT&T, CenturyLink and Verizon among others.



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## Reasons To Buy:

- ▲ The latest forecast for worldwide IT spending by Gartner buoys optimism for CDW's growth prospects. IT spending in North America is forecast to grow 3.7% in 2019 despite uncertainty over recession, Brexit, trade wars and tariffs. The research firm expects worldwide spending on IT services to reach \$1.031 trillion in 2019, representing a 3.7% increase from the \$993 billion recorded last year. Further, in 2020 it is forecast to grow 5.5% to \$1.088 trillion. We believe CDW is well-poised to capitalise on this growth opportunity.
- ▲ CDW's robust product portfolio and frequent product refreshes are its tailwinds. The company has been expanding its solutions suite and enriching services capabilities to cater to customers' growing needs. Strong demand for consumer devices like notebooks and chromebooks plus servers is an upside for the company. Moreover, growth in software and services is proving beneficial. Notably, the company is benefiting from growth in each of its end markets, which include corporate, small business, government, education and healthcare.
- ▲ CDW is looking at strategic acquisitions to supplement organic growth. The company expects its latest buyout of Scalar Decisions to broaden CDW Canada's solutions portfolio, deepen technical skillset and extend its geographic reach. The consolidation of Scalar is envisioned to contribute 100 bps additionally in 2019. The company's purchase of Kelway TopCo (later rebranded it to CDW UK) in August 2015 improved its ability to provide IT solutions for US-based customers with multinational locations. The company's footprint in the United Kingdom also grew with this transaction.
- ▲ CDW is witnessing earnings growth at a faster rate, courtesy of its share repurchase initiatives. Moreover, management targets to deliver a 30% dividend payout of free cash flow in 2019 and intends to return the remaining free cash flow post dividends and buyouts through share repurchases. In 2018, the company returned \$660 million of cash to shareholders including \$139 million of dividends and \$522 million of share repurchases. The company also announced that the board has ramped up share repurchase authorization by \$1 billion and cleared 40 cents hike over last year's dividend. In third-quarter 2019, the company returned \$200 million of cash to its shareholders including \$43 million of dividends and \$161million of share repurchases.

Growth across customer end markets, broad-based product and solutions portfolio and a healthy IT spending environment are consistent positives.

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## Reasons To Sell:

- ▼ CDW operates in a highly volatile industry, characterized by a rapid technological innovation, frequent introduction of enhanced hardware, software and services offerings and continuous changing customer demand patterns. Thus, the company has to develop technologically updated products to respond to the evolving market trends. These make it highly vulnerable to operating risks regarding technological obsolescence.
- ▼ Competition in the market for technology products and services is heating up with increase in products sold directly to customers and not via service provider like CDW. As a result, the company faces rivalry from resellers like Insight Enterprises and PC Connection, manufacturers like Apple, Adobe, HP and Hewlett Packard Enterprise, which sell directly to customers and cloud providers, namely Amazon Web Services, Box and Microsoft. This also naturally raises pricing pressures and consequently, reduce market share and hamper results.
- ▼ CDW is on an acquisition spree. While this improves its revenue opportunities, business mix and profitability, it also aggravates its integration risks. Notably, buyouts negatively impacted the company's balance sheet in the form of high level of goodwill and net intangible assets, which comprised almost 41% of the total assets as of Sep 30, 2019. The takeover moves have also affected CDW's capital position as high indebtedness raises its investment risk in the to-be-acquired company. At the end of the third-quarter, net debt amounted to \$3.26 billion. Such high-debt levels increase leverage risks and interest costs, which might erode the company's profits.
- ▼ The company has been benefiting largely from the ongoing client device refresh cycle. However, with the passage of Window's 10 replacement cycle in January 2020, it expects growth in client devices to be at a more muted rate. Robust growth in client devices over the last couple of years and the quarters is likely to lead to a tough year-over-year comparison in fiscal 2020.

Increasing debt burden and growing competition from key tech players remain headwinds.

## Last Earnings Report

### CDW Q3 Earnings Surpass Estimates

CDW third-quarter 2019 non-GAAP earnings per share rose 19.8% year over year to \$1.7 and also beat the Zacks Consensus Estimate of \$1.58.

Further, revenues of \$4.91 billion in the reported quarter marked a year-over-year rise of 12.2% and also topped the Zacks Consensus Estimate of \$4.64 billion. Moreover, revenues were up 12.7% in constant currency (cc).

The company's balanced portfolio of customer end-markets and its broad product and solutions pipeline are key drivers. Robust contribution from the U.S. Census Bureau is a key catalyst.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	5.84%
EPS Surprise	7.59%
Quarterly EPS	1.70
Annual EPS (TTM)	5.86

### Quarter in Detail

Net sales of CDW's Corporate segment amounting to \$1.914 billion registered nearly 12.1% growth on a year-over-year basis, driven by ongoing demand for client devices.

Small Business segment's net sales of \$386 million increased 13.6% year over year, driven by hardware strength, particularly client devices.

Coming to Public segment, net sales of \$2.101 billion climbed 12% from the year-earlier quarter. Moreover, revenues from Government and Healthcare customers were up 24.1% and 13.1%, respectively. Sales to Education customers inched up 1.8%.

Net sales in Other (Canadian and UK operations) ascended 12.3% to \$507 million.

Hardware grew 10%, backed by client device growth. Continued customer refresh, market share gains and the deployment of CDW's Device as a Service solution to the Census Bureau boosted growth in client devices.

Software increased 12%, driven by strong growth in security, network management, storage management and operating system software.

Services were up 16%, aided by professional services, warranties and configuration.

CDW's gross profit of \$713.6 million increased 14.4% on a year-over-year basis. Also, gross margin expanded 30 basis points (bps) to 16.6%. Higher mix of netted down revenues, such as warranties and Software-as-a-Service, was a positive as well.

Non-GAAP operating income increased 13.9% year over year to \$380.4 million. Non-GAAP operating margin of 7.8 % improved 20 bps.

### Balance Sheet and Cash Flow

CDW exited the reported quarter with cash and cash equivalents of \$166.9 million compared with \$194.5 million at the end of the sequential quarter.

The company has a long-term debt of \$3.26 billion compared with \$3.25 billion in the sequential quarter.

It generated \$682.3 million of cash flow from operational activities in the first nine months of 2019.

### Guidance

CDW anticipates 2019 revenues to grow 200-300 bps (earlier 400-475 bps) more than the U.S. IT market's growth estimate of 3%. The acquisition of Scalar is envisioned to contribute 100 bps additionally.

Aprtis is not expected to have a material impact on net sales in 2019.

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## Recent News

On Jan 21, 2020, CDW Corporation named Christina M. Corley as the chief commercial and operating officer.

On Oct 31, 2019, CDW Corporation announced that the Board of Directors declared a quarterly cash dividend of 38 cents per common share to be paid on Dec 10 to all shareholders of record as of Nov 25.

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## Valuation

CDW shares are up 21.4% in the past six months and 54.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 9% and 19.3% in the past six months, respectively. Over the past year, while the Zacks sub-industry gained 15.8%, the sector gained 24%.

The S&P 500 Index has increased 14% in the past six months and 17.5% in the past year.

The stock is currently trading at 19.77X forward 12-month earnings, which compares to 23.61X for the Zacks sub-industry, 21.98X for the Zacks sector and 18.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.95X and as low as 10.56X with a 5-year median of 15.87X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$137 price target reflects 20.76X forward 12-month earnings.

The table below shows summary valuation data for CDW

Valuation Multiples - CDW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.77	23.61	21.98	18.51
	5-Year High	24.95	32.37	22.03	19.34
	5-Year Low	10.56	15.6	16.86	15.18
	5-Year Median	15.87	22.24	19.28	17.46
P/S F12M	Current	0.99	4.62	3.59	3.43
	5-Year High	1.16	10.18	3.59	3.43
	5-Year Low	0.39	4.3	2.3	2.54
	5-Year Median	0.65	7.46	3.01	3
EV/EBITDA TTM	Current	15.6	28.66	12.68	12.25
	5-Year High	17.71	32.87	12.68	12.86
	5-Year Low	8.2	20.85	7.68	8.48
	5-Year Median	10.88	27.64	10.88	10.7

As of 01/31/2020

## Industry Analysis Zacks Industry Rank: Top 34% (87 out of 255)



## Top Peers

Apple Inc. (AAPL)	Outperform
Adobe Systems Incorporated (ADBE)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
HP Inc. (HPQ)	Neutral
International Business Machines Corporation (IBM)	Neutral
Microsoft Corporation (MSFT)	Neutral
Dell Technologies Inc. (DELL)	Underperform
Hewlett Packard Enterprise Company (HPE)	Underperform

Industry Comparison Industry: Computers - It Services				Industry Peers		
	CDW Neutral	X Industry	S&P 500	AAPL Outperform	ADBE Neutral	AMZN Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Market Cap	18.74 B	3.36 B	23.55 B	1,354.25 B	169.30 B	995.92 B
# of Analysts	7	5	13	12	13	14
Dividend Yield	1.17%	0.00%	1.81%	1.00%	0.00%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>D</b>	<b>F</b>	<b>D</b>
Cash/Price	0.01	0.06	0.04	0.07	0.02	0.05
EV/EBITDA	17.47	11.90	13.97	17.20	40.53	34.80
PEG Ratio	1.52	1.95	1.97	2.15	2.21	2.81
Price/Book (P/B)	20.04	5.42	3.21	15.13	16.08	17.62
Price/Cash Flow (P/CF)	18.66	14.38	13.36	20.28	42.88	38.82
P/E (F1)	19.92	19.92	18.42	22.53	35.83	77.15
Price/Sales (P/S)	1.07	1.50	2.60	5.06	15.15	3.55
Earnings Yield	5.02%	2.85%	5.43%	4.44%	2.79%	1.30%
Debt/Equity	3.57	0.23	0.72	1.04	0.09	0.40
Cash Flow (\$/share)	6.99	1.39	6.92	15.26	8.19	51.74
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	21.73%	16.94%	10.68%	9.59%	52.77%	116.18%
Proj. EPS Growth (F1/F0)	9.01%	9.62%	7.59%	15.54%	24.51%	13.15%
Curr. Cash Flow Growth	19.83%	14.90%	10.81%	-3.74%	27.62%	85.21%
Hist. Cash Flow Growth (3-5 yrs)	14.79%	18.94%	8.78%	7.40%	41.64%	48.43%
Current Ratio	1.33	1.32	1.22	1.60	0.79	1.10
Debt/Capital	78.13%	33.63%	42.99%	50.97%	8.59%	28.45%
Net Margin	4.04%	2.62%	11.69%	21.49%	26.42%	4.13%
Return on Equity	91.07%	11.38%	17.33%	60.19%	31.47%	22.00%
Sales/Assets	2.31	0.81	0.55	0.80	0.56	1.48
Proj. Sales Growth (F1/F0)	5.65%	8.61%	4.12%	9.25%	17.68%	17.99%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>F</b>
Daily Price Chg	-2.53%	-1.77%	-1.98%	-4.43%	-1.57%	7.38%
1 Week Price Chg	0.78%	-1.00%	-1.09%	-0.13%	0.47%	-0.17%
4 Week Price Chg	-9.33%	-2.57%	-2.11%	3.05%	5.00%	5.83%
12 Week Price Chg	-1.87%	6.87%	2.15%	19.30%	20.76%	12.33%
52 Week Price Chg	56.66%	4.46%	14.15%	85.96%	41.69%	16.87%
20 Day Average Volume	1,006,513	233,468	1,808,632	32,553,636	1,928,810	3,261,434
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	4.47%	0.00%	-0.28%
(F1) EPS Est 4 week change	0.36%	0.00%	0.00%	5.08%	0.02%	-0.44%
(F1) EPS Est 12 week change	0.36%	-0.54%	-0.09%	5.19%	0.24%	-1.65%
(Q1) EPS Est Mthly Chg	0.19%	0.00%	0.00%	5.83%	0.00%	0.09%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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