

CDW Corporation (CDW)

\$132.66 (As of 02/07/20)

Price Target (6-12 Months): **\$139.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

CDW reported solid fourth quarter results, wherein both earnings and revenues exceeded estimates and improved on a year-over-year basis. The company is benefiting from growth across all the end markets with strength in particularly small business, government and healthcare. 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. However, high debt load, currency headwind and intensifying competition are concerns. Moreover, the passage of Window's 10 replacement cycle might mar the company's prospects.

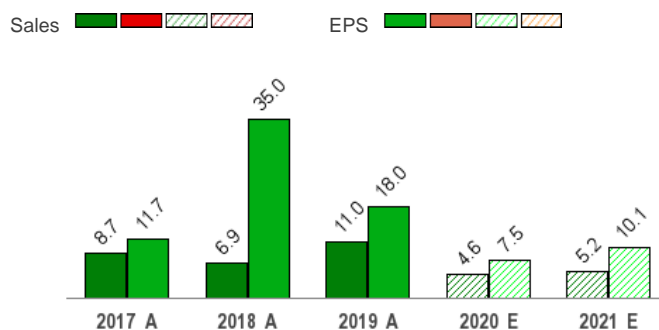
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$146.09 - \$90.02
20 Day Average Volume (sh)	1,081,182
Market Cap	\$19.1 B
YTD Price Change	-7.1%
Beta	1.09
Dividend / Div Yld	\$1.52 / 1.1%
Industry	Computers - IT Services
Zacks Industry Rank	Bottom 38% (157 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.8%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.5%
P/E TTM	21.7
P/E F1	20.2
PEG F1	1.5
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					19,839 E
2020	4,266 E	4,901 E	5,080 E	4,627 E	18,865 E
2019	3,958 A	4,630 A	4,908 A	4,537 A	18,032 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.22 E
2020	\$1.35 E	\$1.72 E	\$1.84 E	\$1.62 E	\$6.56 E
2019	\$1.24 A	\$1.60 A	\$1.70 A	\$1.57 A	\$6.10 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 02/07/2020. The reports text is as of 02/10/2020.

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.

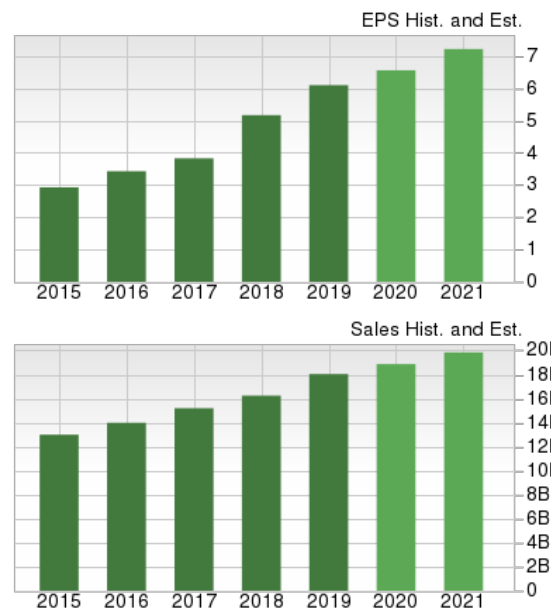
The company provides integrated IT solutions to more than 80 countries for customers with primary locations in the United States, UK and Canada.

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

Net sales in 2019 improved 11% year over year to \$18.03 billion.

The company has four operating segments, namely Corporate (42% of FY19 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.



Reasons To Buy:

- ▲ The latest forecast for worldwide IT spending by Gartner buoys optimism for CDW's growth prospects. Worldwide IT spending is projected to total \$3.9 trillion in 2020, an increase of 3.4% from 2019. The research firm expects worldwide spending on IT services to reach \$1.08 trillion in 2020, representing a 5% increase from the \$1.03 billion recorded last year. Further, in 2021 it is forecast to grow 5.5% to \$1.14 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 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. In 2019, the company returned more than 100% of free cash flow to shareholders. The company deployed \$840 million of cash to shareholders including \$183 million of dividends and \$657 million of share repurchases. The company once again expects to return more than 100% of free cash flow to shareholders in 2020.

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

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 Dec 31, 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 fourth-quarter, net debt amounted to \$3.32 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 Q4 Earnings Surpass Estimates

CDW fourth-quarter 2019 non-GAAP earnings per share rose 18.4% year over year to \$1.57 and also beat the Zacks Consensus Estimate of \$1.47.

Further, revenues of \$4.54 billion in the reported quarter marked a year-over-year rise of 11.3% and also topped the Zacks Consensus Estimate of \$4.395 billion. Moreover, revenues were up 11.3% at constant currency (cc).

The company's balanced portfolio of customer end markets and its broad product and solutions pipeline are key drivers.

Quarter in Detail

Net sales of CDW's Corporate segment amounting to \$1.965 billion registered nearly 7% growth on a year-over-year basis aided by balanced transactional and solutions growth. Double-digit growth in servers and enterprise storage hardware was a tailwind.

Small Business segment's net sales of \$391 million increased 7.9% year over year, driven by client device strength.

Coming to Public segment, net sales of \$1.593 billion climbed 12.6% from the year-earlier quarter. Moreover, revenues from Government and Healthcare customers were up 20.7% and 13.6%, respectively. Double-digit growth in client devices as well as enterprise storage hardware and software aided Healthcare. Infrastructure refresh and increasing focus on patient experience and clinical mobility boosted healthcare demand.

Sales to Education customers inched up 1.3% with low single-digit growth in higher education and flat K-12 results.

Net sales in Other (Canadian and UK operations) ascended 27.2% to \$587 million.

CDW's gross profit of \$777.5 million increased 12.1% on a year-over-year basis. Also, gross margin expanded 10 basis points (bps) to 17.1% driven by product margin.

Non-GAAP operating income increased 14.3% year over year to \$342.3 million. Non-GAAP operating margin of 7.5% improved 20 bps.

Balance Sheet and Cash Flow

CDW exited the reported quarter with cash and cash equivalents of \$154 million compared with \$166.9 million at the end of the sequential quarter.

The company has a long-term debt of \$3.32 billion compared with \$3.26 billion in the sequential quarter.

CDW generated \$1.03 billion of cash flow from operational activities in 2019.

Guidance

CDW anticipates 2020 revenues to grow 200-300 bps more than the U.S. IT market.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	3.24%
EPS Surprise	6.80%
Quarterly EPS	1.57
Annual EPS (TTM)	6.11

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.

Valuation

CDW shares are up 18.1% in the past six months and 46.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 11.1% and 21.9% in the past six months, respectively. Over the past year, while the Zacks sub-industry gained 16.2%, the sector gained 29.4%.

The S&P 500 Index has increased 16% in the past six months and 21.9% in the past year.

The stock is currently trading at 20X forward 12-month earnings, which compares to 23.9X for the Zacks sub-industry, 22.82X for the Zacks sector and 19.13X 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 15.91X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$139 price target reflects 21X 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	20	23.9	22.82	19.13
	5-Year High	24.95	32.37	22.82	19.34
	5-Year Low	10.56	15.6	16.87	15.18
	5-Year Median	15.91	22.24	19.28	17.46
P/S F12M	Current	1	5.25	3.72	3.43
	5-Year High	1.16	10.29	3.72	3.43
	5-Year Low	0.39	4.34	2.3	2.54
	5-Year Median	0.65	7.43	3.01	3
EV/EBITDA TTM	Current	14.38	28.82	12.29	11.95
	5-Year High	17.71	32.87	12.59	12.85
	5-Year Low	8.2	20.85	7.68	8.49
	5-Year Median	10.91	27.64	10.53	10.66

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 254)



Top Peers

Apple Inc. (AAPL)	Outperform
Microsoft Corporation (MSFT)	Outperform
Adobe Systems Incorporated (ADBE)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
HP Inc. (HPQ)	Neutral
International Business Machines Corporation (IBM)	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
VGM Score	A	-	-	C	D	B
Market Cap	19.06 B	3.41 B	24.00 B	1,400.28 B	176.50 B	1,035.09 B
# of Analysts	7	5	13	12	13	13
Dividend Yield	1.15%	0.00%	1.78%	0.96%	0.00%	0.00%
Value Score	B	-	-	D	D	D
Cash/Price	0.01	0.06	0.04	0.08	0.02	0.06
EV/EBITDA	17.78	12.31	14.07	17.71	42.29	26.86
PEG Ratio	1.55	2.00	2.04	2.22	2.30	2.79
Price/Book (P/B)	19.85	5.36	3.28	15.64	16.83	16.68
Price/Cash Flow (P/CF)	18.56	14.44	13.58	20.97	44.70	31.01
P/E (F1)	20.33	21.64	18.86	23.28	37.36	75.43
Price/Sales (P/S)	1.06	1.54	2.65	5.23	15.80	3.69
Earnings Yield	4.94%	2.79%	5.30%	4.30%	2.68%	1.33%
Debt/Equity	3.56	0.23	0.71	1.04	0.09	0.38
Cash Flow (\$/share)	7.15	1.39	6.89	15.26	8.19	67.05
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	21.73%	16.94%	10.80%	9.54%	52.77%	110.19%
Proj. EPS Growth (F1/F0)	7.56%	8.65%	7.23%	15.61%	24.51%	19.81%
Curr. Cash Flow Growth	-2.02%	10.90%	9.51%	-3.74%	27.62%	31.33%
Hist. Cash Flow Growth (3-5 yrs)	14.79%	18.94%	8.55%	7.40%	41.64%	49.26%
Current Ratio	1.24	1.33	1.20	1.60	0.79	1.10
Debt/Capital	78.05%	33.63%	42.90%	50.97%	8.59%	27.39%
Net Margin	4.09%	2.36%	11.76%	21.49%	26.42%	4.13%
Return on Equity	94.72%	11.38%	16.98%	60.19%	31.47%	21.07%
Sales/Assets	2.30	0.81	0.54	0.80	0.56	1.41
Proj. Sales Growth (F1/F0)	4.62%	8.24%	4.15%	9.32%	17.68%	19.18%
Momentum Score	A	-	-	B	F	B
Daily Price Chg	-1.47%	-0.19%	-0.64%	-1.59%	-0.37%	1.42%
1 Week Price Chg	-5.42%	-2.24%	-2.60%	-2.76%	-0.07%	7.90%
4 Week Price Chg	-6.56%	2.36%	0.72%	3.36%	7.53%	9.38%
12 Week Price Chg	-0.12%	7.96%	4.69%	21.85%	24.30%	18.50%
52 Week Price Chg	45.65%	4.86%	16.01%	87.22%	44.28%	28.80%
20 Day Average Volume	1,081,182	223,738	1,961,054	33,238,230	2,143,407	4,044,161
(F1) EPS Est 1 week change	-0.35%	0.00%	0.00%	0.06%	0.00%	0.58%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.00%	4.96%	0.07%	5.10%
(F1) EPS Est 12 week change	0.00%	-1.48%	-0.16%	5.26%	-0.94%	3.82%
(Q1) EPS Est Mthly Chg	-0.38%	0.00%	0.00%	5.83%	0.00%	2.19%

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
Growth Score	A
Momentum Score	A
VGM Score	A

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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