CDW Corporation (CDW)

$117.24 (As of 06/18/20)

Price Target (6-12 Months): **$123.00**

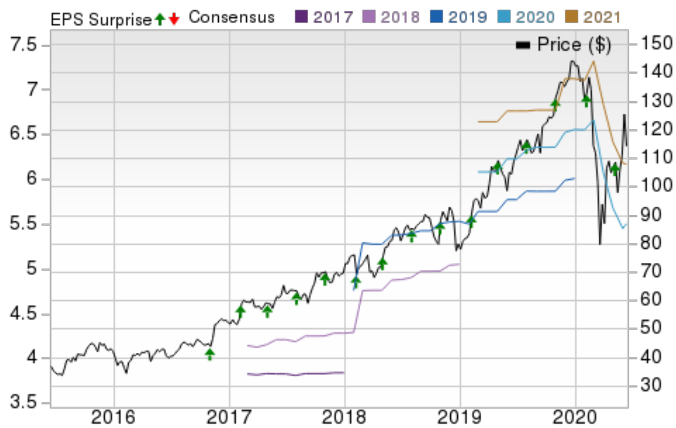
Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 05/11/20)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:A
Value: B | Growth: A | Momentum: C

Summary

CDW is benefiting from coronavirus-led work-from home wave which has boosted demand for products that enable remote working and operations continuity plan. Also, CDW is benefiting from growth across all the end markets with strength in particularly small business, government and healthcare. Moreover, the buyout of Scalar Decisions is boosting growth in Canada. Progress in network management, storage management and operating system software is a tailwind. CDW's core strength of providing best-in-class services and easy-to-acquire technologies will bolster its growth in the future. Nonetheless, high debt load, currency headwind and intensifying competition are hurting CDW's growth. Further, the passage of Windows 10 replacement cycle might mar CDW's prospects. The stock has underperformed the industry in the year to date period.

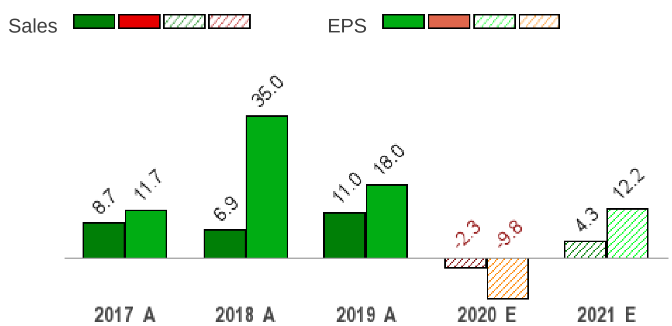
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$146.09 - $73.39**
20 Day Average Volume (sh)	**953,601**
Market Cap	**$16.7 B**
YTD Price Change	**-17.9%**
Beta	**1.21**
Dividend / Div Yld	**$1.52 / 1.3%**
Industry	**Computers - IT Services**
Zacks Industry Rank	**Bottom 47% (135 out of 253)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**0.0%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**07/29/2020**
Earnings ESP	**-12.0%**
P/E TTM	**18.8**
P/E F1	**21.3**
PEG F1	**1.6**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,397 E	4,551 E	4,786 E	4,435 E	18,376 E
2020	4,389 A	4,292 E	4,568 E	4,309 E	17,623 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	$1.34 E	$1.51 E	$1.66 E	$1.51 E	$6.17 E
2020	$1.38 A	$1.33 E	$1.46 E	$1.34 E	$5.50 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 06/18/2020. The reports text is as of 06/19/2020.

Overview

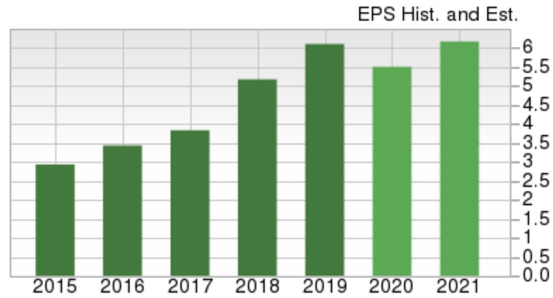
Headquartered in Vernon Hills, IL, CDW Corporation, founded in 1984, is a leading provider of integrated information technology (IT) solutions to small, medium and large business, government, education and healthcare customers in the United States, United Kingdom and Canada.

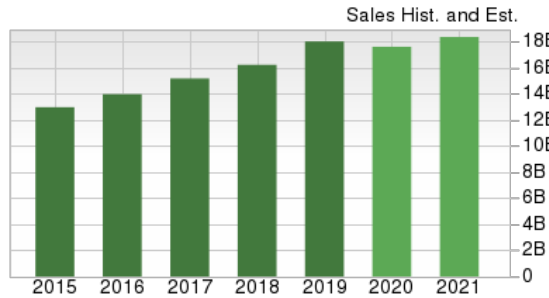
CDW offers discrete hardware and software products to integrated IT solutions businesses such as mobility, security, data center optimization, cloud computing, virtualization and collaboration.

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:

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

- CDW is benefiting from coronavirus-led work-from home wave. During the first quarter of 2020, the company witnessed strong demand for products that enabled remote working and operations continuity plan. It registered double-digit revenue growth in product categories including collaboration tools, notebook, desktops, video, configuration services and security.

- 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. In the first quarter of 2020, the company returned $195 million to shareholders through share repurchases and dividend payments.

Reasons To Sell:

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

- 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.

- The latest forecast for worldwide IT spending by Gartner might dampen CDW's growth prospects. Worldwide IT spending is anticipated to be $3.4 trillion in 2020, a decrease of 8% from 2019. The research firm expects worldwide spending on IT services to decline 7.7% year-over-year to $1.032 trillion in 2020. Gartner pointed out that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and effects of the global economic recession.

- 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 31% of the total assets as of Mar 31, 2020. The takeover moves have also affected CDW's capital position as high indebtedness raises its investment risk in the to-be-acquired company. As of Mar 31, 2020, net debt amounted to $3.39 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.

- CDW has a highly leveraged balance sheet with low cash balance. The company had ended the first quarter of 2020 with cash and equivalents of $214 million. On the other hand, CDW's long-term debt (including current maturities) has increased to $3.6 billion as of Mar 31, 2020 from $3.4 billion as of Dec 31, 2019. Also, the company's current total debt to total capital ratio of 0.8 is significantly higher than the industry average of 0.46.

Last Earnings Report

CDW First-Quarter 2020 Result

Quarter Ending	03/2020
Report Date	**May 06, 2020**
Sales Surprise	**0.00%**
EPS Surprise	**0.00%**
Quarterly EPS	**1.38**
Annual EPS (TTM)	**6.25**

CDW reported solid results for first-quarter 2020, wherein both top and bottom lines surpassed the Zacks Consensus Estimate and marked significant year-over-year improvements.

The company's first-quarter non-GAAP earnings per share increased 11% year over year to $1.38, mainly on higher revenues, partially offset by inflated selling and administrative (S&A) expenses and effective tax rate. Quarterly earnings also surpassed the Zacks Consensus Estimate by a couple of cents.

The company's quarterly revenues grew 10.9% year over year to $4.39 billion and came in line with the Zacks Consensus Estimate. Moreover, revenues were up 9.4% at constant currency (cc). The company's balanced portfolio of customer end markets and its broad product and solutions pipeline were key drivers.

Quarter in Detail

Net sales of CDW's Corporate segment amounting to $1.91 billion registered 8.4% growth on a year-over-year basis.

The Small Business segment's net sales of $391 million increased 8.4% year over year.

Coming to the Public segment, net sales of $1.53 billion climbed 12.8% from the year-earlier quarter. Moreover, revenues from Government and Healthcare customers were up 14.7% and 7.1%, respectively. Sales to Education customers jumped 17.1%.

Net sales in Other (Canadian and UK operations) were up 3.2% to $561 million.

CDW's gross profit of $757 million increased 12.6% on a year-over-year basis. Also, gross margin expanded 20 basis points (bps) to 17.2% driven by product margin.

Non-GAAP operating income increased 5.8% year over year to $304 million. However, non-GAAP operating margin contracted 40 bps to 6.9% mainly due to elevated S&A expenses, which flared up 15.2% year over year to $511 million. As a percentage of revenues, S&A expenses expanded 40 bps to 11.6%.

Effective tax rate for the first quarter was 20.7%, marginally higher than the year-ago quarter level of 20.2%.

Balance Sheet and Cash Flow

CDW exited the reported quarter with cash and cash equivalents of $214 million compared with the $154 million witnessed at the end of the sequential quarter.

The company has a long-term debt of $3.47 billion compared with the prior quarter's $3.32 billion.

CDW generated $223 million of cash flow from operational activities in the January-March quarter.

Recent News

On May 6, CDW's board of directors declared quarterly cash dividend of 38 cents per share to be payable on Jun 10 to the shareholders of record date as of May 25.

On Apr 16, CDW priced an offering of $600 million worth of 4.125% Senior Notes due 2025.

On Apr 16, CDW provided business updates on impact of COVID-19. The company anticipates reporting revenues and non-GAAP earnings per share of $4.39 billion and $1.38, respectively, for the first quarter of 2020.

On Feb 6, CDW's board of directors declared quarterly cash dividend of 38 cents per share to be payable on Mar 10 to the shareholders of record date as of Feb 25.

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

Valuation

CDW shares are down 17.9% in the year-to-date period while are up 8.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 3.4% and 9.1% YTD, respectively. Over the past year, the Zacks sub-industry and the sector have gained 3.3% and 21.1%, respectively.

The S&P 500 Index has lost 3.3% year to date, while has gained 5.4% in the past year.

The stock is currently trading at 20.17X forward 12-month earnings, which compares to 28.21X for the Zacks sub-industry, 25.32X for the Zacks sector and 22.4X 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 16.23X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $123 price target reflects 21.18X 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	20.17	28.21	25.32	22.40
	5-Year High	24.95	32.37	25.32	22.40
	5-Year Low	10.56	15.46	16.72	15.23
	5-Year Median	16.23	22.29	19.28	17.49
P/S F12M	Current	0.93	5.17	3.74	3.51
	5-Year High	1.16	10.11	3.74	3.51
	5-Year Low	0.39	3.86	2.32	2.53
	5-Year Median	0.67	7.17	3.11	3.02
EV/EBITDA TTM	Current	12.51	28.39	12.45	11.53
	5-Year High	15.93	33.18	12.72	12.85
	5-Year Low	7.81	19.83	7.57	8.25
	5-Year Median	11.07	27.43	10.75	10.82

As of 06/18/2020

Industry Analysis **Zacks Industry Rank:** Bottom 47% (135 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. **(AAPL)**	Neutral	3
Adobe Systems Incorporated **(ADBE)**	Neutral	3
Amazon.com, Inc. **(AMZN)**	Neutral	3
Dell Technologies Inc. **(DELL)**	Neutral	3
Hewlett Packard Enterprise Company **(HPE)**	Neutral	3
HP Inc. **(HPQ)**	Neutral	3
International Business Machines Corporation **(IBM)**	Neutral	3
Microsoft Corporation **(MSFT)**	Neutral	3

Industry Comparison Industry: Computers - It Services

Industry Peers

	CDW	X Industry	S&P 500	AAPL	ADBE	AMZN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	C	D
Market Cap	16.68 B	2.97 B	21.93 B	1,524.52 B	202.58 B	1,323.74 B
# of Analysts	6	5	14	12	12	13
Dividend Yield	1.30%	0.00%	1.93%	0.93%	0.00%	0.00%
Value Score	B	-	-	C	D	F
Cash/Price	0.01	0.07	0.06	0.06	0.02	0.04
EV/EBITDA	14.56	10.13	12.69	19.41	49.37	34.74
PEG Ratio	1.67	2.04	2.97	2.60	2.69	5.42
Price/Book (P/B)	18.75	4.49	3.02	19.44	18.62	20.28
Price/Cash Flow (P/CF)	14.56	12.33	11.62	23.05	51.34	39.58
P/E (F1)	21.90	34.06	21.45	28.56	43.05	132.54
Price/Sales (P/S)	0.90	2.15	2.33	5.69	16.82	4.47
Earnings Yield	4.69%	2.30%	4.37%	3.50%	2.32%	0.75%
Debt/Equity	4.01	0.29	0.77	1.14	0.38	0.36
Cash Flow ($/share)	8.05	1.07	7.01	15.26	8.19	67.05
Growth Score	A	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	22.51%	18.58%	10.87%	9.79%	45.00%	102.38%
Proj. EPS Growth (F1/F0)	-9.81%	-6.29%	-10.65%	3.59%	24.10%	-12.98%
Curr. Cash Flow Growth	10.39%	15.98%	5.46%	-3.74%	27.62%	31.33%
Hist. Cash Flow Growth (3-5 yrs)	13.51%	16.03%	8.55%	7.40%	41.64%	49.26%
Current Ratio	1.28	1.44	1.29	1.50	1.29	1.08
Debt/Capital	80.04%	34.09%	45.14%	53.18%	27.44%	26.42%
Net Margin	4.07%	2.14%	10.53%	21.35%	30.72%	3.56%
Return on Equity	97.93%	9.36%	16.06%	64.49%	35.53%	17.83%
Sales/Assets	2.32	0.76	0.55	0.81	0.58	1.42
Proj. Sales Growth (F1/F0)	-2.27%	0.00%	-2.61%	0.79%	13.81%	24.13%
Momentum Score	C	-	-	A	C	A
Daily Price Chg	0.05%	-0.02%	-0.07%	0.04%	1.69%	0.49%
1 Week Price Chg	-8.97%	-3.07%	-7.25%	2.20%	3.47%	2.50%
4 Week Price Chg	9.36%	6.53%	6.92%	11.01%	10.02%	8.47%
12 Week Price Chg	16.01%	19.57%	16.91%	36.10%	30.31%	35.72%
52 Week Price Chg	8.45%	0.14%	-5.63%	76.34%	39.17%	38.36%
20 Day Average Volume	953,601	417,510	2,574,456	30,411,174	3,154,441	3,542,530
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.50%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.09%	0.57%	1.40%
(F1) EPS Est 12 week change	-15.61%	-9.58%	-14.21%	-5.26%	0.40%	-26.97%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.98%	-1.13%	4.51%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
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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