CDW Corporation (CDW)

Updated January 18th, 2025 by Felix Martinez

Key Metrics

Current Price:	$189	**5 Year CAGR Estimate:**	8.9%	**Market Cap:**	$25.15 B
Fair Value Price:	$169	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	02/23/25[1]
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	03/10/24
Dividend Yield:	1.3%	**5 Year Price Target**	$272	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

CDW Corporation is a leading provider of technology solutions for business, government, education, and healthcare sectors. Established in 1984 and headquartered in Vernon Hills, Illinois, CDW offers a broad portfolio of products and services, including hardware, software, networking, cloud computing, and IT consulting. The company serves a wide range of customers, from small businesses to large enterprises, by helping them implement and manage IT infrastructure. CDW's business model revolves around partnering with major technology vendors, such as Cisco, Microsoft, and Dell, allowing it to deliver comprehensive solutions to its clients. CDW is publicly traded under the ticker symbol CDW on the NASDAQ. It has consistently reported strong financial performance, driven by growing demand for digital transformation, cloud services, and cybersecurity solutions. The company continues to expand both organically and through acquisitions to broaden its capabilities and market reach.

CDW Corporation reported its third-quarter earnings on October 30th, 2024. The company saw a 2.0% decline in net sales to $5.52 billion compared to the same period in 2023. This decrease was attributed to reduced sales in the Corporate and Public segments, driven by economic uncertainty and slower decision-making in technology spending. However, international operations in the UK and Canada saw a 4.8% increase in net sales. Gross profit declined slightly by 2.2% to $1.20 billion, though gross profit margins remained steady at 21.8%. Operating income rose marginally by 0.7% to $482 million, while non-GAAP operating income fell by 4.0% due to lower performance-based compensation expenses. Despite the challenging market, CDW maintained resilient financial metrics, showcasing its ability to manage costs and optimize cash flow. The company reported net income of $316 million, unchanged from the prior year, with a slight increase in diluted earnings per share to $2.34. Non-GAAP net income per diluted share decreased 3.2% to $2.63. Interest expense fell by 5.2% due to higher interest income on increased cash balances, partially offset by greater debt-related expenses. The effective tax rate rose to 26.0%, reflecting reduced tax benefits from equity-based compensation. CDW emphasized its strategic focus on addressing evolving customer needs across IT solutions, targeting growth exceeding the U.S. IT market by 200 to 300 basis points. CEO Christine A. Leahy highlighted the company's role as a trusted advisor, particularly in cloud and endpoint solutions, while CFO Albert J. Miralles pointed to the flexibility provided by strong cash flow management. CDW's Board approved a $0.625 per share dividend, reinforcing confidence in its long-term strategy and capital priorities.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.37	$2.93	$3.43	$3.83	$5.17	$6.10	$6.59	$7.97	$9.79	$9.88	***$9.38***	***$15.11***
DPS	$0.20	$0.31	$0.48	$0.69	$0.92	$1.26	$1.54	$1.70	$2.09	$2.39	***$2.49***	***$4.01***
Shares[2]	170.6	170.3	163.6	155.4	150.9	145.1	142.6	138.5	135.2	134.6	***134.6***	***133.0***

CDW Corporation's growth prospects remain strong, driven by increasing demand for digital transformation, cloud computing, and cybersecurity solutions across its key sectors: business, government, education, and healthcare. The

[1] Ex-Dividend and Dividend payment Date are Estimates.

[2] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

company is well-positioned to capitalize on IT market trends, leveraging its partnerships with major technology vendors and expanding through strategic acquisitions. Over the past ten years, earnings has grown a CAGR of 17.2%. However, it has slowed down over the past five year to a CAGR of 9%. We expect the company to continue this growth rate of 10% over the next five years. We also expect the company to grow its dividend at a 10% annual rate as well over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.7	14.3	15.2	18.2	15.5	23.6	19.6	25.7	18.3	23.0	***20.1***	***18.0***
Avg. Yld.	0.6%	0.7%	0.9%	1.0%	1.1%	0.9%	1.2%	0.8%	1.2%	1.1%	***1.3%***	***1.5%***

The company looks overvalued at the current price. The current PE of 20.1x earnings is near the high end over the past ten years. For example, over the past ten years, the company has averaged a PE of 18.8x earnings. We think that a PE of 18 is fair for this company. Thus, at the current price, there is a valuation headwind of 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

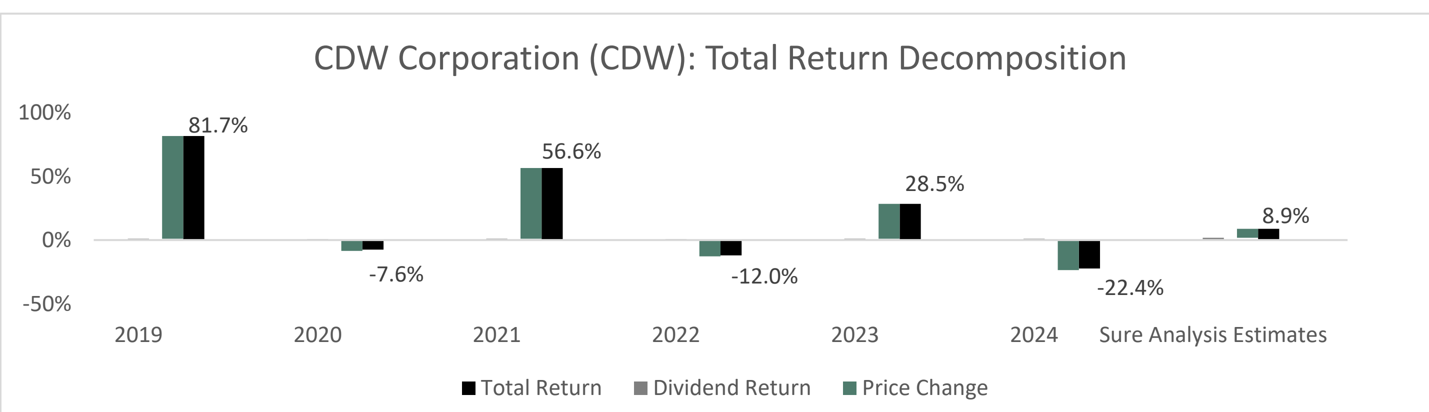
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	8.4%	10.6%	14.0%	18.0%	17.8%	20.7%	23.4%	21.3%	21.3%	24.2%	***27%***	***27%***

CDW's competitive advantage lies in its extensive portfolio of technology solutions, strong partnerships with leading technology vendors, and its ability to offer tailored IT solutions to a wide range of clients, from small businesses to large enterprises. The company's deep expertise in cloud computing, security, and networking, combined with its consultative approach, enables it to serve as a trusted advisor to its customers. Its diverse customer base across industries such as business, government, healthcare, and education also provide stability, even during economic fluctuations. The company has a debt-to-equity ratio of 2.6, which is a little on the high side, but it does cover the interest by 7.9 times. Currently the company has an investment grade rating of BBB- from S&P Credit rating.

Final Thoughts & Recommendation

Investing in CDW Corporation carries risks related to economic downturns, which can lead to reduced IT spending by businesses, government, and other sectors. The company also faces competitive pressures from both large technology vendors and smaller niche players in the IT solutions space. Additionally, shifts in technology trends or customer preferences, such as rapid changes in cloud or cybersecurity needs, could impact its ability to maintain growth and profitability. However, at the current price, we rate the stock as a Hold because of the expected five-year annual return of 8.9%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,075	12,989	13,673	14,833	16,241	18,032	18,468	20,821	23,749	21,376
Gross Profit	1,921	2,116	2,328	2,450	2,707	3,040	3,210	3,569	4,687	4,652
Gross Margin	15.9%	16.3%	17.0%	16.5%	16.7%	16.9%	17.4%	17.1%	19.7%	21.8%
SG&A Exp.	1,248	1,374	1,508	1,584	1,720	1,906	2,031	2,150	2,951	2,972
D&A Exp.	208	227	255	261	266	267	426	191	291	271
Operating Profit	673	742	820	867	987	1,134	1,179	1,419	1,735	1,681
Operating Margin	5.6%	5.7%	6.0%	5.8%	6.1%	6.3%	6.4%	6.8%	7.3%	7.9%
Net Profit	245	403	425	523	643	737	789	989	1,115	1,104
Net Margin	2.0%	3.1%	3.1%	3.5%	4.0%	4.1%	4.3%	4.7%	4.7%	5.2%
Free Cash Flow	380	187	541	697	820	791	1,156	685	1,208	1,451
Income Tax	143	244	248	138	198	213	214	309	373	346

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,076	6,755	6,948	6,967	7,168	7,999	9,345	13,199	13,132	13,285
Cash & Equivalents	345	38	264	144	206	154	1,410	258	315	589
Accounts Receivable	1,561	2,017	2,169	2,329	2,671	3,002	3,213	4,499	4,461	4,568
Inventories	338	393	452	412	454	611	760	928	800	668
Goodwill & Int. Ass.	3,386	3,777	3,511	3,377	3,175	3,147	3,041	6,011	5,833	5,783
Total Liabilities	5,139	5,659	5,903	5,981	6,193	7,039	8,048	12,494	11,528	11,242
Accounts Payable	704	867	1,073	1,318	1,577	1,835	2,088	3,114	2,821	2,881
Long-Term Debt	3,166	3,260	3,234	3,236	3,209	3,696	4,397	7,169	5,923	5,645
Shareholder's Equity	937	1,096	1,046	986	975	960	1,297	706	1,603	2,043
LTD/E Ratio	3.38	2.97	3.09	3.28	3.29	3.85	3.39	10.16	3.69	2.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	6.3%	6.2%	7.5%	9.1%	9.7%	9.1%	8.8%	8.5%	8.4%
Return on Equity	29.7%	39.7%	39.7%	51.5%	65.6%	76.1%	69.9%	98.7%	96.5%	60.6%
ROIC	6.1%	9.5%	9.8%	12.3%	15.3%	16.7%	15.2%	14.6%	14.5%	14.5%
Shares Out.	170.6	170.3	163.6	155.4	150.9	145.1	142.6	138.5	135.2	134.6
Revenue/Share	69.88	75.60	82.37	93.76	105.73	122.01	127.54	148.19	173.35	156.83
FCF/Share	2.20	1.09	3.26	4.40	5.34	5.35	7.99	4.87	8.82	10.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.