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PRESENTATION

Matt Sheerin - *Stifel Nicolaus - Analyst*

Good morning, everyone. I am Matt Sheerin; I am the technology supply chain analyst at Stifel. Welcome to the Stifel Annual Technology Conference and kicking off the conference this morning is CDW Corp., which is the largest IT solutions provider in North America. And representing the Company is the CFO, Ann Ziegler. She is going to go through some slides and hopefully will have some time for Q&A. Ann?

Ann Ziegler - *CDW Corporation - CFO*

Thank you, Matt. Thank you and thank you for including us in the conference. It looks like another great turnout. I am going to take a few minutes first to give you an overview of CDW and then there will be definitely some time for Q&A. I do want to start by indicating that I will be using some non-GAAP measures and forward-looking statements so for more about that, please look at our SEC filings.

Now onto the good stuff. CDW from an overview is a market-leading provider of integrated technology solutions. We provide solutions to Government, Healthcare, Business, Education and we have been in business for over 25 years. We are based in Illinois. We have over 7500 coworkers in North America and 1000 coworkers in the UK. It is important to understand kind of the secret sauce of CDW that two-thirds of those coworkers are customer facing. We are very focused on solving our customer needs and you will see that as I move through the presentation. And one of the key things to understand that two-thirds of our coworkers are indeed customer facing.

We provide a full range of hardware and software and service solutions and by full range I really do mean full range. We offer over 100,000 products and services from over 1000+ brands. We also provide service and solutions to over 250,000 customers in the US, Canada and the UK. And an important part of the CDW story is to understand that our sweet spot of customers is those with fewer than 5000 coworkers. That is important since it is this small and medium-size businesses that don't necessarily have their own sophisticated internal IT staff so they are looking for that trusted advisor role that CDW can play in that market segment.

What I want to do today, you can see on the slides you have in front of you, show a track record of delivering above market profitable growth and superior returns. I want to explain to you today why that is the case and why we are confident we will be able to continue to do so.

Just very quickly, some recent financial performance. In Q1 average daily sales growth of 11.4 percent. Due to an acquisition completed at the beginning of Q3 last year so on an organic constant currency basis, average daily sales were up 3.5% in Q1. Our adjusted EBITDA margin in Q1 mid-7% range, 7.5%. You will see as I go through our medium-term target that is right in the middle of those medium-term target range.

And then lastly, we took that excellent operating performance with some reductions in interest through refinancing activity that we actually completed in Q1 of last year and so we took our operating performance with the interest reductions and delivered high teens EPS growth.

So to understand why CDW is an attractive opportunity you need to understand the market in which we compete. The IT market in the US, Canada and the UK is just under \$1 trillion. Now we spend a lot of time making sure that we don't go after business that we don't want that isn't attractive to us. So we very carefully take that large market and we strip out of it the pieces that we don't do. For example, we are B2B only. We don't go after consumer business, we are not a systems integrator. We don't go after business at the largest enterprise customers and therefore we strip that out of the market as well.



When we are done taking those out, the market in which we compete which we call our addressable market is roughly \$280 billion in size. You can see with our \$13.5 billion in revenue that gives us market share of roughly 5%.

Now the market in which we compete is growing, you can see at the bottom of the slide, this is an IDC estimate, estimated CAGR of just over 3% and another important part that you need to understand of the market is that the indirect channel has been growing more rapidly than the direct business as OEMs understand the benefit of the channel partners and move business to the indirect channel. You can see that the amount of IT spend that goes through the indirect channel has increased by about 300 basis points since 2007.

Another thing to understand about the market besides that it is large and growing is that it is highly fragmented. CDW together with the top four public providers in this space represent less than a 10% market share. So the market is highly fragmented and a lot of the competition is small, regional or super-regional value-added resellers. We believe that our scale and scope provides us with a significant advantage in that market given its highly fragmented nature.

You can see on the slide that we do have a consistent track record of outperforming the market. We have shown our performance relative to market over various periods of time. Everybody can pick a beginning point and an endpoint and show market outperformance. So we have shown a variety of periods of time and you can see that we've comfortably outperformed the market over all of those cycles.

Now to understand why CDW is able to consistently gain market share you need to understand the unique role that we play in the IT market. In the case of our OEM partners and we are a key channel partner for both well-established and emerging OEMs, we in many cases act as an extension of their sales and marketing programs.

For our customers -- and remember our sweet spot of customers is those with fewer than 5000 coworkers -- we act as an extension of their own internal IT resources bringing multibrand solutions together with a highly sophisticated salesforce that is backed by our significant investment in technology specialists to bring them the solutions that they need.

Because we understand our customer needs and we provide access, broad access to over 250,000 customers, we are very important to our OEM partners and that gives us access to our OEM resources as well as technology maps and things along those lines. That access enables us to better solve our customer needs which makes us more important to our customers which in turn makes us more important to our vendor partners. So it really is a virtuous cycle in terms of the role that CDW plays in the IT marketplace.

Another thing you need to understand about why CDW is able to consistently gain market share is the balance across the business. The first area of balance I want to talk about is balance across our customer channels. We have five customer channels that each represent well over \$1 billion in revenue.

Now there are two things about the scale and scope of those customer channels. The first is that because of their size we are able to understand the customer needs in that particular segment very well. A good example with that would be in the K-12 channel. Several years ago when the government announced the core curriculum testing requirements, we reached out to Google and partnered with Google on a Chrome book solution. We had a first mover advantage with that solution. It was a very economic and efficient advantage for the K-12 customers that we have and we had an exclusive for a period of time in providing that solution to customers.

Another example even more mundane is in Healthcare. We saw that our Healthcare customers, this was several years ago, needed a way to get technology to point of care, to the bedside of patients so we partnered with a cart manufacturer that provided technology on powered carts and were able the same thing, to roll that solution across our Healthcare customer base that was looking for that type of solution.

So you have the scale enables us to really understand the particular needs of a channel and provide the right solution to that channel.

The other thing about the scale and scope of our customer channels is that there is a bit of a countercyclical nature across those customer channels. So for example in the recession in 2008 and 2009, our Corporate customers really cut back spend very, very quickly. However, the federal government continued to increase spend at a double-digit rate enabling us to deliver consistent -- somewhat consistent performance.

The reverse happened several years later when there was sequestration and a federal government shutdown. Obviously our Federal channel really suffered that year but by that point in time our Corporate channel was very healthy so you saw that pick up the slack if you will. So there is a bit of inherent balance across the customer channels, the way they behave a little bit counter-cyclically.

Another area of key balance across the business is our balance across our vendor partners. As you can see on the page, the left-hand side shows you established vendor partners. I'm sure you are all very familiar with all of those names. But in addition to being a key channel partner for established vendor partners, we also pick up 40 to 50 emerging vendor partners each year. You see those names on the right-hand side of this slide. Those help us make sure we are evolving with technology, that we are meeting our customer needs and they help fuel growth in the business.

The other thing we frequently see is that the emerging partners on the right-hand side of the page get bought by the established partners on the left-hand side of the page and so the relationships continue.

One of the keys to CDW's success is the way we have been able to evolve with technology and evolve to continue to solve our customer's needs. In the early 2000s, what our customers needed were point solutions. As technology continued to evolve and solutions became highly integrated and interconnected, our customers more and more needed a trusted advisor that could help them solve their technology needs as they themselves needed to continue to drive productivity in the business.

So we invested to make sure we were continuing to move with technology and evolve into these more sophisticated integrated technology solutions.

The way we do that is to invest in our coworkers. Since 2006, we have almost doubled the size of our technical specialists, Advanced Service Delivery engineers, and that group of people really helps drive the solutions part of the business. Now that significant investment was also coupled with continuing investment in our account managers and our field sales reps. You see those numbers are up almost 30%.

We have approximately 50% of our revenues come from our account managers with greater than seven years of tenure with CDW so we have a very tenured and productive selling organization that is supported by almost 2700 technical specialists and field service delivery engineers that really help us bring those Advanced Technology Solutions to our customers.

Now a key way that we continue to evolve with technology and enable our customers to meet their technological needs is the investment that we have made in the cloud. In 2011, we broke out a separate cloud P&L, we named a General Manager of Cloud and today we have over 60 coworkers dedicated to our cloud solutions. We have over 70 partners across over 30 categories and so this is the team that helps our customers decide is there a workload that they want to move off premise or should they leave it on premise? If they are going to move it off premise, which cloud solution do they go to? If they need help migrating and integrating and even managing after the fact that cloud solution, we are there to provide the technology expertise and the solution that will help them continue to drive this technology solution and solve their needs.

Another example of how we solve our customer needs is an investment we made in a UK company last year called Kelway. We rebranded it, it is now CDW UK. What we began to hear about four years ago was increasing requests from customers to solve their needs outside the United States.

Now we do get question sometimes, gee, you say your sweet spot of customers is customers with fewer than 5000 coworkers. Truly you are not selling to global multinationals. That is right, that is not our sweet spot but more and more companies of our sweet spot do have needs outside the US. And we were getting increasing requests to help them solve those needs as they were looking for the proverbial one throat to choke in terms of having a solution that was the same in the US as it was overseas.

We were very thoughtful about how we made this investment. We initially looked for a referral partner where we could refer customers to them to solve needs and they could refer US needs to us from their domestic client base. And so we came across the company Kelway, we entered into a referral relationship, we really liked what we saw in terms of the performance of the business. It is very much like CDW. Two-thirds of their coworkers are customer facing, their incentive compensation, their sales compensation very similar to CDW's also based on a gross profit model. And so we made a minority investment, we subsequently exercised an option to acquire 100% of the company and we brought them completely on board in the third quarter of last year.



We are very happy with the way the investment has gone and we are continuing to see increasing needs of our US-based customers to ask for us to solve their solutions outside the US.

It is important to understand one of the benefits that CDW UK brought to the party was that they themselves had figured out how to solve their customer needs outside the UK in 80 countries. So this wasn't a now we can solve customer needs in the UK. This was no we can solve customer needs in the UK, Western Europe and about 70 other countries across the world.

So in order to understand the sustainable advantage we think we have in terms of ability to gain market share, it is really all of these pieces of the puzzle that I have talked about and it is how they work together. Now scale and scope underpins a lot of those advantages. It is scale and scope that gives us the ability to have significant distribution capability, it is the scale and scope that allows us to have a national footprint with international capability. It is the scale and scope that allows us to make significant investment in sales and service capabilities particularly those technology specialists that I've spoken about.

Depending on the circumstance, we may use one piece of this puzzle to drive advantage in a particular deal. If it is a small regional value-added reseller that is competing for business with a customer, it may be our national scale that enables us to win the business. It may be our distribution capabilities and our configuration capabilities that enables us to win that business.

So again really depending on the circumstances, we have all these different levers that we can pull to make sure that we continue to gain market share.

We do have a track record of strong financial performance. You can see that we have been able to grow our topline at a high single-digit rate and that we have taken that topline growth and converted it into low double-digit EBITDA growth. We have also relatively aggressively refinanced our balance sheet beginning from before the initial public offering in 2013 up through Q1 of last year. Now we have effectively completed that refinancing activity but that enabled us to take significant operating performance and drive significant double-digit EPS growth. It also enabled us to delever our balance sheet and we sit at roughly 2.8 times as of the end of Q1 of this year.

Now that strong financial performance enabled us to refresh our capital allocation strategy and we announced this in the third quarter of 2014. That is effectively to return cash to shareholders and at the same time create long-term shareholder value while at the same time retaining flexibility for CDW to continue to invest in the business for future growth.

So the priorities are in the order that you see them on the slide. The first is to increase our dividends annually until we get to roughly 30% of free cash flow. We are in the high teens today. We more than doubled our dividend since the IPO and we gave ourselves five years to get to that payout ratio and we have three years left on that journey.

We want to make sure we have the right capital structure in place. We are very comfortable operating at 2.5 to 3 times leverage. As I mentioned, we were at 2.8 times at the end of Q1.

We will from time to time do a tuck-in accretive acquisition. The UK acquisition I've talked about is a great example of that. You have also heard us say on our earnings call that in the short run we are going to be very focused on making sure we appropriately integrate that acquisition and therefore our plates are full on that category on the short run.

And then lastly, return excess cash after the three priorities I have already gone through to shareholders via share repurchases.

Now that capital allocation strategy also supports our medium-term targets and I do want to be clear that our medium-term targets are annual targets, they are not quarterly targets. So net sales growth is to outgrow the US IT market by 200 basis points to 300 basis points. We want to maintain our adjusted EBITDA margin in the mid-7% range. Now we do get questions a lot, gee, aren't you going to take that EBITDA margin up? And the answer to that is it is very important that we continue to invest in the business and the way we invest in the business is via hiring incremental coworkers.



You see the numbers of coworkers that we have added over the past several years to continue to make sure that we evolve with technology and we will continue to do this. So we think that mid-7% margin is a good balance between driving profitable growth and continuing to invest in the future of the business.

We want to maintain our leverage where it is today and we do think we are comfortable that we can deliver low double-digit EPS growth.

That is really it. This is a summary slide which I won't drain but kind of summarizes what we feel are the reasons that CDW has a sustainable competitive advantage in the marketplace.

QUESTIONS AND ANSWERS

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay, great. Thank you, Ann. So we will start with some Q&A. I will start off, maybe just get back to the issue of the cloud because I think there is one misperception about the channel and distribution in general is that the cloud will basically disintermediate the channel and need for vendor partners and obviously the more complicated and complex it is for customers, the more valuable companies like CDW.

But walk us through the economic model of let's say a \$1 million engagement with a customer today that includes cloud offerings versus five years ago and what are the economics for CDW look like?

Ann Ziegler - *CDW Corporation - CFO*

So I think it is important to remember that in terms of cloud being potentially disintermediating, there was this theory years ago that when software went from box software which we carried in our warehouse and shipped to customers, when software went electronic, that the channel would become disintermediated when it came to software because you no longer needed it to be physically delivered to you via disks, you could download it. That certainly didn't happen because for the same reason you need somebody to help you understand which software you need, which features and functionality you need, how are you going to manage the audits in terms of the usage of that software? That remained the case and our software business has continued to grow very attractively.

Those same reasons apply to a cloud solution. So when a customer is deciding whether they need to keep a workload on prem or off prem and if they are going to move it to a cloud solution, which cloud solution to move it to, CDW has a very important role to play there.

I also think there is a little bit of a misconception that once you move to the cloud you are done, it is static. I have moved my storage to the cloud, I never need to make another storage decision again. That is definitely not true. I mean one of the constants of technology is that it is always changing. And one of the things that CDW prides itself on is continuing to evolve with technology. So for the same reason if you are looking at an on-prem storage solution, you may need to revisit that decision every couple of years as technology continues to evolve. You are going to have that same requirement if you move your storage to a cloud solution. In the interim has there been an innovation on on-prem solutions that makes the on-prem solution better for you? Or has there been a new SaaS -- as a service storage solution that is more innovative in the one that you are currently using that you need to consider and possibly migrate to? We don't view the cloud as disintermediating.

Now to your question \$1 million here, \$1 million there, that is a very tough one to answer in part because cloud is a way of delivering technology and so you saw we present a wide variety of cloud solutions.

Now the one thing you will see is that the accounting for as a service is netted down. So for example if five years ago I sold \$1 million worth of hardware at a 15% margin, you saw me book \$1 million of revenue against gross profit of \$150,000. In a cloud world typically because while we own the sales and marketing relationship, we are not physically delivering everything. In a cloud world, that gross profit is my revenues. So you will see us book \$150 million of revenue against zero cost of goods sold. My profit is still \$150,000 but the P&L geography changes a bit and so while it mutes topline growth, it does not mute the gross profit growth.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay, great. Any questions from the audience? No? Okay. Let's talk about your Dell relationship. You announced a relationship with Dell last November so you are six months plus into that. I think you talked about a revenue target of about \$200 million this year. Just update us on that.

Ann Ziegler - *CDW Corporation - CFO*

So we did say on our Q4 call that we expected the Dell relationship to add roughly 150 basis points of growth to our medium-term target for 2016. We thought that because they did the ramp we thought that would ramp roughly 40% of that would be delivered in the first half of the year with 60% of that being delivered in the second half. The business is ramping as we thought. We are very happy with the performance. I think when that was announced I think Michael Dell said he thought it would be a \$1 billion business. Now part of the question is we have very large -- we have \$1 billion plus relationships with key vendor partners and again there is no reason to believe that Dell can't ultimately get there but you also need to understand that those relationships were built over years and that there was a ramp to those relationships.

So we are happy with the way it is ramping and we do expect that it will continue to ramp.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Will that be incremental revenue or will you be eating into some of your other vendors and how do you manage that internally with your sales staff?

Ann Ziegler - *CDW Corporation - CFO*

We were very thoughtful about bringing Dell on again. To a large extent, a response to customer needs, customers requesting we love the way you solved this for us; we wish you could solve our Dell needs for us as well. So what we did is everybody in the organization from the selling organization to management got an incremental quota if you will to represent the addition of the Dell relationship to the business.

So it is not by any means a share shift game so to speak. It is really about capturing and delivering the Dell solution to customers that we weren't able to deliver it to today. So that is how we managed it. Like I say, up and down the organization, everybody got incremental quota.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay. Looking at your P&L and your target of mid-7% EBITDA margin, your gross margin is somewhat volatile based on mix, based on the different channels that you sell into yet you have been able to manage margins through the year at that mid-7% level. So talk about your various variable cost structure and how you manage that.

Ann Ziegler - *CDW Corporation - CFO*

We do have a highly variable cost structure. If you look at our SG&A roughly one-third of our SG&A is literally directly variable with our gross profit. Our selling organization is comped on gross profit so in a lower gross profit environment, the percentage of the profit that goes to sales commissions is somewhat less.

A good example of this was in 2014 we saw the significant refresh of devices run through the marketplace and you saw our gross margin come down a bit. Now the thing about that type of business which we refer to as transactional business, the sales compensation is less. It is less because it is lower gross profit. But it is also less because we don't have technology specialists pointed against that part of the business. It is a much more straightforward sale.

So there isn't a sales specialist to be compensated as well. So as you saw the gross margins come down a bit because of the mix into transactional business we saw our sales compensation also come down and so we were also able to maintain our adjusted EBITDA margin in that mid-7% range. And that is how the business is designed and we would expect that to continue.

So you have that one-third that is directly variable. You have another one-third that is directly variable but over a slightly longer period of time. Our largest expense is coworkers and so as we continue to invest in the business, we can put the gas on that lever or pull it up depending on how the business is doing so that is highly variable as well although over a little bit longer period of time than by sales transaction. And then lastly, about one-third of our SG&A is relatively fixed, lease expenses, amortization, etc.

Unidentified Audience Member

Revenue was down from (inaudible) but we talked about the transition here to the cloud and how that is going to -- really it is gross profit that you are going to be monitoring more going forward. But then you are using an EBITDA margin. So as the dollars shift from revenue to gross profit, that EBITDA margin if that doesn't go up, EBITDA dollars shrink on a relative basis. How can we think about that?

Ann Ziegler - CDW Corporation - CFO

Yes, I think cloud at this point or as a service if you want to call that is roughly 5% of our gross profit. That is a number that we gave on our Q1 call and we think that transition will be relatively slow and it could be that at some point in time we move to a different metric. But for now, remember those medium-term targets are I'm looking at 2016 through 2018 and so it could be that at some point in time if more of the business mixes into cloud or other things that are netted down revenues, we all have the new rev rec standards coming out as well -- that we would update that appropriately. But for now the time period we are talking about we are comfortable with those medium-term targets.

Unidentified Audience Member

Related to this, could you talk a little bit more about how value add services are going to develop? You talk about no real -- there's 7.5% EBITDA so it would hold in that position and obviously various other changes going on. So how over the next five years do you see value add services which gives you the ability to increase gross profit in that area and to be able to then increase EBITDA? Is it just that it is too small and therefore it is not making a big enough impact or do you see it getting to a scale where it can actually influence your corporate EBITDA?

Ann Ziegler - CDW Corporation - CFO

We think about technology as a continuing evolution. So while in general our solutions business is higher gross profit than our transactional business, it is roughly 50-50 today, there is higher sales compensation, higher costs to serve associated with it. So at the EBITDA line, there is not that much of a difference.

I think the other thing you have to keep in mind is technology continues to evolve and so we do get asked all the time, gee, with solutions roughly 50%, when is it going to be 70% of your business and what does that mean for your margin profile? I think you have to understand that what is a solution today and high margin by definition in technology will not be a solution three years from now and high-margin.

Something else will be and we think the CDW model helps us ensure that we will be there providing that solution but it is not as though you can continue to say solutions is going to grow as a percentage because something else is going to become a solution and something that was a solution is going to become more commoditized and transactional. So we think it as a constantly rolling circle if you will and we would not guide people to think that somehow solutions is going to become a significantly higher percentage of the business.



Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay. We are out of time. Thank you very much, Ann.

Ann Ziegler - *CDW Corporation - CFO*

Thank you.

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