

CDW Corp
Form 10-K
February 25, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____
Commission File Number 001-35985

CDW CORPORATION

(Exact name of registrant as specified in
its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-0273989
(I.R.S. Employer
Identification No.)

75 Tri-State International
Lincolnshire, Illinois
(Address of principal executive offices)
(847) 465-6000
(Registrant's telephone number, including area code)

60069
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class: _____ Name of each exchange on which registered

Common stock, par value \$0.01 per share _____ NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities
Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the
Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required
to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$4,463.1 million, based on the per share closing sale price of \$34.28 on that date.

As of February 19, 2016, there were 167,740,043 shares of common stock, \$0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for use in connection with its 2016 Annual Meeting of Shareholders, to be filed not later than 120 days after December 31, 2015, are incorporated by reference into Part III of this report.

CDW CORPORATION AND SUBSIDIARIES
 ANNUAL REPORT ON FORM 10-K
 Year Ended December 31, 2015
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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact included in this report are forward-looking statements. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. We claim the protection of The Private Securities Litigation Reform Act of 1995 for all forward-looking statements in this report. These forward-looking statements are identified by the use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “should,” “will” and similar terms and phrases, including assumptions. However, these words are not the exclusive means of identifying such statements. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that we will achieve those plans, intentions or expectations. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected.

Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under the section entitled “Risk Factors” included elsewhere in this report. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in the section entitled “Risk Factors” included elsewhere in this report as well as other cautionary statements that are made from time to time in our other Securities and Exchange Commission (“SEC”) filings and public communications. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that could cause actual results to differ from our expectations. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I

Item 1. Business

Our Company

CDW Corporation (together with its subsidiaries, the “Company”, “CDW” or “we”) is a Fortune 500 company and a leading provider of integrated information technology (“IT”) solutions in North America and the United Kingdom. We help our customer base of over 250,000 small, medium and large business, government, education and healthcare customers by delivering critical solutions to their increasingly complex IT needs. Our broad array of offerings ranges from discrete hardware and software products to integrated IT solutions such as mobility, security, data center optimization, cloud computing, virtualization and collaboration. We are technology “agnostic,” with a product portfolio including more than 100,000 products from more than 1,000 brands. We provide our products and solutions through more than 5,000 customer-facing coworkers, including field sellers, highly-skilled technology specialists and advanced service delivery engineers.

We are a leading sales channel partner in North America and the United Kingdom for many original equipment manufacturers (“OEMs”) and software publishers (collectively, our “vendor partners”), whose products we sell or include in the solutions we offer. We believe we are an important extension of our vendor partners’ sales and marketing capabilities, providing them with a cost-effective way to reach customers and deliver a consistent brand experience through our established end-market coverage and extensive customer access.

We provide value to our customers by simplifying the complexities of technology across design, selection, procurement, integration and management. Our goal is to have our customers, regardless of their size, view us as an indispensable extension of their IT staff. We seek to achieve this goal by providing our customers with superior service through our large and experienced sales force and service delivery teams. Our multi-brand offering approach enables us to identify the products or combination of products that best address each customer’s specific organizational IT requirements and to evolve our offerings as new technologies develop.

We believe we offer the following value proposition to our customers and our vendor partners:

<p>Our value proposition to our customers</p> <ul style="list-style-type: none"> Broad selection of products and multi-branded IT solutions Value-added services with integration capabilities Highly-skilled specialists and engineers Solutions across a very broad IT landscape 	<p>Our value proposition to our vendor partners</p> <ul style="list-style-type: none"> Access to over 250,000 customers throughout North America and the United Kingdom Large and established customer channels Strong distribution and implementation capabilities Value-added solutions and marketing programs that generate end-user demand
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Our customers include private sector businesses, many of which employ fewer than 5,000 employees, government agencies and educational and healthcare institutions. We serve our customers through channel-specific sales teams and service delivery teams with extensive technical skills and knowledge of the specific markets they serve. This market segmentation allows us to customize our offerings and to provide enhanced expertise in designing and implementing IT solutions for our customers. In our U.S. business, which represents over 90% of our revenues, we currently have five dedicated customer channels: medium/large business, small business, government, education and healthcare, each of which generated over \$1 billion or more in net sales in 2015. The scale and diversity of our customer channels provide us with multiple avenues for growth and a balanced customer base to weather economic and technology cycles.

Information regarding our reportable segments and our customer channels is as follows:

Customer Channels	Corporate Segment		Public Segment			
	Medium/Large Business	Small Business	Government	Education	Healthcare	Other
Target Customers	100 - 5,000 employees	10 - 100 employees	Various federal, state and local agencies	Higher education and K-12	Hospitals, ambulatory service providers and long-term care facilities	Advanced services customers, Canada and United Kingdom

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2015 Net Sales (in billions)	\$5.8	\$1.1	\$1.7	\$1.8	\$1.6	\$1.0
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For further information regarding our segments, including financial results, see Note 16 (Segment Information) to the accompanying Consolidated Financial Statements under Item 8, “Financial Statements and Supplementary Data.” We offer more than 1,000 brands, from well-established companies such as APC, Apple, Cisco, Dell, EMC, Google, Hewlett Packard Enterprise, HP Inc., IBM, Lenovo, Microsoft, NetApp, Samsung, Symantec and VMware, as well as from emerging vendor partners such as BlueJeans, CafeX, Cradlepoint, CloudPhysics, FireEye, Nimble Storage, Nutanix, Palo Alto Networks, Ruckus, and Veeam. In 2015, we generated over \$1 billion of revenue from each of four of our vendor partners and over \$100 million of revenue from each of 11 other vendor partners. We have received the highest level of certification from major vendor partners such as Cisco, EMC and Microsoft, which reflects the extensive product and solution knowledge and capabilities that we bring to our customers’ IT challenges. These certifications also provide us with access to favorable pricing, tools and resources, including vendor incentive programs, which we use to provide additional value to our customers. Our vendor partners also regularly recognize us with top awards and select us to develop and grow new customer solutions.

History

Founded in 1984, CDW became a public company in 1993. We were a public company from 1993 until October 2007 (see below). In 2003, we purchased selected United States assets and the Canadian operations of Micro Warehouse, which extended our growth platform into Canada. In 2006, we acquired Berbee Information Networks Corporation, a regional provider of technology products, solutions and customized engineering services in advanced technologies primarily across Cisco, IBM and Microsoft portfolios. This acquisition increased our capabilities in customized engineering services and managed services.

On October 12, 2007, CDW Corporation, an Illinois corporation, was acquired through a merger transaction by an entity controlled by investment funds affiliated with Madison Dearborn Partners, LLC (“Madison Dearborn”) and Providence Equity Partners L.L.C. (“Providence Equity”). CDW Corporation continued as the surviving corporation and same legal entity after the acquisition, but became a wholly owned subsidiary of VH Holdings, Inc., a Delaware corporation.

On December 31, 2009, CDW Corporation merged into CDWC LLC, an Illinois limited liability company owned by VH Holdings, Inc., with CDWC LLC as the surviving entity. This change had no impact on our operations or management. On December 31, 2009, CDWC LLC was renamed CDW LLC (“CDW LLC”). On August 17, 2010, VH Holdings, Inc. was renamed CDW Corporation (“Parent”), a Delaware corporation.

Prior to July 2, 2013, the date of our initial public offering (“IPO”), Parent was owned directly by CDW Holdings LLC (“CDW Holdings”), a company controlled by investment funds affiliated with Madison Dearborn and Providence Equity, certain other co-investors and certain members of CDW management. Before the IPO, Madison Dearborn and Providence Equity owned 46.0% and 40.6% of our common stock, respectively. After the IPO and through subsequent secondary offerings from the fourth quarter of 2013 through 2015, their ownership has significantly decreased. As of December 31, 2015, Madison Dearborn and Providence Equity own 4.9% and 4.3% of our common stock, respectively.

On July 2, 2013, Parent completed the IPO of its common stock. In connection with the IPO, CDW Holdings distributed all of its shares of Parent’s common stock to its members in June 2013 in accordance with the members’ respective membership interests and was subsequently dissolved in August 2013. See Note 10 (Stockholders’ Equity) to the accompanying Consolidated Financial Statements under Item 8, “Financial Statements and Supplementary Data” for additional discussion of the IPO.

On November 10, 2014, we completed the acquisition of a 35% non-controlling equity interest in Kelway TopCo Limited (“Kelway”), a U.K.-based IT solutions provider, which has global supply chain relationships that enable it to conduct business in more than 80 countries. On August 1, 2015, we completed the acquisition of Kelway by purchasing the remaining 65% of its outstanding common stock which increased our ownership interest from 35% to 100%, and provided us control. The acquisition enhances our ability to provide IT solutions to U.S.-based customers with international locations. We included the financial results of Kelway in our Consolidated Financial Statements from the date of acquisition. For further details regarding the acquisition, see Note 3 (Acquisition) to the accompanying Consolidated Financial Statements under Item 8, “Financial Statements and Supplementary Data.”

Our Market

We operate in the United States, United Kingdom and Canadian IT markets, which are large and growing markets. We also have an international presence in both private and public sector IT, and through our global supply chain have the ability to provide products and services in over 80 countries. According to the International Data Corporation (“IDC”), the total U.S., U.K. and Canadian IT market generated approximately \$900 billion in sales in 2015. We believe our addressable market in the indirect sales channel for the U.S., U.K. and Canadian markets represent more than \$282 billion in annual sales. For the year ended December 31, 2015, our total Net sales of \$12.9 billion represented approximately 5% of that highly diverse and fragmented market. New technologies, including cloud, virtualization and mobility, coupled with the resulting increase in demand for data as

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well as aging infrastructure, are increasingly requiring businesses and institutions to seek integrated solutions to their IT needs. We expect this trend to continue for the foreseeable future, with end-user demand for business efficiency and productivity driving future IT spending growth.

Our Offerings

Our offerings range from discrete hardware and software products and services to complex integrated solutions including one or more of these elements. We believe our customers increasingly view technology purchases as integrated solutions rather than discrete product and service categories. We estimate that approximately 48% of our net sales in 2015 in the U.S. came from sales of product categories and services typically associated with solutions. Our hardware products include notebooks/mobile devices (including tablets), network communications, enterprise and data storage, video monitors, printers, desktop computers and servers. Our software products include application suites, security, virtualization, operating systems, network management and Software as a Service (“SaaS”) offerings. We also provide a full suite of value-added-services, which range from basic installation, warranty and repair services to custom configuration, data center and network implementation services, as well as managed services that include Infrastructure as a Service (“IaaS”) offerings.

We also offer a variety of integrated solutions, such as:

Mobility: We assist our customers with the selection, procurement and integration of mobile security software, hardware devices, such as smartphones, tablets and notebooks, and cellular wireless activation systems. We also provide mobile device management applications with policy and security management capabilities across a variety of mobile operating systems and platforms.

Security: We assess our customers’ security needs and provide them with threat prevention tools in order to protect their networks, servers and applications such as, anti-virus, anti-spam, content filtering, intrusion prevention, firewall and virtual private network services, and network access control. We also design and implement data loss prevention solutions, using data monitoring and encryption across a wide array of devices to ensure the security of customer information, personal employee information and research and development data.

Data Center Optimization: We help our customers evaluate their data centers for convergence and optimization opportunities. Our data center optimization solutions consist of server virtualization, physical server consolidation, data storage management and energy-efficient power and cooling systems.

Cloud Computing: We provide our customers with a broad portfolio of cloud-based solutions, which are technology delivered as a service. Our cloud offerings include: IaaS, which delivers compute, networking, storage, and data center capabilities via the cloud; SaaS, which connects users to cloud-based software applications; and Platform as a Service (“PaaS”), which enables development and ongoing maintenance of cloud-based solutions. We provide public cloud solutions which reside off customer premises on a public (shared) infrastructure, and private cloud solutions, which reside on customer premises. We also offer hybrid cloud solutions that deliver the benefits of both public and private solutions. Our migration, integration and managed services offerings help our customers simplify cloud adoption, as well as the ongoing management of cloud solutions across the entire IT lifecycle. Dedicated Cloud Client Executives work with our customers to architect cloud solutions meeting their organizational, technology and financial objectives.

Virtualization: We design and implement server, storage and desktop virtualization solutions. Virtualization enables our customers to efficiently utilize hardware resources by running multiple, independent, virtual operating systems on a single computer and multiple virtual servers simultaneously on a single server. Virtualization also can separate a desktop environment and associated application software from the hardware device that is used to access it, and provides employees with remote desktop access. Our specialists assist customers with the steps of implementing virtualization solutions, including evaluating network environments, deploying shared storage options and licensing platform software.

Collaboration: We provide our customers with communication tools allowing employees to share knowledge, ideas and information among each other and with clients and partners effectively and quickly. Our collaboration solutions unite communications and applications via the integration of products that facilitate the use of multiple enterprise communication methods including email, instant messaging, presence, social media, voice, video, hardware, software and services. We also host cloud-based collaboration solutions.

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Although we believe customers increasingly view technology purchases as solutions rather than discrete product and service categories, our net sales by major category, based upon our internal category classifications is as follow:

	Years Ended December 31,		2014 ⁽¹⁾		2013 ⁽¹⁾				
	2015		Dollars in	Percentage	Dollars in	Percentage			Dollars in
	Dollars in	Percentage	Millions	of Total	Millions	of Total	Millions	of Total	
	Millions	of Total		Net Sales		Net Sales		Net Sales	
		Net Sales						Net Sales	
Notebooks/Mobile Devices	\$2,539.4	19.6	%	\$2,354.0	19.5	%	\$1,696.5	15.8	%
Netcomm Products	1,914.9	14.7		1,613.3	13.4		1,482.7	13.8	
Enterprise and Data Storage (Including Drives)	1,065.2	8.2		1,024.2	8.5		999.3	9.3	
Other Hardware	4,756.4	36.6		4,551.1	37.6		4,184.1	38.8	
Software ⁽²⁾	2,163.6	16.7		2,064.1	17.1		1,982.4	18.4	
Services	478.0	3.7		371.9	3.1		332.7	3.1	
Other ⁽³⁾	71.2	0.5		95.9					