CDW Corp
Form 8-K
August 25, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of Report (Date of earliest event reported): August 25, 2017

CDW CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	001-35985	26-0273989
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

75 Tri-State International Lincolnshire, Illinois	60069
(Address of principal executive offices)	(Zip Code)

(847) 465-6000
(Registrant’s telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR § 230.405) or Rule 12b-2 of Securities Exchange Act of 1934 (17 CFR § 240.12b-2).
Emerging growth Company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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Item 8.01. Other Events.

This Current Report on Form 8-K ("Current Report") is being filed by CDW Corporation (together with its subsidiaries, the "Company", "CDW" or "we") to retrospectively adjust certain financial information and related disclosures contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed on March 1, 2017 ("2016 Form 10-K"), as described below. The information in this Current Report is not an amendment to, or restatement of, the 2016 Form 10-K.

Change in Segment Reporting

As we disclosed in our 2016 Form 10-K, effective January 1, 2017, CDW established Small Business as its own operating and reportable segment to align the Company's financial reporting with the manner in which the Chief Operating Decision Maker assesses performance and makes resource allocation decisions.

To reflect the change in segments, the following Items of the 2016 Form 10-K have been adjusted retrospectively (which Items as adjusted are attached as Exhibits hereto and incorporated by reference herein):

- Part I, Item 1. Business
- Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part II, Item 8. Financial Statements and Supplementary Data

This Current Report does not reflect events that may have occurred subsequent to the original filing date of the 2016 Form 10-K, and does not modify or update in any way the disclosures made in the 2016 Form 10-K other than as required to retrospectively reflect the change in segment reporting, as described above. All other information in the 2016 Form 10-K remains unchanged. Without limitation of the foregoing, this filing does not purport to update the Management's Discussion and Analysis of Financial Condition and Results of Operations for information known to management subsequent to the date of filing of the 2016 Form 10-K. The information in this Current Report should be read in conjunction with the 2016 Form 10-K. For information on developments since the filing of the 2016 Form 10-K, please refer to the Company's subsequent filings with the Securities and Exchange Commission.

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Item 9.01. Financial Statements and Exhibits.

Exhibit No.	Description
23.1	Consent of Ernst & Young LLP
99.1	Part I, Item 1. Business
99.2	Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
99.3	Part II, Item 8. Financial Statements and Supplementary Data
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

		CDW CORPORATION
Date:	August 25, 2017	By: /s/ Ann E. Ziegler
		Ann E. Ziegler
		Senior Vice President and Chief Financial Officer

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EXHIBIT INDEX

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:
(1) Registration Statement (Form S-8 No. 333-212912) pertaining to the Amended and Restated 2013 Long-Term Incentive Plan of CDW Corporation,
(2) Registration Statement (Form S-3 ASR No. 333-199425) of CDW Corporation, and
(3) Registration Statement (Form S-8 No. 333-189622) pertaining to the 2013 Long-Term Incentive Plan and Coworker Stock Purchase Plan of CDW Corporation;
of our report dated February 28, 2017 (except for Notes 5 and 16 as to which the date is August 25, 2017), with respect to the consolidated financial statements and schedule of CDW Corporation and subsidiaries, included in CDW Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP
Chicago, Illinois
August 25, 2017

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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 the United States ("US"), Canada, and the United Kingdom ("UK"). We help over 250,000 small, medium and large business, government, education and healthcare customers by delivering solutions to meet 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, virtualization and digital workspace. We are technology "agnostic," with a solutions portfolio including more than 100,000 products and services from more than 1,000 leading and emerging brands. Our solutions are delivered in physical, virtual and cloud-based environments through over 5,500 customer-facing coworkers, including field sellers, highly-skilled technology specialists and advanced service delivery engineers.

We are a leading sales channel partner for many original equipment manufacturers ("OEMs") and software publishers and cloud providers (collectively, our "vendor partners"), whose products we sell or include in the solutions we offer. We provide our vendor partners with a cost-effective way to reach customers and deliver a consistent brand experience through our established end-market coverage, technical expertise and extensive customer access.

We simplify the complexities of technology across design, selection, procurement, integration and management for our customers. Our goal is to have our customers, regardless of their size, view us as a trusted adviser and extension of their IT resources. We do not manufacture products. Our multi-brand offering approach enables us to identify the products or combination of products from our vendor partners that best address each customer's specific IT requirements.

We operate in the United States, United Kingdom and Canadian IT markets, which are large and growing markets. Through our acquisition of CDW UK, we can provide IT solutions in more than 80 countries for customers with primary locations in the United States, Canada and the United Kingdom. According to the International Data Corporation ("IDC"), the total US, UK and Canadian IT market generated approximately $890 billion in sales in 2016. We believe our addressable markets in the US, UK and Canada represent more than $290 billion in annual sales. These are highly fragmented markets served by thousands of IT resellers and solutions providers. For the year ended December 31, 2016, we estimate that our total Net sales of $14 billion represented approximately 5% of our addressable markets. We believe that demand for IT will continue to outpace general economic growth in the markets we serve fueled by new technologies, including cloud, virtualization and mobility as well as growing end-user demand for security, efficiency and productivity.

Value Proposition

We are positioned in the middle of the IT ecosystem where we procure products from OEMs, software publishers, cloud providers and wholesale distributors and provide added value to our customers by helping them navigate through complex options and implement the best solution for their business. In this role, we believe we provide unique value to both our vendor partners and our customers.

Our value proposition to our customers	Our value proposition to our vendor partners
Broad selection of products and multi-branded IT solutions	Access to over 250,000 customers throughout North America and the United Kingdom
Value-added services with integration capabilities	Large and established customer channels
Highly-skilled specialists and engineers	Strong distribution and implementation capabilities
Solutions across a very broad IT landscape	Value-added solutions and marketing programs that generate end-user demand

Customers

We provide integrated IT solutions to over 250,000 small, medium and large business, government, education and healthcare customers throughout North America and the United Kingdom.

We serve our customers through sales teams focused on customer end-markets that are supported by technical specialists and highly skilled service delivery engineers. Our market segmentation allows us to customize our offerings and to provide enhanced expertise in designing and implementing IT solutions that meet our customer’s specific needs.

In our US business, which represents over 90% of our revenues, we currently have five dedicated customer channels: corporate, small business, government, education and healthcare, each of which generated over $1 billion in Net sales in 2016.

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Net sales to customers in Canada and the United Kingdom combined generated more than $1 billion in 2016. We believe this diversity of customer end-markets provide us with multiple avenues for growth and has been a key factor in our ability to weather economic and technology cycles and continue to gain market share.

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

			Public Segment			
Customer Channels	Corporate Segment	Small Business Segment	Government	Education	Healthcare	Other
Target Customers	>250 employees	1 - 250 employees	Various federal, state and local agencies	Higher education and K-12	Hospitals, ambulatory service providers and long-term care facilities	Canada and United Kingdom
2016 Net Sales (in billions)	$5.9	$1.1	$1.9	$2.0	$1.7	$1.4

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.”

Partners

We provide more than 100,000 products and services from more than 1,000 partners, including well-established companies such as Adobe, APC, Apple, Cisco, Dell, EMC, Hewlett Packard Enterprise, HP Inc., IBM, Intel, Lenovo, Microsoft, NetApp, Samsung, Symantec and VMware, as well as from emerging technology companies such as Bit9, Calabrio, CloudPhysics, Cradlepoint, Nasuni, Nimble Storage, Nutanix, Proofpoint, Snow, Splunk, Tegile, Tintri and Veeam. This broad portfolio of partners and technologies enables us to offer customers significant choice and meet customer demand for the products and solutions that best meet their needs. We believe our value proposition to vendor partners enables us to evolve our offering as new technologies emerge and new companies seek us as a channel partner.

In 2016, we generated over $1 billion of Net sales from each of four of our vendor partners and over $100 million of revenue from each of thirteen other vendor partners. In late 2015, we expanded our partnership with Dell and now provide their entire suite of products and services across all of our customer channels. We have received the highest level of certification from major vendor partners such as Cisco, Dell, EMC, Hewlett Packard Enterprise 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.

Product Procurement

We may purchase all or only some of the products our vendor partners offer for resale to our customers or for inclusion in the solutions we offer. Each vendor partner agreement provides for specific terms and conditions, which may include one or more of the following: product return privileges, price protection policies, purchase discounts and vendor incentive programs, such as, purchase or sales rebates and cooperative advertising reimbursements. We also purchase software from major software publishers and cloud providers for resale to our customers or for inclusion in the solutions we offer. Our agreements allow the end-user customer to acquire cloud-based solutions software or licensed products and services.

In addition to purchasing products directly from our vendor partners, we purchase products from wholesale distributors for resale to our customers or for inclusion in the solutions we offer. These wholesale distributors provide logistics management and supply-chain services for us, as well as for our vendor partners.

For our US operations, we purchased approximately 50% of the products we sold as discrete products or as components of a solution directly from our vendor partners and the remaining 50% from wholesale distributors for the year ended December 31, 2016. Purchases from our three largest wholesale distributors, Tech Data, SYNNEX and Ingram Micro, are each approximately 10% of total purchases.

Inventory Management

We operate two distribution centers in North America: a 450,000 square foot facility in Vernon Hills, Illinois, and a 513,000 square foot facility in North Las Vegas, Nevada. We also operate a 120,000 square foot distribution center in Rugby, Warwickshire, UK. We ship over 40 million units annually on an aggregate basis from our distribution centers.

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We also have drop-shipment arrangements with many of our OEMs and wholesale distributors, which permit us to offer products to our customers without having to take physical delivery at our distribution centers. These arrangements generally represent approximately 45% to 55% of total consolidated Net sales, of which approximately 20% to 30% relate to electronic delivery for software licenses.

We believe that the location of our distribution centers allows us efficiently ship products to our customers and provide timely access to our principal distributors.

We believe competitive sources of supply are available in substantially all of the product categories that we offer.

Competition

The market for technology products and services is highly competitive and subject to economic conditions and rapid technological changes. Competition is based on many things, including the ability to tailor specific solutions to customer needs, the quality and breadth of product and service offerings, knowledge and expertise of sales force, customer service, price, product availability, speed of delivery and credit availability. We face competition from resellers, direct manufacturers, large service providers, cloud providers, telecommunication companies, and to a lesser extent e-tailers and retailers. Smaller, local or regional value added resellers typically focus on a single solution suite or portfolio of solutions from one or two vendors partners.

We believe we are well positioned to compete within this marketplace due to our competitive advantages. We expect the competitive landscape in which we compete to continue to evolve as new technologies are developed. While innovation can help our business as it creates new offerings for us to sell, it can also disrupt our business model and create new and stronger competitors. For a discussion of the risks associated with competition, see Item 1A, “Risk Factors.”

Our Competitive Advantages

We believe we have sustainable competitive advantages that differentiate us in the marketplace. We have built a strong sales organization and deep services and solutions capabilities over time and expect to continue to invest in coworkers to enhance these capabilities, which we believe when combined with our competitive advantages of scale and a performance driven culture, will help drive sustainable, profitable growth for us today and in the future. Our scale enables us to have a national and international footprint, as well invest in resources to meet specific customer end-market needs. Our sellers are organized around unique customer end-markets that are both vertically and geographically focused. Our scale enables our ability to invest in technical coworkers who work directly with our sellers to help customers implement increasingly complex IT solutions. Our scale also enables us to operate our three distribution centers (two in the US and one in the UK) which combined are more than 1 million square feet in size. With the acquisition of CDW UK in 2015, we have cross-border relationships that enable us to serve the needs of our US, UK and Canadian-based customers in more than 80 countries. Our strong, execution-oriented culture is underpinned by our compensation system.

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 50% of our Net sales in 2016 in the US 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 and network management. Our services include warranties, managed services, consulting design and implementation.

Today, IT is critical to both “run the business” and drive greater growth and productivity. To help our customers accomplish this, we have built a robust portfolio of solutions across data center, digital workspace, security, virtualization and services that we provide in physical, virtual, or cloud-based environments.

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. These offerings are underpinned by our 24 by 7 network operating centers, as well as services that include cloud planning services and managed cloud. All of these investments help our customers maximize the return on their IT investments.

We offer a broad portfolio of integrated solutions that include the following on and off-premise capabilities:

- Data Center: We assess our customers data center needs, design flexible, resilient and efficient solutions and manage the solution throughout its lifecycle. Our broad portfolio of hardware and software, for both on and off-premise solutions, enables us to provide a well-integrated solution, including converged and hyperconverged infrastructure, physical and virtualized servers, software defined data center, storage and energy-efficient power and cooling.
- Digital Workspace: We build solutions that deliver access to applications that improve our customers' productivity regardless of time or location. We connect our customers' physical devices, including laptops, desktops and mobile devices, and utilize collaboration solutions to 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. Our solutions provide the tools that allow our customers' employees to share knowledge, ideas and information among each other and with clients and partners effectively, securely and quickly.
- 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.
- 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.
- Services: We advise on, architect and manage integrated business technology for commercial and business organizations. Our solutions include integrated cloud, collaboration, data center, mobility and security business technology, from the physical to the application layer. We provide advisory, architectural and managed services across basic, discrete and integrated business technology solutions. We leverage best-in-class partner technology platforms to seamlessly architect and manage disparate IT platforms into integrated business technology solutions.

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 was as follow:

	Years Ended December 31,					
	2016		2015(1)		2014 (1)	
	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales
Notebooks/Mobile Devices	2,934.3	21.0 %	$2,538.5	19.5 %	$2,352.9	19.5 %
Netcomm Products	1,950.9	14.0	1,912.3	14.7	1,613.9	13.4
Desktops	1,054.8	7.5	968.6	7.5	1,058.2	8.8
Enterprise and Data Storage (Including Drives)	1,057.6	7.6	1,065.5	8.2	1,023.9	8.5
Other Hardware	3,981.4	28.5	3,798.3	29.2	3,492.3	28.8
Software(2)	2,406.9	17.2	2,161.3	16.6	2,065.8	17.1
Services(2)	579.0	4.1	472.8	3.6	371.1	3.1
Other (3)	17.0	0.1	71.4	0.7	96.4	0.8
Total Net sales	$13,981.9	100.0 %	$12,988.7	100.0 %	$12,074.5	100.0 %

(1) Amounts have been reclassified for changes in individual product classifications to conform to the presentation for the year ended December 31, 2016.

(2) Certain software and services revenue is recorded on a net basis for accounting purposes, so the category percentage of net revenues is not representative of the category percentage of gross profits.

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(3) Includes items such as delivery charges to customers and certain commission revenue.

Our Internal Capabilities

Our Coworkers

As of December 31, 2016, we employed 8,516 coworkers with approximately 7,500 coworkers in North America and 1,000 in the United Kingdom. Approximately two thirds of our coworkers at year-end 2016 were customer facing. Over fifty percent of our Net sales are generated by account managers who have greater than seven years of experience. Account managers are supported by field sellers, highly skilled technology specialists and advanced service delivery engineers. We believe this structure to be core to our ability to continue to offer complex IT solutions and services.

None of our coworkers are covered by collective bargaining agreements. We consider our coworker relations to be good.

Marketing

We market the CDW brand to US, Canadian and British audiences using a variety of channels that include online, broadcast, print, social and other media. We market to current and prospective customers through integrated marketing programs including behaviorally targeted email, print, online media, events and sponsorships, as well as broadcast media. This promotion is also supported by integrated communication efforts targeting decision-makers, influencers and the general public using a combination of news releases, case studies, media interviews and speaking opportunities.

As a result of our relationships with our vendor partners, a significant portion of our advertising and marketing expenses is reimbursed through cooperative advertising programs. These programs are at the discretion of our vendor partners and are typically tied to sales or other commitments to be met by us within a specified period of time. We believe that our results and analytical techniques that measure the efficacy of our marketing programs differentiate us from our competitors.

Information Technology Systems

We maintain customized IT and unified communication systems that enhance our ability to provide prompt, efficient and expert service to our customers. In addition, these systems enable centralized management of key functions, including purchasing, inventory management, billing and collection of accounts receivable, sales and distribution. Our systems provide us with thorough, detailed and real-time information regarding key aspects of our business. This capability helps us to continuously enhance productivity, ship customer orders quickly and efficiently, respond appropriately to industry changes and provide high levels of customer service. We believe our websites, which provide electronic order processing and advanced tools, such as order tracking, reporting and asset management, make it easy for customers to transact business with us and ultimately strengthen our customer relationships.

Intellectual Property

The CDW trademark and certain variations thereon are registered or subject to pending trademark applications in the US, Canada, UK and certain other jurisdictions. We believe our trademarks have significant value and are important factors in our marketing programs. In addition, we own registrations for domain names, including cdw.com and cdwg.com and variations thereon, for certain of our primary trademarks. We also have unregistered copyrights in our website content.

History

Founded in 1984, CDW became a public company in 1993. 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.

We were a public company from 1993 until October 12, 2007 when we were 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 July 2, 2013, CDW Corporation completed the IPO of its common stock. In connection with the IPO, CDW Holdings distributed all of its shares of CDW Corporation'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

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accompanying Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data" for additional discussion of the IPO.

Before the IPO, Madison Dearborn and Providence Equity owned 46.0% and 40.6% of our common stock, respectively. After the IPO through secondary offerings and fund distributions, Madison Dearborn and Providence Equity liquidated their ownership positions. As of December 31, 2016 neither firm held a private equity position in CDW.

On November 10, 2014, we completed the acquisition of a 35% non-controlling equity interest in UK-based IT solutions provider, Kelway TopCo Limited ("Kelway".) On August 1, 2015, we purchased the remaining 65% of Kelway's outstanding common stock, which increased our ownership interest from 35% to 100% and provided us control. Rebranded CDW UK in April 2016, the acquisition extended our footprint into the United Kingdom. It also enhanced our ability to provide IT solutions to US-based customers with multinational locations. Financial results of CDW UK are included 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."

Available Information

We maintain a website at www.cdw.com. You may access our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC free of charge at our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our website and the information contained on that site, or connected to that site, are not incorporated into and are not a part of this report.

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PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated or the context otherwise requires, as used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the terms "we," "us," "the Company," "our," "CDW" and similar terms refer t CDW Corporation and its subsidiaries. "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report. This discussion contains forward-looking statements that are subject to numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See "Forward-Looking Statements" above.

Overview

CDW Corporation is a Fortune 500 company and a leading provider of integrated information technology ("IT") solutions in the United States, Canada and the United Kingdom. We help over 250,000 small, medium and large business, and government, education and healthcare customers by delivering critical solutions to meet 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, virtualization and digital workspace. We are technology "agnostic," with a product portfolio including more than 100,000 products from more than 1,000 leading and emerging brands. Our solutions are delivered in physical, virtual and cloud-based environments. We provide our products and solutions through over 5,500 customer-facing coworkers, including sellers, highly-skilled technology specialists and advanced service delivery engineers.

We are a leading sales channel partner for many original equipment manufacturers ("OEMs"), software publishers and cloud providers (collectively, our "vendor partners"), whose products we sell or include in the solutions we offer. We provide our vendor partners with a cost-effective way to reach customers and deliver a consistent brand experience through our established end-market coverage, technical expertise and extensive customer access.

On August 1, 2015, we purchased the remaining 65% of Kelway's outstanding common stock, which increased our ownership interest from 35% to 100%, and provided us control. Rebranded CDW UK in April 2016, the acquisition extended our footprint into the United Kingdom. It also enhanced our ability to provide IT solutions to US based customers with multinational locations. Financial results of CDW UK are included 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".

We have three reportable segments, Corporate, Small Business and Public. Our Corporate segment primarily serves private sector business customers with more than 250 employees. Our Small Business segment primarily serves private sector business customers with up to 250 employees. Our Public segment is comprised of government agencies and education and healthcare institutions in the US. We also have two other operating segments: Canada and CDW UK, each of which do not meet the reportable segment quantitative thresholds and, accordingly, are included in an all other category ("Other"). For additional information relating to CDW UK, see Note 3 (Acquisition) to our Consolidated Financial Statements. The CDW Advanced Services business consists primarily of customized engineering services delivered by technology specialists and engineers, and managed services that include Infrastructure as a Service ("IaaS") offerings. Effective January 1, 2016, the CDW Advanced Services business was included in our Corporate, Small Business and Public segments.

We may sell all or only select products that our vendor partners offer. Each vendor partner agreement provides for specific terms and conditions, which may include one or more of the following: product return privileges, price protection policies, purchase discounts and vendor incentive programs, such as purchase or sales rebates and cooperative advertising reimbursements. We also resell software for major software publishers. Our agreements with software publishers allow the end-user customer to acquire software or licensed products and services. In addition to helping our customers determine the best software solutions for their needs, we help them manage their software agreements, including warranties and renewals. A significant portion of our advertising and marketing expenses is reimbursed through cooperative advertising programs with our vendor partners. These programs are at the discretion of our vendor partners and are typically tied to sales or other commitments to be met by us within a specified period of time.

Trends and Key Factors Affecting our Financial Performance

We believe the following trends and key factors may have an important impact on our financial performance:

- General economic conditions are a key factor affecting our ability to generate sales and achieve our targeted operating results as they impact our customers' willingness to spend on information technology. This is particularly the case for corporate customers, as their purchases tend to reflect confidence in their business prospects, which are driven

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by their perceptions of business conditions. Purchasing behavior may be different between our Corporate and Small Business customers due to their perception of business conditions.

- Changes in spending policies, budget priorities and revenue levels are a key factor influencing government purchasing levels. Our Government results also reflect increased interest in meeting public safety needs through technology solutions by state and local customers, as well as our ability to address strategic changes made by the Federal government toward a more programmatic technology strategy.
- Customer focus on security has been, and we expect will continue to be, an ongoing trend. Customers are seeking solutions to protect their internal systems against threats and are implementing solutions that provide enterprise-wide visibility, detection expertise and investigation workflows. They are also implementing endpoint security, firewall segmentation and user authentication tools.
- The Healthcare industry continues to experience consolidation, which has caused uneven technology growth as customers assess their post-acquisition state.
- Our Education sales channel performance continues to be impacted by the implementation of networking projects related to the US Federal Communications Commission E-Rate program. We are also seeing positive impacts as schools develop digital testing and curriculum programs, and work to create new learning environments for students. Within the higher education market, networking projects continue to be a key priority across campuses. While technology is an opportunity to create cost savings and improve productivity, funding is a key determinant of technology spending in education.
- There continues to be substantial uncertainty regarding the impact of Brexit. Potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between UK and EU countries and increased regulatory complexities could have a negative impact on our business, financial condition and results of operations.
- Technology trends drive customer purchase behaviors and we are seeing continuing evolution in the market. Innovation influences customer purchases across all of our customer end-markets. Key trends in technology include increasing adoption of cloud-based solutions for certain key workloads, including security, as well as adoption of hyper-converged appliances to deliver greater flexibility and efficiency. In addition, hybrid cloud solutions are being adopted, along with software being embedded into solutions.

Key Business Metrics

We monitor a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business and make adjustments as necessary. We believe that the most important of these measures and ratios include average daily sales, gross margin, operating margin, Net income, Non-GAAP net income, Net income per common share, Non-GAAP net income per diluted share, EBITDA and Adjusted EBITDA, free cash flow, return on invested capital, Cash and cash equivalents, net working capital, cash conversion cycle (defined to be days of sales outstanding in Accounts receivable plus days of supply in Inventory minus days of purchases outstanding in Accounts payable, based on a rolling three-month average), debt levels including available credit and leverage ratios, sales per coworker and coworker turnover. These measures and ratios are compared to standards or objectives set by management, so that actions can be taken, as necessary, in order to achieve the standards and objectives.

Non-GAAP net income, Non-GAAP net income per diluted share, EBITDA and Adjusted EBITDA are non-GAAP financial measures.

We believe these measures provide analysts, investors and management with helpful information regarding the underlying operating performance of our business, as they remove the impact of items that management believes are not reflective of underlying operating performance. Management uses these measures to evaluate period-over-period performance as management believes they provide a more comparable measure of the underlying business. Additionally, Adjusted EBITDA is a measure in the credit agreement governing our Senior Secured Term Loan Facility (“Term Loan”) used to evaluate our ability to make certain investments, incur additional debt, and make restricted payments, such as dividends and share repurchases, as well as whether we are required to make additional principal prepayments on the Term Loan beyond the quarterly amortization payments. For further details regarding the Term Loan, see Long-Term Debt and Financing Arrangements within Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 (Long-Term Debt) to the accompanying Consolidated Financial Statements. For the definitions of Non-GAAP net income and Adjusted EBITDA and reconciliations to Net income, see "Results of Operations".

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The results of certain key business metrics are as follows:

	Years Ended December 31,		
(dollars in millions)	2016	2015	2014
Net sales	$13,981.9	$12,988.7	$12,074.5
Gross profit	2,327.2	2,115.8	1,921.3
Income from operations	819.2	742.0	673.0
Net income	424.4	403.1	244.9
Non-GAAP net income	569.0	503.5	409.9
Adjusted EBITDA	1,117.3	1,018.5	907.0
Average daily sales	55.0	51.1	47.5
Net debt (defined as total debt minus cash and cash equivalents) (1)	2,970.7	3,222.1	2,821.5
Cash conversion cycle (in days) (2)	19	21	21

(1) As a result of the adoption of Accounting Standards Update (ASU) 2015-03 during the second quarter of 2015, historical periods have been revised to reflect the change in the presentation of deferred financing costs, which are now shown as a reduction of Long-term debt, instead of being presented as a separate asset on the Consolidated Balance Sheet. In the third quarter of 2015, we adopted ASU 2015-15 which allows entities to present deferred financing costs for line-of-credit arrangements as an asset. We retroactively adjusted the deferred financing costs and Long-term debt liability presented in historical periods to align it to the current period presentation.

(2) Cash conversion cycle is defined as days of sales outstanding in accounts receivable plus days of supply in inventory minus days of purchases outstanding in accounts payable, based on a rolling three-month average.

Results of Operations

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Results of operations, in dollars and as a percentage of Net sales, for the years ended December 31, 2016 and 2015 are as follows:

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	Years Ended December 31,			
	2016		2015	
	Dollars in Millions	Percentage of Net Sales (1)	Dollars in Millions	Percentage of Net Sales(1)
Net sales	$13,981.9	100.0 %	$12,988.7	100.0 %
Cost of sales	11,654.7	83.4	10,872.9	83.7
Gross profit	2,327.2	16.6	2,115.8	16.3
Selling and administrative expenses	1,345.1	9.6	1,226.0	9.4
Advertising expense	162.9	1.2	147.8	1.1
Income from operations	819.2	5.9	742.0	5.7
Interest expense, net	(146.5)	(1.0)	(159.5)	(1.2)
Net loss on extinguishments of long-term debt	(2.1)	—	(24.3)	(0.2)
Gain on remeasurement of equity investment	—	—	98.1	0.8
Other income (expense), net	1.8	—	(9.3)	(0.1)
Income before income taxes	672.4	4.8	647.0	5.0
Income tax expense	(248.0)	(1.8)	(243.9)	(1.9)
Net income	$424.4	3.0 %	$403.1	3.1 %

(1) Percentages may not total due to rounding.

Net sales

Net sales by segment, in dollars and as a percentage of total Net sales, and the year-over-year dollar and percentage change in Net sales for the years ended December 31, 2016 and 2015 are as follows:

	Years Ended December 31,					
	2016		2015			
(dollars in millions)	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change (1)
Corporate (2)	$5,889.8	42.1 %	$5,878.7	45.3 %	$11.1	0.2 %
Small Business (2)	1,140.1	8.2	1,089.6	8.4	50.5	4.6
Public:						
Government	1,863.7	13.3	1,700.9	13.1	162.7	9.6
Education	2,018.3	14.4	1,818.8	14.0	199.5	11.0
Healthcare	1,707.4	12.2	1,663.9	12.8	43.5	2.6
Total Public	5,589.4	40.0	5,183.6	39.9	405.7	7.8
Other	1,362.6	9.7	836.8	6.4	525.9	62.8
Total Net sales	$13,981.9	100.0 %	$12,988.7	100.0 %	$993.2	7.6 %

(1) There were 254 selling days for the years ended December 31, 2016 and 2015.

(2) Amounts have been recast to present Small Business as its own operating and reportable segment.

Total Net sales in 2016 increased $993 million, or 7.6%, to $13,982 million, compared to $12,989 million in 2015, reflecting both solid organic increases and the inclusion of seven months of incremental CDW UK sales. Total Net sales increased 8.3% on a constant currency basis. There were five key trends that impacted our Net sales growth. First, customers were seeking to optimize their infrastructure by extending asset lives or adding capacity, which led to increases in warranties and virtualization software. Second, customer focus on designing IT securely continued to be a major area of interest for customers, and we saw

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excellent increases across our entire security portfolio, including security software. We also saw our customers seeking architectures to increase the flexibility and efficiency of their IT infrastructure, which drove increased adoption of cloud solutions for certain workloads, including security, as well as increased sales of hyper-converged infrastructure. Fourth, we saw the on-going trend where a greater proportion of solutions are being delivered via software. With software becoming more “mission critical,” customers continued to turn to software assurance to protect their investment. Finally, customer demand for digital signage and video screens, as well as notebook/mobile devices, drove growth across all of our customer end-markets.

Corporate segment Net sales in 2016 increased $11 million, or 0.2%, year over year, as customer demand for longer tail purchases, including data center and networking solutions, was impacted by slow economic growth and market trends. Corporate had strong sales performance in notebook/mobile devices and software products.

Economic conditions had less of an impact on Small Business results, as Net sales to Small Business customers increased by $51 million, or 4.6%, between periods, driven by growth in notebooks/mobile devices, desktops and video projection hardware.

Public segment Net sales in 2016 increased $406 million, or 7.8%, between years. Net sales to government customers increased $163 million, or 9.6%. State and local government customers continued to focus on public safety and we benefited from new contracts. Our Federal channel saw low single-digit growth as the success we had meeting new strategic programs was partially offset by the impact of several large client device purchase orders that were delayed into 2017. Net sales to education customers increased $199 million, or 11.0%, year over year, driven by continued success providing client devices to support digital testing and curriculums, as well as desktops and video projection hardware to support new learning environments for students. Healthcare growth was 2.6% or $43 million, driven by notebooks/mobile devices, desktops and software. Patient data security continues to be a top concern. We continued to see some of our larger customers shifting priorities to reducing costs due to industry consolidation.

Net sales in Other, which is comprised of our Canadian and CDW UK operations, increased $526 million, or 62.8%, compared 2015. The increase in Net sales was primarily driven by the impact of consolidating twelve months of CDW UK Net sales in 2016 compared to consolidating five months of CDW UK results in 2015. Both our Canadian and UK businesses grew high-single digits in local currency in 2016. Currency was impacted by Canadian dollar to US dollar translation in the first half of the year and British pound to US dollar translation in the second half.

Gross profit

Gross profit increased $211 million, or 10.0%, to $2,327 million in 2016, compared to $2,116 million in 2015. As a percentage of Net sales, Gross profit increased 30 basis points to 16.6% in 2016, from 16.3% in 2015.

Gross profit margin was positively impacted 30 basis points by a higher mix of net service contract revenue as customers looked to extend the life of equipment through warranties, protect their software investments through software assurance and adopt cloud solutions to deliver certain workloads. All of these solutions grew faster than our overall Net sales. In addition, vendor partner funding positively impacted gross margin by 35 basis points. These increases helped offset the impact of 30 basis points from unfavorable product margin.

Gross profit margin may fluctuate based on various factors, including vendor incentive and inventory price protection programs, cooperative advertising funds classified as a reduction of cost of sales, product mix, net service contract revenue, commission revenue, pricing strategies, market conditions and other factors.

Selling and administrative expenses

Selling and administrative expenses increased $119 million, or 9.7%, to $1,345 million in 2016, compared to $1,226 million in 2015. As a percentage of total Net sales, Selling and administrative expenses increased 20 basis points to 9.6% in 2016, up from 9.4% in 2015. Payroll costs increased $65 million, or 11.7%, year over year, primarily due to incremental coworker hires at the end of 2015, higher compensation costs consistent with increased Gross profit and the inclusion of twelve months of CDW UK payroll costs in 2016 compared to five months in 2015. Total coworker count was 8,516 at December 31, 2016, up 51 from 8,465 at December 31, 2015. Amortization expense related to intangibles increased $18 million, or 8.8%, during 2016 compared to 2015, primarily due to incremental amortization expense related to the intangible assets arising from our acquisition of CDW UK. Non-cash equity-based compensation expense increased $8 million, or 25.8%, during 2016 compared to 2015, primarily due to annual equity awards granted under our 2013 Long-Term Incentive Plan, performance against long-term incentive program targets and equity awards granted in connection with our acquisition of CDW UK.

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Income from operations

Income from operations by segment, in dollars and as a percentage of Net sales, and the year-over-year percentage change for the years ended December 31, 2016 and 2015 was as follows:

	Years Ended December 31,				
	2016		2015		
	Dollars in Millions	Operating Margin	Dollars in Millions	Operating Margin	Percent Change in Income from Operations
Segments: (1)					
Corporate(2)(6)	$453.6	7.7 %	$432.5	7.4 %	4.9 %
Small Business(2)(6)	68.9	6.0	68.3	6.3	0.9
Public(2)	368.0	6.6	328.6	6.3	12.0
Other (3)(4)	43.6	3.2	27.1	3.2	60.9
Headquarters (5)	(114.9)	nm*	(114.5)	nm*	0.3
Total Income from operations	$819.2	5.9 %	$742.0	5.7 %	10.4 %

* Not meaningful

(1) Segment income from operations includes the segment's direct operating income, allocations for certain Headquarters' costs, allocations for income and expenses from logistics services, certain inventory adjustments and volume rebates and cooperative advertising from vendors.

(2) Certain costs related to technology specialists have been reclassified between our Corporate, Small Business and Public segments. The prior period has been reclassified to conform to the current period presentation.

(3) Effective January 1, 2016, CDW Advanced Services is included in our Corporate, Small Business and Public segments and Other is comprised of CDW Canada and CDW UK. The prior period has been reclassified to conform to the current period presentation.

(4) Includes the financial results for our other operating segments, CDW Canada and CDW UK, which do not meet the reportable segment quantitative thresholds.

(5) Includes Headquarters' function costs that are not allocated to the segments. Certain Headquarters expenses have been allocated to CDW Canada in 2016. The prior period has been reclassified to conform to the current period presentation.

(6) Amounts have been recast to present Small Business as its own operating and reportable segment.

Income from operations was $819 million in 2016, an increase of $77 million, or 10.4%, compared to $742 million in 2015. Total operating margin increased 20 basis points to 5.9% in 2016, from 5.7% in 2015. Operating margin was positively impacted by the increase in Gross profit margin, driven by higher contribution from net service contract revenue and vendor partner funding. Selling and administrative expenses as a percentage of Net sales increased 20 basis points in 2016 versus 2015, primarily reflecting increased sales compensation and coworker costs resulting from the inclusion of CDW UK expenses for twelve months in 2016 compared to five months in 2015.

Corporate segment income from operations was $454 million in 2016, an increase of $21 million, or 4.9%, compared to $433 million in 2015. Corporate segment operating margin increased 30 basis points to 7.7% in 2016, from 7.4% in 2015. This increase was primarily due to an increase in Gross profit driven by a higher mix of net service contract revenue, as well as higher volume rebates, partially offset by an increase in Selling and administrative expenses as a percentage of Net sales, due to higher sales payroll costs.

Small Business segment income from operations was $69 million in 2016, an increase of $1 million, or 0.9%, compared to 2015. Small Business operating margin decreased by 30 basis points to 6.0% in 2016, from 6.3% in 2015. The decrease in operating margin was primarily due to an increase in Selling and administrative expenses as a percentage of Net sales, due to higher sales payroll costs.

Public segment income from operations was $368 million in 2016, an increase of $39 million, or 12.0%, compared to $329 million in 2015. Public segment operating margin increased 30 basis points to 6.6% in 2016, from 6.3% in 2015. This decrease was driven primarily due to an increase in Net sales and Gross profit driven by a higher mix of net service contract revenue, as

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well as higher volume rebates, partially offset by an increase in Selling and administrative expenses as a percentage of Net sales, due to higher sales payroll costs.

Other income from operations was $44 million in 2016, an increase of $17 million, or 60.9%, compared to $27 million in 2015. This was primarily due to the inclusion of an additional seven months of CDW UK income from operations. Other operating margin percentage remained flat at 3.2% in both 2016 and 2015.

Interest expense, net

At December 31, 2016, our outstanding long-term debt totaled $3,234 million, compared to $3,260 million at December 31, 2015, a decrease of $26 million primarily due to principal payments on the loans. Net interest expense in 2016 was $147 million, a decrease of $13 million, compared to $160 million in 2015. This decrease was primarily due to the lower effective interest rates and the lower principal loan balances for 2016 compared to 2015 as a result of redemptions and refinancing activities completed during 2016 and 2015, and the impact in 2016 of mark-to-market gains associated with our interest rate cap agreements.

Net loss on extinguishments of long-term debt

For information regarding our debt, see Note 8 (Long-Term Debt) to the accompanying Consolidated Financial Statements. During 2016, we recorded a net loss on extinguishments of long-term debt of $2 million compared to $24 million in 2015.

Net loss on extinguishments of long-term debt for the years ended December 31, 2016 and 2015 are as follows:

		(in millions)	
Month of Extinguishment	Debt Instrument	Amount Extinguished	Loss Recognized
For the Year Ended December 31, 2016			
August 2016	Senior Secured Term Loan Facility	$1,490.4	$ (2.1)
Total Loss Recognized			$ (2.1)
For the Year Ended December 31, 2015			
March 2015	2019 Senior Notes	$	