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# EDITED TRANSCRIPT

CDW.OQ - CDW Corp at Raymond James Technology Investors Conference (Virtual)

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## CORPORATE PARTICIPANTS

**Christine A. Leahy** *CDW Corporation - President, CEO & Director*

**Collin B. Kebo** *CDW Corporation - Senior VP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Adam Tyler Tindle** *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

## PRESENTATION

**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. Thanks, and good morning. My name is Adam Tindle. I cover the IT supply chain, security software and connected devices here at Raymond James. Very happy to have the team from CDW. Many of you know CDW as one of the world's largest IT reseller and solution providers.

We have Chris Leahy, CEO; Collin Kebo, CFO. And in terms of the format, we'll just keep it somewhat casual, full fireside, no formal slides. Obviously, if you'd like to view CDW's presentation, it will be available on their IR website.

And for the audience, if you do have questions during this, please, in the upper left-hand corner of your screen, you'll see a Question button. Feel free to use that. That will send an e-mail over to me, and I'll work your question into our conversation. Alternatively, you can just e-mail me directly, adam.tindle, T-I-N-D-L-E, @raymondjames.com.

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## QUESTIONS AND ANSWERS

**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

So with that, Chris, I wanted to start with you just on kind of demand environment near term. Thanks, again, for joining our conference. And CDW is a very broad company. It represents over 100,000 products and solutions for more than 1,000 vendor partners. So a broad view across many areas of tech that investors care about.

Just starting at a high level, then we'll get to some company-specific questions. Over the course of 2020, maybe just take us through what you've observed from the perspective of customer budgets, prioritization of product mix and how that's changed recently.

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Just want to get off mute there. Thank you. Thanks, and good morning, Adam. It's great to see you, and thank you, everybody, for joining us this morning. We appreciate you being here with us.

I've been tasked with the safe harbor warning. So just as a reminder, we'll be talking as of our third quarter call, anything we said on the call or prior.

So let's talk about what happened this year. Everybody knows this has raised unprecedented challenges for customers and, in my view, has really demonstrated that technology has become an absolutely essential part of a customer's ability to operate, a customer's ability to compete, a customer's ability to grow, to win, to achieve their mission, whatever that might be.

And if we think back to the onset of the pandemic, CDW was able to orchestrate remote work and business continuity solutions for our customers. That was really the thrust at the beginning of the year in terms of getting people to work from home and, even very quickly after that, remote learning in some places across the world.

As we've progressed through the year, our customers have been really in various phases of responding to the macro environment. It depends on the geography. It depends on the industry. It depends on the state mandates that are going on, and whether things are opening or closing.

So some customers have actually remained focused on remote enablement and operational continuity and keeping their businesses alive and surviving. And others have been moving forward with organizational enablement and operational continuity, very focused on performance, very focused on cost pressures and managing those, while others are moving forward with efficiency and optimization and digital transformation, including the cloud.

And that last bucket, the digital transformation, we have many customers who very early on recognized the advantage that they could gain if they were already advanced, or the advantage they could gain if they advance quickly. So again, some of those customers started quite early focusing on digital journeys, if you will, and others are just getting to that.

The other thing, I guess, I would mention is, and we mentioned this on our third quarter call, customer demand for Software as a Service increased almost 50% quarter-on-quarter. So customers leveraged our cloud solutions' capabilities, which were further bolstered by our acquisition of IGNW, which we did at the beginning of the third quarter. And that's our cloud-native capability of professional services around what we call digital velocity.

In Q3, we did see some customers resume projects that had been put on hold earlier in the year and started new projects, the kind of infrastructure projects -- the legacy infrastructure projects had been paused. And what customers have been doing, and some moving forward, some still planning, or what are the road maps of their future? How do they consider how cloud does fold into their larger strategy? What is the digital experience of the future that they're trying to give to their employees and to their customers?

So there's a new term I've heard our VPs of sales saying very (inaudible) and very strongly and repetitively, and that's our customers bring us their problems, not their part numbers. And I'll tell you, that's never been more true this year. Customers need help. They can't get it all done. They're short-staffed. It's getting more complicated, and we've just seen that pick up as this year has gone on.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. And I think we're all encouraged by the notion of projects potentially resuming. I know it's been a tough year for that side of the business and those types of vendors.

I wanted to also ask, one of the highlights for CDW is a diversified set of customer verticals, right? You have a lot of offsetting levers that help you through different times on each side of the business. Maybe just what stands out from your observations by customer vertical in 2020? And how has that changed as the year progressed?

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Sure, Adam. Just as a reminder to everyone, we've got the 5 U.S. sales channels, which are our Corporate, our Small Business, our Government, Education and Healthcare businesses, all of which are substantial multibillion-dollar businesses. And our scale enables us to further align sales teams into vertical customer end markets.

So for example, in Government, we've got federal government and state and local; and then Education, K-12 and higher education. Beyond that, I'd also say we then subsegment. So for example, in federal, we've got Department of Defense and civilian; in small business, we've got fast growth, VC-backed organizations, for example.

So the scale allows us to get very, very intimate with the industry in which we're dealing. This obviously allows us to understand the industry and the business and be more and more intimate and knowledgeable about our customers.

We also then have our Other, which is U.K. and Canada, and that's a couple of billion dollars in revenue together. The one thing I'd say about U.K. and Canada is we've developed those businesses in a similar fashion. So they are quite balanced in terms of their broad portfolio across the full IT life cycle and full spectrum. And equally, they are diversified across end markets. So both of those organizations also have a Public and a Corporate segment and then diversified within those segments.

So what have we observed? Well, what's been interesting is, I'm not -- not necessarily surprising, but interesting is the Corporate and Small Business customers. Their ability, with our help and support and partnership, to adapt quickly in the microenvironment and really pivot their IT strategies to operate so well in a remote environment, that would never have happened 10 years ago. That would never have happened if it was just a mandate from the CEO. But the pandemic really lit the fire, and people were able to shift enormously quickly.

In the public sector, what's really been significant and amplified is the equity and access across our Education customers. And that has been at the forefront for the past 18 months or so, but that really is heightened, especially in the world we live in, with the focus on social justice amplifying as well.

And then on the Government side, real resiliency of those customers, along with the U.S. Census' undertaking. When you think about the political stage we were on this year and having to get that massive project completed and completed well according to our service-level agreements with the U.S. Census, critically important project, that really does stand out because both our customer, the U.S. Census Bureau and CDW, I think -- and all the partners involved did a fantastic job.

Healthcare customers have been really interesting because they're spending where they need to in areas like security and software. Certainly, telehealth has been a demand driver, but it's been a bit of a shift in budgets. The income streams for large hospital organizations are still just battered. And so they're doing what they need to. I certainly expect the virtual care to be a driver of demand in the future, but we're going to have to wait and see what happens over the next 6 months or so with the pandemic and the stress on the hospital systems.

And as I said just a minute ago, Adam, we've really seen several phases that our customers have worked through, the remote enablement and operational continuity. And certainly, in March and April, some customers still working on this, and then as I mentioned, the organizational efficiency and optimization. And that's where customers are focused on, what's my hybrid model, what's the security, how can I save cost because everybody is under cost pressure.

And then just digital transformation, which has accelerated dramatically, customers investing for their future and fundamentally changing how they engage with and work with their employees and interact with their customers. So as I said, technology certainly has risen to the forefront. It's more essential in every sector of the economy and will play an increasingly important role going forward, and we're excited about that.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. That's helpful. I'm going to ask one more on just kind of high level, and then we're going to get down to some CDW specifics. But here across this conference, we've had a lot of questions on the device market, you play front and center there, and supply challenges, things that are going on.

For you, remote enablement moderated in the Corporate segment. I think transactional was down double digit in your September quarter after a very strong run. We then heard from some of the PC OEMs with strong October quarter, suggesting backlog is elevated, expecting demand to outpace supply through the first half of 2021. Just wondering if you could maybe comment on that disconnect and just general thoughts on the sustainability of growth in the PC market.

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes, Adam, thanks for that question. And just a couple of things. First of all, it's a little bit of apples-to-oranges comparison, given there's a lag from when we sell client devices and when the OEMs replenish their inventory. So you've got to remember that. That's the first thing.

And then when you just think about the performance and the demand from Q3 '19 through Q2 of '20, we saw a 20% growth in notebook units for our Corporate and Small Business customers. So the OEM shipments you're hearing about now are effectively replenishing. They are lower levels of inventory further downstream in the supply chain that have been depleted. So I think about it that way.

And I would also note in the third quarter that, notwithstanding the transactional performance, we did still continue to have strength across notebooks. But as we think about the future growth of PCs, I guess a couple of factors to consider, as we always like to say, if you were the tailwinds. Well, I continue to believe we're going to see new use cases. And we're seeing that with the retail stores and providing tablets across multiple retail industries, if you will, for the employees to work digitally in their digital environment and their e-commerce environment.

The other thing is the earlier Win 10 adopters are starting their refresh stage now. So we are starting to see that. Obviously, I'd say, this year, we did have tremendous demand pull-forward in Q1 and Q2 due to the urgent need of the remote devices. And we had -- because of the K-12 focus on -- a device in every student's hand, we also saw a significant pull forward in the Education space as well.

So look, I think it's early to tell the impact on remote working and e-learning will have on client devices. But I do think we will continue to see work from home, play from home, live from home, learn from home, all these things are going to end up in a hybrid world, which means more use on the PC, which might mean more tighter refresh cycles and, frankly, also more productivity needed out of coworkers. So again, innovation cycles will continue to reflect that.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

I want to get into some of the growth initiatives that you've talked about and outlined and kind of break them down one by one. The first one that comes up is capture share and acquire new customers. It's one of the 3-part strategies for growth. Just curious, as you think about this part, talk about the key drivers of this strategy, given new customer acquisition via competitive displacement seems like a tough task to an outsider. For example, your customer tenure, I think, is just over a decade on average. So some of the key drivers to that strategy.

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Sure, Adam. And when you think about our 3-part strategy, how they work together, so you mentioned acquiring new customers and capture share and then the second -- the second prong is enhance our solutions capabilities and the third is expand our services capabilities. So I'd say a couple of things.

Number one, our ability to enhance our solutions capabilities and expand the services capabilities are key drivers in our ability to acquire new customers. Because as technologies become more complex and will continue to do so, customers are demanding more from their IT solutions provider, given their limited resources. It's getting more complex. I've always said complexity is our friend. It's not our customers' friend. It's our friend.

So because we continue to evolve our offering and our technology capabilities, that positions us really in a differentiated way from our competitors, and our value proposition is just much stronger in our view. So they look to leverage our scale, our distribution and logistics capabilities, as I said, our diverse product and services offering and across the full IT life cycle.

So when you think about wanting a one-stop shop, a single IT trusted partner that you can go to, to kind of help simplify everything, from advice, design, to building to implementing to integrating to managing, we provide that to the customer. And I really think that's a differentiator.

I always think our -- the durable value of our proposition is that, while technology evolves, we evolve with it. And our customers know that. So as they think forward, they know we're going to be there where they need and meet them where they need. So that even adds to the trusted relationship.

**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. And I guess near term on the acquired new customers' initiative, you did talk about seeing healthy growth from new customers during peak uncertainty this year, during the Q2 earnings call. What were the key reasons that those customers came to CDW? And any update on observations? I know it's early, but the stickiness of those customers.

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Adam, the -- we're continuing to see that trend I talked about. That was a flight to quality. All of the competitive advantages that I've mentioned, from what our scale offers to our logistics capabilities to the breadth and depth of our portfolio and expertise. There is just a desire to be with a company that has got the oomph, the weight, the financial wherewithal behind them, and then also the full spectrum to start -- to really figure out digital transformation because it's accelerating so quickly.

There's some study out there, 85% of CEOs say that digital transformation is the #1 change that they expect to stick in this pandemic. And so every CTO, every CIO is under pressure to get it right. I mean that has become more important than ever, get it right and get it fast. And so that suggests come to CDW.

Remember, I think on the earnings call, I talked about a customer that was working with a partner and they just could not get it right. And the director was under pressure, called us. We delivered very quickly, exceeded their expectations. And I'll tell you, when you help somebody in a pinch like this, those folks generally become customers for life because you really help them in a pinch, and the trust starts up several notches. So we have great confidence that those customers will be sticky, and we've seen many of them where we've expanded our -- expanding our opportunities with them already.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. The second initiative that we talked about was enhanced capabilities in high-growth solutions areas. I know these kind of work together a little bit. But just zooming in on this one, as I think about this initiative, I think about capabilities, tuck-ins. You mentioned IG NW. There's Apris, Scalar. Just curious what have been the key learnings as you now have a few of those under your belt? And talk about the framework for go-forward opportunities.

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Sure. So Adam, the most recent acquisitions, IG NW, expands our cloud-native professional services portfolio, as I mentioned. And Apris is an elite ServiceNow partner. And then Scalar expanded our kind of balance of offerings in Canada, and they've got a very robust solutions portfolio.

So key learnings. Well, I might sound repetitive, but it really is the key theme that customers have growing needs across the IT life cycle, and they're looking for their IT solutions provider to meet and need -- meet across the entire life cycle.

And sometimes, I just -- I talk about CDW in terms of our talent, technology and trust, right? We've got our talent. We've got the world-class sales organization, and we continue to evolve them. We've got best-in-class technology expertise. We've got the best-in-class leadership. And then we have the technology across the full spectrum and the full IT life cycle and brand choice so that we can bring to the customer the best in breed across the full stack, meaning cloud and services and software and hardware.

And then trust. Our customers really -- they trust our judgment. They trust our intent. We're not selling them. We're bringing them what is going to work for them in their business. And they trust the service quality that we offer, and our ability to execute.

As we go forward, what we're finding and learning specifically from M&A is we're going to focus on these capabilities. We have proven that we can find great companies with great talent, with great cultures and integrate them fairly seamlessly into the organization. And our -- most importantly,

our sales organization is quite excited when we bring in these capabilities because all that does is enhance their ability to solve problems for our customers.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. Makes sense. I'm going to ask a question on the third and then tie another question in on the second and the third after this one. So the third initiative is enhanced service capabilities. And you've invested -- you have a slide that I always remember seeing. I think it's over 3,000 technical coworkers really shifted the composition of customer-facing coworkers to approach, I think, about half that are more presales specialists and services delivery resources versus just sellers. Maybe just talk about the processes and systems that CDW has put in place to leverage those resources.

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Sure, Adam. So it's one thing to add that many technical coworkers, and it's another to have them work hand-in-glove so well with your sales organization. So just for quick context, we usually have an account manager or a dedicated account manager who's the quarterback, call it, aligned to these -- the sales channels.

And those account managers are supported by the field sellers who are, in person, the technical organization where we've got the specialist and advanced service delivery engineers, which you referenced. And some portions of those are presale. Delivery engineers often can actually be on the presale side as well. And those solutions -- they specialize in areas within the hybrid infrastructure and digital experience. So while our sellers have obviously very strong knowledge of IT broadly, they bring in the technical resources across the organization to support them.

And what I would say is our go-to-market, I always say, is evergreen. And the power of CDW and one of the derivatives of our scale is the ability to continually tweak and refine our go-to-market. And in this case, so we've got our frontline sellers, and we've got the technical specialists lined up, whether it's by geography, whether it's by category, whether it's by IT opportunity within the customer, we're very prescriptive about how that go-to-market works. So we get the right resources on the right opportunity at the right time.

You also know we've invested heavily in our digital capabilities for seller tools, and that's another thing on the technology side. Think about customer resource management, being nimble and optimized in that area also helps speed and opportunity identification and capture in a very big way. So those are some of the things that we've done to help drive the technical capabilities into the sales organization and then accessed out to our customers.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. I'm going to ask one more line of questions, and then Collin has been sitting patiently there. So we'll pick on you next, Collin. With both services and solutions investments, those kind of last 2 that we talked about, just curious, Chris, is incremental growth primarily coming from share of wallet with existing customers? Or is this primarily leading to new customer acquisition opportunities? And maybe the second part of that would be what the competitive landscape looks like in those engagements versus more traditional transactional business?

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Look, our organic and inorganic investments in services and solutions has certainly strengthened our value prop to customers, and it's resonated well with incremental growth opportunity existing in both new customers and our current customers. But it is easier to roll out new offerings to customers that already leverage CDW as a trusted adviser in their IT strategy. So we do see more incremental growth from within existing customers.

As far as the competitive landscape, look, it's highly fragmented with, as you know, regional and specialized peers as well as some of the integrated -- larger, excuse me, integrated service providers out there. But we just believe we continue to differentiate ourselves through the technical expertise

we bring and the unbiased advice, as I mentioned, and just our history of always putting the customer in the center of everything we do. So we take advantage of the fragmented environment and particularly in the circumstances we find ourselves in, in this year.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Thanks, Chris. Collin, just continuing on the topic of solutions. Chris has talked a lot about some of the qualitative investments that CDW has made. CDW also discloses a few different quantitative buckets that allow us insight into this, into the success of this. Maybe just to start, how do you look at these metrics internally? How should we best analyze this?

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**Collin B. Kebo** - *CDW Corporation - Senior VP & CFO*

Sure. Thanks, Adam, for having us. We do disclose a couple of different metrics. Historically, our definition of solutions and transactions has been a segmentation along product lines. So just definitionally, in our solutions business, that would include all software, all services, and then hardware in the data center, server storage networking, colllab hardware and things like that.

Just as an aside, I think one of the limitations of segmenting by product is solutions like the Census offering, or what we're doing for the Mississippi Department of Education, skews primarily to the transaction part of the business. I think it would be hard to argue that, that really isn't an integrated solution for the customer.

But notwithstanding that, historically, the net revenue from the solutions part of the business has been in the 40% to 45% range. Now the gross profit from the solutions business is higher than that. We've talked before about agent revenue or the 100% gross margin netted-down percentage of the business, that would all be sitting in the solutions business, and that was 30% of gross profit in our most recent quarter. And again, that would not be captured in gross profit from the solutions business that sits on solutions hardware and software licenses.

And then, I guess, the last point I'd make is from an operating margin perspective. While the solutions part of the business tends to have higher gross margins, it does have a higher cost to serve because of those technical resources that Chris was talking about earlier. So the delta isn't quite as great as the operating margin, as you might think.

In terms of what we look at internally, we look at a variety of measures, what our customers are spending with us, what the net sales are and then what the gross profit from that is. And we compare all of those to how the market is doing, and we expect to grow faster across all of those versus the market. And then, again, we focus on the operating margin line and how those solutions, gross profit dollars are converting to operating profit and making sure we're doing it in an efficient way.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. And as I looked in the Ks and the Qs, there's kind of 2 buckets that we look at there: number one is agent revenue, number two is principal revenue transferred over time. As you think about those buckets, investors are kind of curious what it ties to -- how much of that ties to PCs or device sales? How much is more pure cloud or services sales? So maybe just across those buckets that investors are looking as more kind of recurring-type revenue streams. How much is more PC device tied? How much is more pure cloud or services tied?

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**Collin B. Kebo** - *CDW Corporation - Senior VP & CFO*

Yes. Sure, Adam. I'll start with the agent revenue. And again, this is -- from an accounting perspective, that part of the business that is accounted for is 100% gross margin, so the gross profit dollars equal to revenue dollars.

And in that bucket, SaaS, Software as a Service, is the largest component, and it has been contributing the most growth recently. It also includes software assurance, commission revenue, so this is where we would be the agent on an enterprise agreement sale. And then it would include



warranties. And within warranties, that can be both on the client device part of the business. But a big part of the warranty business is on the infrastructure solutions hardware part of the business.

And then finally, it includes services delivered by third parties, where CDW doesn't have the coworkers, and we would engage another party. It excludes CDW-delivered services. So our managed services, our professional services business would not be included in that. So when you think about that bucket, the majority of it is tied to cloud or software. There is some portion on the warranties, again, that would be tied to the client device part of the business, but the most -- but the vast majority of it is related to software or the cloud part of the business.

In terms of revenue recognized over time, it's around 4% to 5%. And that would be primarily where we are providing the services or professional services engagement and managed services engagement in the current year of the Census Device as a Service offering because it's recognized over time, but also be included in there.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Got it. That's very helpful. I want to ask about that Census Device as a Service. Maybe just for investors not as familiar, give us a quick recap of the Census deal, how it's different from a traditional sales motion. And has this created more interest across the broad customer base? Do you think this is a continuing trend or more of a one-off?

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**Collin B. Kebo** - *CDW Corporation - Senior VP & CFO*

Yes. So this was different than the normal selling motion, just given the long lead time, as you can imagine. This was a multiyear effort to help the customer understand what capabilities we bring to bear, and then you go through the protest process and all those types of things. But ultimately, the Census Bureau concluded that we were the right partner, given our ability to bundle a solution from multiple OEMs, and our logistics capability and wrapped with services, et cetera.

It's also unusual in the accounting for it. So we are accounting for this as a Device as a Service offering, where we are the lessor. So we acquired the devices using our balance sheet. We have -- recognizing the revenue from that over time.

Just financially, to dimensionalize the impact, the project began flowing through our financial statements in 2019 and contributed roughly 60 basis points of net sales growth in 2019. This year, it'll be in the neighborhood of 180 basis points of incremental growth year-over-year. So in aggregate, approximately 230 basis points of our sales this year.

And it has created interest from other customers. And I think, really, is a great proof point in terms of our capability to execute something of this scale and the complexity involved in it, and our ability to work with the customer as their requirements change over the course of this offering and wanted more devices in the field and they were delayed because of COVID, and all those types of things. And just as Chris talked about on our last earnings call, the work we're doing in the state of Mississippi and the Department of Education is it's structured differently but effectively meeting a need of getting a device as a solution with the logistics and the services capabilities wrapped around it.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. Understood. I'm going to ask one more for Collin. I'm going to work in a couple of audience questions and then we'll close it out. So just a last call for any audience questions, please send those, top left-hand corner questions or [adamtindle@raymondjames.com](mailto:adamtindle@raymondjames.com).

Collin, cash flow has been a hallmark of CDW. I want to touch on capital allocation and what you do with the cash. There's a balance between share repurchase. You've been consistently increasing the dividend. You paid down debt. You've done M&A. So kind of a combination of many different things. Just talk about the process and how the company and the Board decides which method of capital return is appropriate.

**Collin B. Kebo** - *CDW Corporation - Senior VP & CFO*

Yes, sure. I mean even before we get to free cash flow, our preference is to invest back in the business. We think we have a great business model and -- where we can, and generate positive returns, we'll do that, and we will continue to do so. But once we get to free cash flow, our goal is to grow the dividend in line with earnings. We target a 25% payout ratio.

Secondly, maintain our leverage within a 2.5 to 3x ratio. We were below that at the end of the third quarter at 1.8x. Third is M&A, and Chris talked a little bit about the filters earlier, then fourth is share repurchases.

As we sit here today or sat there on September 30, given our strong liquidity position of 1.8x, our priorities are, as I said, organically invest in the business, M&A and share repurchases after we covered the dividend. We don't think paying down a big debt -- paying down debt is a big idea, just given how attractive interest rates are and given our strong cash flow generation.

I do anticipate us moving closer to our range of 2.5 to 3x. Our preference would be to do it through M&A. We think it allows us to add capabilities and better serve customers. But we will -- if not enough opportunities come along that makes sense for us, we will -- we're comfortable returning more than 100% of free cash flow to shareholders through share repurchases and dividends, and we'll do so.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. Makes sense. Chris, one of the questions that was asked on your comments about being closer to end-market demand relative to the OEMs was interesting. And the question was really around the data center uptick that you're seeing or project-oriented uptick that you're seeing.

There's some debate over whether that data center recovery is going to be something imminent and continues, Q4, Q1 kind of a first half of 2020 big bounce back? Or is this back half of next year? Just at a high level, the question is mainly kind of the data center infrastructure projects. Does that trend that you're seeing initially really increase from here to the first half? Or is this still going to get pushed out to the back half?

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**Christine A. Leahy** - *CDW Corporation - President, CEO & Director*

Yes. Adam, I'd say a couple of things. Number one, it depends. I hate to answer a question that way, but it does depend on the industry, the geo, as I mentioned before. The world we've lived in has really been uneven across the United States, for example, and then other countries, U.K. and Canada, depending on what's going on out there.

But clearly, early on this year, I'd say the infrastructure projects really came to a bit of a screeching halt. And customers took those opportunities to get what they had to get done urgently, but then to reflect back with us and consider embracing cloud platforms, how that would work within their systems, given what they have to come out of the pandemic being, frankly, as an organization and whether or not they consider more outsourcing to managed service providers, or how they're going to modernize and build new applications to support their really evolved business models and then protect data at rest and on the move.

So we have been working with them across the full stack, again, as I said, cloud services, software and hardware. Some of our customers are really on a tear and moving quickly. Others are -- we've got to get through this year-end budget cycle, frankly. You think about Corporate and Small Business, they're budgeting now. They're right in the middle of it. So I think we'll have a clearer picture going into next year. But certainly, it is an imperative, is what I would say, for customers modernizing their infrastructure -- hybrid infrastructure approach.

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**Adam Tyler Tindle** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Yes. Another follow-up question. I think we often get asked a lot of the potential headwinds and bear case around PC market. This one is kind of flipping that on its head a little bit. We had Ken at Insight and Joyce Mullen, who came from Dell and is now at Insight yesterday, and they made some interesting points. And this is -- I promise this is a client question, not mine. It sounds like I'm preloading discussion, it's not. It's a good one.

But if the PC market stays at 80-plus percent laptops, and because the point is that there's been a shift from desktop to laptop and, ultimately, refresh cycles end up shortening, could PCs actually be a tailwind for growth over the next few years? Maybe just zoom out to what the structural changes in the PC market and maybe give us a little bit of the bull case since we hear the bear case so often.

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**Christine A. Leahy** - CDW Corporation - President, CEO & Director

Yes. Well, if those things were true, that would be an argument for growth. And some of the things that -- some of the trends that would play into that are things like the one-to-one device for students, right? That just expands the number. It's the very fast evolution in -- well, evolution is the right word, of the business models that we're seeing across industry to digital business models that require devices to actually operate.

And I keep coming back to retail because they were very early on to start putting devices and more and more devices in the hands of their store employees to interact contactlessly with their customers. So there are lots of changes brought on by this hybrid expectation in the world, work from home, live from home, play from home, all of that, that absolutely could drive demand and growth in the PC world.

Now Adam, I think the most important thing for us is, regardless of what customers need and are buying, we have the full spectrum. So we feel very confident in toggling to where our customers are in their purchase cycle and in their modernization cycle, and well positioned, as you know. You see how we manage the supply chain constraints over this past 2 years, really. If there is a tick up in the PC area, we feel very confident that we'll help our customers with that.

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**Adam Tyler Tindle** - Raymond James & Associates, Inc., Research Division - Senior Research Associate

Yes. We're about out of time here. I know we've covered a broad variety of topics. So great job to you guys for bearing with me on all the different -- bouncing around the different topics. Chris, maybe just some closing remarks here, as a suggestion. Any closing remarks you want to provide? And also, what does CDW look like in 3 to 5 years?

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**Christine A. Leahy** - CDW Corporation - President, CEO & Director

Thanks for that question, Adam. A couple of things. Just to reiterate, we really do believe that technology is now more essential. It is essential to all sectors of the economy and will play just in exponentially increasing importance through the next years ahead.

We have great confidence that we have the right strategy in place to continue to evolve with the IT trends. And we will plan to continue investing in the capabilities that position us to serve our customers, all those things that I talked about. And we'll invest both here in the U.S., the U.K., and Canada and beyond, if it makes sense.

I would just say that, look, as the highly interconnected and integrated technology ecosystem becomes more complex, which it is, we believe our role as a trusted strategic partner to customers will be even more important. And there are a few companies that have the breadth and depth of the whole IT stack, as I mentioned, cloud services, software and hardware, across the application workload and infrastructure, on-prem and in the cloud, and the full spectrum from an IT life cycle perspective: advise, design, build, integrate, manage and deploy.

So when we think about CDW in the future, I think about it pretty simply. For our customers, their hybrid infrastructure and digital experience needs, which is the full spectrum of what they're going to be able to need, they can get it from CDW. And I would hope, in the future, they would -- we would be known to them as the leading adviser and platform for technology digital transformations.

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**Adam Tyler Tindle** - Raymond James & Associates, Inc., Research Division - Senior Research Associate

Well, I think it's a great place to leave it. Chris and Collin, congrats on all the success. It's a fantastic company. I know we've got a very full meeting schedule to get you go -- to go to, and we'll go ahead and leave it there. Thanks again.

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**Christine A. Leahy** - CDW Corporation - President, CEO & Director

Great.

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**Collin B. Kebo** - CDW Corporation - Senior VP & CFO

Thank you.

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**Christine A. Leahy** - CDW Corporation - President, CEO & Director

Thanks, Adam.

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