CDW Corp
Form DEFA14A
April 10, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material under §240.14a-12

CDW CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11

(set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:
Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

: #cceeff" valign="bottom">
$
46.5

(4.8
)%

$
(2.3
)
Korea

30.3

(15.9
)%

(5.7
)
United States

23.6

(35.8
)%

(13.2
)
Europe

8.7

9.0
%

0.8

Other

0.7

100.3
%

0.2

$
109.8

(15.5
)%

$
(20.2
)

Gross Margin

	Three Months Ended		
	Q1-17	Q1-16	Percent Change
Gross margin	$ 23.0	$ 35.4	(35.1)%
Percentage of net sales	20.9 %	27.3 %	

Gross margin percentage decreased to 20.9% in Q1-17 as compared with 27.3% in Q1-16. This decrease was primarily due to lower demand for both high-end IC and FPD photomasks. The Company operates in a high fixed cost environment and, to the extent that the Company's revenues and utilization increase or decrease, gross margin will generally be positively or negatively impacted.

Selling, General and Administrative Expenses

	Three Months Ended		
	Q1-17	Q1-16	Percent Change
S,G&A expenses	$ 10.9	$ 12.2	(10.9)%
Percentage of net sales	9.9 %	9.4 %	

Selling, general and administrative expenses decreased $1.3 million to $10.9 million in Q1-17 as compared with $12.2 million in Q1-16. This decrease was primarily due to lower compensation costs, intangible assets amortization, and other general and administrative expenses.

Research and Development

	Three Months Ended		
	Q1-17	Q1-16	Percent Change
R&D expenses	$ 3.5	$ 5.7	(38.9)%
Percentage of net sales	3.1 %	4.4 %	

Research and development expenses consist primarily of global development efforts related to high-end process technologies for advanced sub-wavelength reticle solutions for IC technologies. Research and development expenses decreased to $3.5 million in Q1-17, as compared with $5.7 million in Q1-16, primarily due to decreased activities at advanced nanometer technology nodes for IC photomasks, in both the U.S. and Asia.

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Other Income (Expense), net

	Three Months Ended	
	Q1-17	Q1-16
Interest and other income (expense), net	$ (1.5)	$ 2.1
Interest expense	(0.6)	(1.2)
Gain on sale of investment	-	8.8
Other income (expense), net	$ (2.1)	$ 9.7

Interest expense decreased in Q1-17 as compared with Q1-16, primarily due to the maturity of $57.5 million of senior convertible notes on April 1, 2016. Interest and other income (expense), net decreased in Q1-17 as compared with Q1-16 primarily due to unfavorable foreign currency transaction results were experienced in Q1-17, while favorable results were experienced in the prior year's comparable quarter.

In Q1-16 the Company sold a minority interest investment in a foreign entity and recognized a gain of $8.8 million.

Provision for Income Taxes

	Three Months Ended	
	Q1-17	Q1-16
Income tax provision	$ 2.1	$ 3.7
Effective income tax rate	31.3 %	13.6 %

The Company's effective income tax rate is sensitive to the jurisdictional mix of earnings, due in part to the nonrecognition of tax benefits on losses in jurisdictions with valuation allowances. The effective income tax rate increase in Q1-17, as compared with Q1-16, is primarily attributable to a higher percentage of income before income taxes being generated in jurisdictions where the Company recorded income tax provisions which, due to valuation allowances, were not offset by income tax benefits recorded in jurisdictions in which the Company incurred losses before income taxes.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests increased to $2.6 million in Q1-17 as compared with $2.5 million in Q1-16, primarily as a result of increased net income at the Company's IC manufacturing facility in Taiwan.

Liquidity and Capital Resources

The Company's working capital increased to $375.2 million at January 29, 2017, as compared with $360.3 million at October 30, 2016, and cash and cash equivalents increased to $329.7 million at January 29, 2017, as compared with $314.1 million at October 30, 2016. The increases in working capital and cash and cash equivalents are primarily attributable to cash generated from operating activities. Net cash provided by operating activities was $31.5 million for the three months ended January 29, 2017, as compared with $43.4 million for the three months ended January 31, 2016, the decrease being primarily due to reduced net income. Net cash used in investing activities for the three months ended January 29, 2017, was $15.4 million, which was primarily comprised of capital expenditure payments and, to a lesser extent, a payment to acquire a business. Net cash used in financing activities of $0.2 million for the three months ended January 29, 2017, was comprised of repayments of long-term borrowings of $1.3 million, offset by proceeds of $1.1 million received from exercises of employee stock options. The Company may use its available cash for operations, capital expenditures, debt repayments, strategic opportunities, stock repurchases or other corporate uses, any of which may be material.

As of January 29, 2017 and October 30, 2016, the Company's total cash and cash equivalents include $167.2 million and $141.4 million, respectively, held by its foreign subsidiaries. The majority of earnings of the Company's foreign subsidiaries are considered to be indefinitely reinvested. The repatriation of these funds to the U.S. may subject these funds to U.S. federal income taxes and local country withholding tax in certain jurisdictions. The Company's foreign subsidiaries continue to grow through the reinvestment of earnings in additional manufacturing capacity and capability, particularly in the high-end IC and FPD areas.

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The Company’s credit facility, which expires in December 2018, has a $50 million limit with an expansion capacity to $75 million, and is secured by substantially all of the Company’s assets located in the United States and common stock the Company owns in certain of its foreign subsidiaries. The credit facility is subject to a minimum interest coverage ratio, total leverage ratio and minimum unrestricted cash balance financial covenants, all of which the Company was in compliance with at January 29, 2017. The Company had no outstanding borrowings against the credit facility at January 29, 2017, and $50 million was available for borrowing. The interest rate on the credit facility (2.03% at January 29, 2017) is based on the Company’s total leverage ratio at LIBOR plus a spread, as defined in the credit facility.

As of January 29, 2017, the Company had capital equipment commitments outstanding of approximately $64 million. The Company believes that its currently available resources, together with its capacity for growth, and its access to equity and other financing sources, will be sufficient to satisfy its currently planned capital expenditures, as well as its anticipated working capital requirements for the next twelve months. However, the Company cannot assure that additional sources of financing would be available to the Company on commercially favorable terms should the Company’s capital requirements exceed cash available from operations, existing cash, and cash available under its credit facility.

The Company’s liquidity is highly dependent on its sales volume, cash conversion cycle, and the timing of its capital expenditures (which can vary significantly from period to period), as it operates in a high fixed cost environment. Depending on conditions in the semiconductor and FPD markets, the Company’s cash flows from operations and current holdings of cash may not be adequate to meet its current and long-term needs for capital expenditures, operations and debt repayments. However, the Company believes its cash on hand, cash generated from its operations and cash committed under its credit facility will allow it to fund its operations through at least the next twelve months. Historically, in certain years, the Company has used external financing to fund these needs. Due to conditions in the credit markets, some financing instruments used by the Company in the past may not be currently available to it. The Company continues to evaluate further cost reduction initiatives. However, the Company cannot assure that additional sources of financing would be available to it on commercially favorable terms, should its cash requirements exceed cash available from operations, existing cash, and cash available under its credit facility.

Off-Balance Sheet Arrangements

In April 2014, the Company acquired a 50.01% controlling interest of PDMC, its IC manufacturing facility located in Taiwan. Under the PDMC joint venture operating agreement the shareholders of PDMC may be requested to make additional contributions to PDMC. In the event that PDMC requests additional capital from its shareholders, the Company may, in order to maintain a 50.01% ownership interest, be required to make such contributions to PDMC. The PDMC operating agreement limits the amount of contributions that may be requested during both PDMC’s first four years and during any individual year within those first four years. As of January 29, 2017, the Company had not been requested to make any additional capital contributions to PDMC.

The Company leases certain office facilities and equipment under operating leases that may require it to pay taxes, insurance and maintenance expenses related to the properties. Certain of these leases contain renewal or purchase options exercisable at the end of the lease terms.

Business Outlook

A majority of the Company’s revenue growth is expected to continue to come from the Asian region, predominantly in China. In response to this expectation, the Company will commence construction of an IC research and development and manufacturing facility in Xiamen, China, in 2017. Production is anticipated to begin at this facility in late 2018.

The Company continues to assess its global manufacturing strategy and monitor its sales volume and related cash flows from operations. This ongoing assessment could result in future facility closures, asset redeployments, additional impairments of intangible or long-lived assets, workforce reductions, or the addition of increased manufacturing facilities, all of which would be based on market conditions and customer requirements.

The Company's future results of operations and the other forward-looking statements contained in this filing involve a number of risks and uncertainties. While various risks and uncertainties were discussed in Part1, Item 1A in the Company's Annual Report on Form 10-K for the year ended October 30, 2016, a number of other unforeseen factors could cause actual results to differ materially from the Company's expectations.

Effect of Recent Accounting Pronouncements

See "Item 1. Condensed Consolidated Financial Statements– Notes to Condensed Consolidated Financial Statements – Note 14 – Recent Accounting Pronouncements" for recent accounting pronouncements that may affect the Company's financial reporting.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

The Company conducts business in several major international currencies through its worldwide operations and its financial performance may be affected by fluctuations in the exchange rates of these currencies. Changes in exchange rates can positively or negatively affect the Company’s sales, operating margins, assets, liabilities, and equity. The functional currencies of the Company’s Asian subsidiaries are the South Korean won, the New Taiwan dollar, and the Singapore dollar. The functional currencies of the Company’s European subsidiaries are the British pound and the euro. In addition, the Company has transactions and balances in Japanese yen and, as a result of its investment in a facility in Xiamen, China, the construction of which will commence in 2017, the Company will have significant transactions in the Chinese renminbi.

The Company attempts to minimize its risk of foreign currency transaction losses by producing its products in the same country in which the products are sold (thereby generating revenues and incurring expenses in the same currency), and by managing its working capital. There can be no assurance that this approach will continue to be successful, especially in the event of a significant adverse movement in the value of any foreign currency against the U.S. dollar, the New Taiwan dollar or the South Korean won. However, in some instances, the Company sells products in a currency other than the functional currency of the country where it was produced or purchases products in a currency that differs from the functional currency of the manufacturing facility.

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The Company's primary net foreign currency exposures as of January 29, 2017, included the South Korean won, the Japanese yen, the New Taiwan dollar, the Singapore dollar, the British pound and the euro. As of January 29, 2017, a 10% adverse movement in the value of these currencies against the functional currencies of the foreign subsidiaries would have resulted in a net unrealized pre-tax loss of $11.4 million. The Company does not believe that a 10% change in the exchange rates of other non-US dollar currencies would have a material effect on its results of operations or cash flows.

Interest Rate Risk

At January 29, 2017, the Company did not have any variable rate borrowings. A 10% change in interest rates would not have had a material effect on the Company's consolidated financial position, results of operations, or cash flows in the three month period ended January 29, 2017.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has established and currently maintains disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), designed to provide reasonable assurance that information required to be disclosed in its reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company's management, under the supervision and with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's first quarter of fiscal year 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

There have been no material changes to risks relating to the Company's business as disclosed in Part 1, Item 1A of the Company's Form 10-K for the year ended October 30, 2016.

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Item 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

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 thereunto duly authorized.

Photronics, Inc.
(Registrant)

By: /s/ SEAN T. SMITH
Sean T. Smith
Senior Vice President
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

Date: March 8, 2017

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