

DXC Technology Company (DXC)

\$16.43 (As of 03/10/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

DXC Technology's fiscal third-quarter results reflect strength in the digital business, driven by Luxoft. Partnerships also helped it expand in the cloud computing space. Further, acquisitions are helping DXC augment revenues amid intensifying competition in the cloud computing and cyber security spaces. However, a continued decline in the traditional infrastructure business and currency headwinds affected revenues during the quarter. Moreover, the GBS segment's margins are expected to contract due to continued digital hiring and expansion of digital capabilities. Also, disruptions related to strategic alternatives, which the company plans to undertake, are expected to hurt the fiscal 2020 top line. Further, currency headwinds and delays in completion of deals are key concerns. Shares have underperformed the industry in the past year.

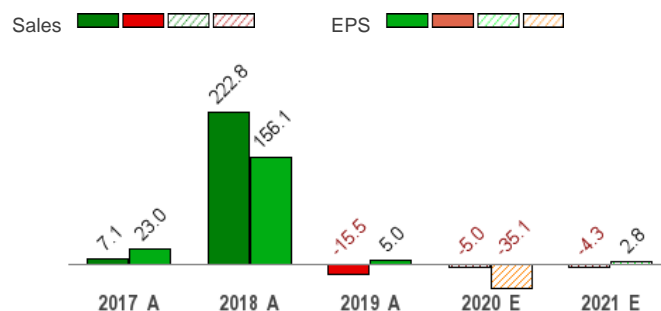
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.09 - \$15.11
20 Day Average Volume (sh)	5,049,330
Market Cap	\$4.2 B
YTD Price Change	-56.3%
Beta	2.10
Dividend / Div Yld	\$0.84 / 5.1%
Industry	Computers - IT Services
Zacks Industry Rank	Top 31% (78 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.7%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/28/2020
Earnings ESP	1.9%
P/E TTM	2.5
P/E F1	3.0
PEG F1	0.7
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,724 E	4,758 E	3,797 E	3,765 E	18,868 E
2020	4,890 A	4,851 A	5,021 A	4,958 E	19,717 E
2019	5,282 A	5,013 A	5,178 A	5,280 A	20,753 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.51 E	\$1.44 E	\$1.53 E	\$5.56 E
2020	\$1.74 A	\$1.38 A	\$1.25 A	\$1.03 E	\$5.41 E
2019	\$1.93 A	\$2.02 A	\$2.23 A	\$2.19 A	\$8.34 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

Overview

Tyson's, VA-based DXC Technology Company was formed by the merger of Computer Sciences Corporation ("CSC") and Enterprise Services Division of Hewlett Packard Enterprise ("HPE") which completed on Apr 1, 2017. While CSC was founded in 1959, HPE came into existence after split of former Hewlett Packard Company in Nov 1, 2015.

Post-merger, the combined entity has become the world's second largest end-to-end IT services providing company after Accenture plc. The firm offers a broad array of professional services to clients in the global, commercial and government markets.

DXC Technology has nearly 6,000 private and public sector clients across 70 countries.

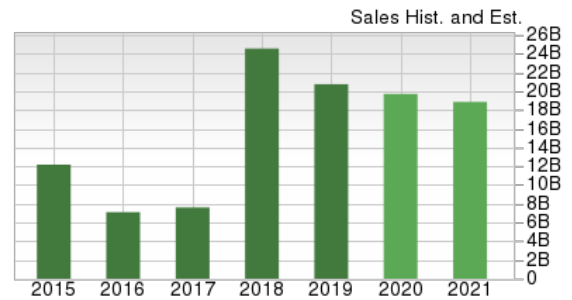
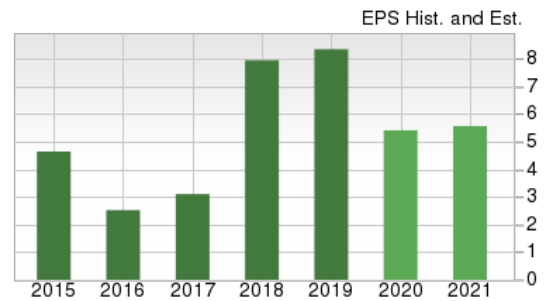
It specializes in information technology (IT) systems consulting – designing, developing, implementing, and integrating information systems. The company also provides business process outsourcing (BPO) and manages key functions for clients, such as procurement and supply chain, call centers and customer relationship management, credit services, claims processing and logistics.

Apart from this, Computer Sciences' IT and management consulting services advise clients on acquisitions, IT security, strategy and business process re-engineering. The company also licenses sophisticated software systems for the financial services markets and provides a broad array of e-business solutions that cater to the needs of large commercial and government clients.

From the starting of fiscal 2019, the company reports results under two operating segments: Global Business Services (GBS) and Global Infrastructure Services (GIS).

Revenues generated in fiscal 2019 came in at \$20.75 billion, down from \$21.73 billion a year ago.

In the IT and professional services market, DXC Technology competes with major companies like IBM, Amazon and Google.



Reasons To Buy:

- ▲ DXC Technology is focusing on the cyber business, cloud computing market and Big Data business. A significant portion of the company's cyber business is contributed by the federal government and, to an extent, the commercial sector. Clients increasingly prefer to rely on cloud-based services as it makes the IT system more agile and productive, which leads to considerable cost savings. The segment is still underpenetrated. Therefore, DXC Technology, being a major player in the space, is expected to benefit from this untapped opportunity.
- ▲ DXC Technology spun-off of its USPS business, subsequently merging it with Vencore Holdings and KeyPoint Government Solutions. Upon completion of the deal, shareholders of DXC Technology received 86% of the combined company's shares, and the company received \$1.05 billion of cash from USPS. The IT services market for both commercial and the U.S. public sectors has been evolving at an accelerating pace. Therefore, DXC Technology's spin-merger move is believed to provide it a customized approach toward handling two different types of clients. The new company has now become one of the top five IT services providers for the U.S. government.
- ▲ DXC Technology is vying on partnerships to enhance its offerings. Notably, the company is looking to expand existing networking-based infrastructure with the benefits of the VMware's hybrid cloud offerings. The move has helped DXC Technology in strengthening its position in the virtualization server market. The partnership enabled the company to offer an efficient and improved hybrid IT environment to drive performance. It has also entered into a partnership with Amazon to develop cloud-based solutions for enterprise and public sector clients. We believe the company's focus on entering into strategic partnerships will help it expand in the cloud computing space and garner additional revenues.
- ▲ DXC Technology, following the footsteps of CSC, is focusing on acquisitions to expedite growth, which is helping it gain access to newer markets and technologies. We believe the acquisitions will further strengthen DXC Technology's position as one of the leading IT services provider in the world. Moreover, acquisitions have helped the company boost revenues amid intensifying competition in the cloud computing and cyber security market.

Following the footsteps of Computer Sciences, DXC Technology is making robust acquisitions to strengthen its portfolio, which should drive growth over the long run.

Reasons To Sell:

- ▼ CSC, prior to the completion of merger with HPE's Enterprise Services business, took additional debt. This has amplified DXC Technology's total long-term liability thereby increasing its interest cost burden. Any rise in interest cost will have a negative impact on the company's bottom-line results. As of Dec 31, 2019, DXC Technology has a total long-term debt (net of current maturities) of \$7.3 billion.
 - ▼ A substantial portion of the company's sales is derived from outside the United States. This exposes the company to exchange rate fluctuations and counterparty default risk. Although the risk is reduced to a certain extent by a netting strategy based on a given currency, some of the fluctuation is likely to persist as more and more services offered by the company are shifted to lower-cost regions.
 - ▼ The company operates in the IT and professional services markets, which are dominated by a large number of companies offering similar services. Some of the major competitors are Accenture plc and IBM Global Services. DXC Technology competes with Amazon Web Services in the cloud computing market. Apart from this, cloud computing service is a growing business where the company faces competition from several small and large players.
 - ▼ The company has a large service contract with the U.S. government. Such contracts are subject to extensive and stringent legal and regulatory hurdles, which are changed from time to time. Also, the time taken to secure a government contract is substantial due to the time-consuming decision-making process. Apart from this, the U.S. government investigates operations at intervals to ensure that the terms and conditions have been properly adhered to. Any deviation may result in huge penalties or contract termination.
 - ▼ The company is experiencing continued decline in its traditional infrastructure business for several quarters. This is keeping the top line under pressure.
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Rising interest expenses due to increased debt burden may dampen its profitability.

Last Earnings Report

DXC Technology Q3 Earnings Top Estimates

DXC Technology reported third-quarter fiscal 2020 results, wherein both bottom and top lines beat the Zacks Consensus Estimate. However, both figures decreased on a year-over-year basis.

The company reported non-GAAP earnings of \$1.25 per share, which beat the consensus mark by 15.74%. The figure, however, declined from \$2.23 reported a year ago.

At \$5.02 billion, revenues fell short of the prior-year quarter's number by 3% but topped the Zacks Consensus Estimate by 2.4%.

Continued decline in traditional infrastructure business and currency headwinds affected revenues.

Quarter in Detail

Segment-wise, revenues from Global Business Services ("GBS") grew 8.8% on a year-over-year basis to \$2.17 billion, reflecting strength in the Luxoft business. Contribution from Luxoft more than offset foreign exchange headwinds, which affected revenues by 1.1%.

During the quarter, the company won \$2.5 billion worth of new business awards for the GBS segment.

Global Infrastructure Services ("GIS") revenues during the fiscal third quarter came in at \$2.66 billion, down 11.5% year over year, reflecting a decline in DXC Technology's traditional infrastructure business. A foreign exchange impact of 0.9% was also a dampener.

During the quarter, the company won \$2.8 billion worth of new business awards for the GIS segment.

In horizontal BPS, and Workplace and Mobility, results were driven by new contracts with new customers and renewed contracts with existing customers. However, several customers insourced the work carried out by DXC Technology, leading to a drop in customers.

Application and Industry IP witnessed 0.4% year-over-year growth.

Margins

Adjusted EBIT margin was 10.5%, contracting 570 basis points year over year.

Non-GAAP income from continuing operations was \$468 million compared with \$786 million a year ago.

Balance Sheet and Other Financial Metrics

The company exited the quarter with \$2.56 billion in cash and cash equivalents compared with \$2.88 billion in the previous quarter. Long-term debt balance (net of current maturities) was \$7.32 billion.

Cash flow from operating activities came in at \$477 billion. Adjusted free cash flow was \$397 million compared with \$739 million in the prior quarter.

During the fiscal third quarter, the company returned \$140 million to shareholders through share buybacks and dividend payouts.

Outlook

For fiscal 2020, DXC Technology continues to expect revenues of \$19.5-\$19.8 billion.

It expects fiscal non-GAAP earnings of \$5.25-\$5.75 per share.

Free cash flow in the fourth quarter of 2020 will reflect two significant cash outflows — one to cover the company's annual 401-K match and the other for a contract settlement payment that is expected to be recovered in fiscal 2021 from insurance coverage. Free cash flow guidance also indicates more conservative working capital and functions for the fourth quarter.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	2.40%
EPS Surprise	15.74%
Quarterly EPS	1.25
Annual EPS (TTM)	6.56

Recent News

On Mar 10, 2020, DXC Technology announced signing an agreement to sell its US State & Local Health Services business to Veritas Capital for \$5 billion.

On Mar 10, 2020, DXC Technology's board of directors approved a quarterly cash dividend of 21 cents per share. Dividend will be payable on Apr 14 to shareholders of record date as of Mar 25.

On Jan 10, 2020, DXC subsidiary, Luxoft, announced a partnership with LG Electronics to accelerate the development of large-scale series production systems. These include digital cockpit systems, rear seat entertainment, cabin and center stack display, in-vehicle infotainment, and the like.

On Nov 4, 2019, DXC announced the buyout of customer experience solutions provider Bluleader. The acquisition is a part of DXC's focus on growth and investment in SAP-based customer experience solutions.

Valuation

DXC Technology's shares have lost 49.4% in the past six months, and 74.8% over the trailing 12 months. Stocks in the Zacks sub-industry have fallen 7.4% while the Zacks Computer & Technology sector has gained 1.8% in the past six months. Over the past year, while the Zacks sub-industry has decreased 3.8%, the sector gained 7.7%.

The S&P 500 Index has plunged 3.9% in the past six months while has increased 2.2% in the past year.

The stock is currently trading at 2.96X forward 12-month earnings, which compares with 20.65X for the Zacks sub-industry, 19.52X for the Zacks sector and 16.58X for the S&P 500 Index.

Over the past three years, the stock has traded as high as 26.71X and as low as 2.82X, with a 3-year median of 10.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 3.1X forward 12-months earnings.

The table below shows summary valuation data for DXC

Valuation Multiples - DXC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	2.96	20.65	19.52	16.58
	3-Year High	26.71	32.09	22.04	19.34
	3-Year Low	2.82	15.47	16.96	15.18
	3-Year Median	10.13	20.66	20.13	17.45
EV/EBITDA TTM	Current	1.20	27.31	11.18	11.04
	3-Year High	15.01	32.62	12.67	12.87
	3-Year Low	1.20	20.57	9.10	9.34
	3-Year Median	5.94	27.28	11.29	11.21
EV/Sales TTM	Current	0.45	4.54	3.79	2.91
	3-Year High	2.58	6.69	4.43	3.46
	3-Year Low	0.44	4.12	3.05	2.48
	3-Year Median	1.23	5.56	3.77	3.00

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 253)



Top Peers

Microsoft Corporation (MSFT)	Outperform
Accenture PLC (ACN)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
Cognizant Technology Solutions Corporation (CTSH)	Neutral
Genpact Limited (G)	Neutral
Alphabet Inc. (GOOGL)	Neutral
International Business Machines Corporation (IBM)	Neutral
R.R. Donnelley & Sons Company (RRD)	Neutral

Industry Comparison Industry: Computers - It Services				Industry Peers		
	DXC Neutral	X Industry	S&P 500	ACN Neutral	AMZN Neutral	IBM Neutral
VGM Score	A	-	-	C	C	C
Market Cap	4.17 B	2.34 B	20.21 B	110.96 B	941.77 B	110.85 B
# of Analysts	7	5	13	12	13	8
Dividend Yield	5.11%	0.00%	2.18%	1.83%	0.00%	5.19%
Value Score	A	-	-	D	D	B
Cash/Price	0.53	0.06	0.05	0.05	0.06	0.08
EV/EBITDA	2.31	11.25	12.36	15.04	24.36	8.88
PEG Ratio	0.74	1.76	1.78	2.16	2.54	1.71
Price/Book (P/B)	0.46	4.34	2.77	7.11	15.18	5.27
Price/Cash Flow (P/CF)	1.01	13.03	11.04	19.59	28.22	6.32
P/E (F1)	3.19	16.68	16.09	22.29	68.51	9.34
Price/Sales (P/S)	0.21	1.36	2.17	2.52	3.36	1.44
Earnings Yield	32.93%	3.27%	6.20%	4.49%	1.46%	10.71%
Debt/Equity	0.80	0.21	0.70	0.17	0.38	2.58
Cash Flow (\$/share)	16.25	1.17	7.01	8.91	67.05	19.75
Growth Score	C	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	21.43%	17.31%	10.85%	11.25%	110.19%	-3.50%
Proj. EPS Growth (F1/F0)	-35.15%	7.12%	6.14%	6.39%	20.00%	4.30%
Curr. Cash Flow Growth	1.14%	17.18%	6.09%	8.06%	31.33%	2.09%
Hist. Cash Flow Growth (3-5 yrs)	21.84%	15.90%	8.52%	9.75%	49.26%	-3.76%
Current Ratio	0.93	1.35	1.24	1.39	1.10	1.02
Debt/Capital	44.56%	29.20%	42.57%	14.60%	27.39%	72.05%
Net Margin	-7.98%	2.36%	11.69%	11.06%	4.13%	12.23%
Return on Equity	16.98%	12.20%	16.74%	33.35%	21.07%	62.27%
Sales/Assets	0.66	0.81	0.54	1.48	1.41	0.53
Proj. Sales Growth (F1/F0)	-4.99%	7.81%	3.71%	6.63%	19.14%	1.89%
Momentum Score	A	-	-	B	D	D
Daily Price Chg	5.05%	2.60%	4.87%	6.37%	5.07%	5.91%
1 Week Price Chg	-21.07%	-3.40%	-0.67%	-1.02%	0.92%	-1.86%
4 Week Price Chg	-48.48%	-16.15%	-15.65%	-17.72%	-12.04%	-18.71%
12 Week Price Chg	-55.50%	-9.92%	-13.60%	-14.18%	5.65%	-7.04%
52 Week Price Chg	-74.77%	-12.64%	-2.27%	6.45%	13.07%	-9.77%
20 Day Average Volume	5,049,330	487,138	2,778,843	2,883,876	5,096,762	6,129,235
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.10%	0.00%	-0.16%	0.07%	0.16%	0.00%
(F1) EPS Est 12 week change	-1.39%	0.00%	-0.57%	0.62%	4.19%	1.34%
(Q1) EPS Est Mthly Chg	0.78%	0.00%	-0.49%	-0.08%	-0.08%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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