DXC Technology Company (DXC)

$18.68 (As of 08/21/20)

Price Target (6-12 Months): **$20.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/05/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: C | Momentum: C	

Summary

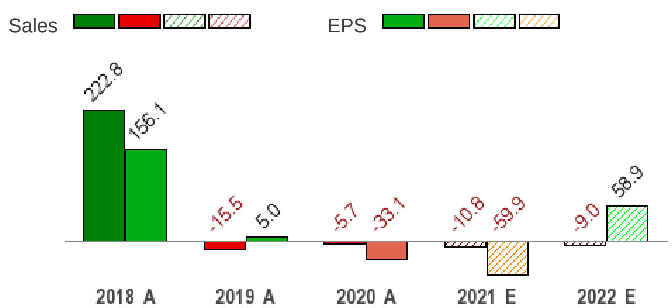
DXC's growth prospects is likely to hurt by soft IT spending as organizations are pushing back their investments in big and expensive technology products amid the ongoing coronavirus crisis. Moreover, high debt load, currency headwind and intensifying competition are hurting DXC's growth. Also, suboptimal customer delivery, weakening customer relationships and price concessions have been adversely impacting DXC's overall financial performance. Additional investments in the business and a higher level of interest expenses are expected to continue to keep the margins under pressure. The stock has underperformed the industry over the past year. However, acquisitions are helping DXC augment revenues amid intensifying competition in the cloud computing and cyber security spaces. Luxoft is driving the DXC's digital business.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$38.37 - $7.90**
20 Day Average Volume (sh)	**3,186,921**
Market Cap	**$4.7 B**
YTD Price Change	**-50.3%**
Beta	**2.35**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Computers - IT Services**
Zacks Industry Rank	**Bottom 17% (209 out of 252)**
Last EPS Surprise	**90.9%**
Last Sales Surprise	**6.3%**
EPS F1 Est- 4 week change	**-7.7%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**4.6**
P/E F1	**8.4**
PEG F1	**2.0**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	4,120 E	4,071 E	4,176 E	4,309 E	15,888 E
2021	4,502 A	4,444 E	4,316 E	4,379 E	17,455 E
2020	4,890 A	4,851 A	5,021 A	4,815 A	19,577 A

EPS Estimates

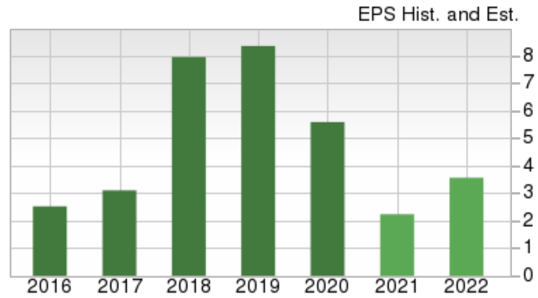
	Q1	Q2	Q3	Q4	Annual*
2022	$0.84 E	$0.87 E	$0.94 E	$1.00 E	$3.56 E
2021	$0.21 A	$0.37 E	$0.77 E	$0.95 E	$2.24 E
2020	$1.74 A	$1.38 A	$1.25 A	$1.20 A	$5.58 A

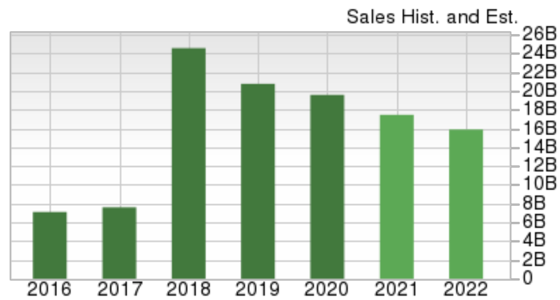
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

Overview

Tysons, 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 2020 came in at $19.58 billion, down from $20.75 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:

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

- ▲ 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.

Reasons To Sell:

- DXC's growth prospects is likely to hurt by soft IT spending as organizations are pushing back their investments in big and expensive technology products due to global economic slowdown concerns amid the ongoing coronavirus crisis. Per the latest forecast by Gartner, the worldwide IT spending is anticipated to be $3.4 trillion in 2020, a decrease of 8% from 2019. The research firm expects worldwide spending on IT services to decline 7.7% year-over-year to $1.032 trillion in 2020. Gartner pointed out that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and effects of the global economic recession.

DXC's growth prospects is likely to hurt by soft IT spending as organizations are pushing back their investments in big and expensive technology products amid the ongoing coronavirus crisis.

- CSC, prior to the completion of the merger with HPE's Enterprise Services business, took additional debt. This has amplified DXC's total long-term liability, thereby increasing its interest cost burden. Any rise in interest costs will have a negative impact on the company's bottom line. As of Jun 30, 2020, the company's long-term debt (including current maturities) was $10.33 billion. Moreover, the company's cash and equivalent of $5.51 billion as of Jun 30, 2020, was significantly lower than its outstanding debt. DXC is considered as a highly-leveraged company with total debt to total capital ratio of 0.49 compared with the industry's average of 0.46.

- 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.

Last Earnings Report

DXC Technology Beats on Earnings & Revenues in Q1

Quarter Ending	06/2020
Report Date	**Aug 06, 2020**
Sales Surprise	**6.26%**
EPS Surprise	**90.91%**
Quarterly EPS	**0.21**
Annual EPS (TTM)	**4.04**

DXC delivered better-than-expected results for first-quarter fiscal 2020. The company reported non-GAAP earnings of 21 cents per share, which beat the Zacks Consensus Estimate by 91%. The figure, however, declined from the prior-year quarter's $1.74.

Revenues of $4.5 billion surpassed the consensus mark of $4.24 billion. However, quarterly revenues fell 7.9% year over year. Termination of certain customer accounts, price concessions and unfavorable currency-exchange rates mainly affected the top line. Currency headwinds of about $40 million also hurt revenues.

Quarter in Detail

Segment wise, revenues from Global Business Services ("GBS") edged up 0.7% on a year-over-year basis to $2.17 billion, reflecting benefits from the Luxoft acquisition. However, the resolution of customer disputes took a toll on the segment's revenues.

During the reported quarter, the company won $3.5 billion worth of new business awards for the GBS segment.

Global Infrastructure Services ("GIS") revenues during the fiscal first quarter came in at $2.33 billion, down 12.4% year over year, reflecting a revenue run-off and the termination of certain customer accounts.

During the reported quarter, the company won $1.8 billion worth of new business awards for the GIS segment.

Within the company's enterprise technology stack business, IPO layer revenues declined 18.7% year over year on account terminations and price concessions. Cloud and security revenues fell 6% year over year, due to project deferrals and revenue run-offs.

Application layer revenues declined 7.5%. IPO revenues fell 18.7% year over year.

Adjusted EBIT margin was 4.2%, contracting 910 basis points year over year. Non-GAAP income from continuing operations was $190 million compared with the year-earlier quarter's $652 million.
Balance Sheet and Other Financial Metrics

The company exited the quarter with $5.51 billion in cash and cash equivalents compared with the $3.68 billion witnessed in the previous quarter. Long-term debt balance (net of current maturities) increased to $10.33 billion as of Jun 30 from the $8.67 billion witnessed at the end of fiscal 2020.

Cash flow from operating activities came in at $119 million. Adjusted free cash flow was negative $28 million during the fiscal first quarter.

Outlook

For the fiscal second quarter, the company anticipates revenues between $4.4 billion and $4.45 billion. Operating margin is expected in the range of 5% to 5.5%. DXC projects adjusted EPS in the band of 30-35 cents.

Recent News

On Aug 5, DXC Technology revealed that Sabre has extended business relations to accelerate IT transformation across the Enterprise Technology Stack.

On Jul 28, DXC Technology announced that Western & Southern Financial Group has adopted its DXC Assure for Life and Wealth to add new worksite and retail life insurance products to its array of offerings.

On Jul 24, DXC Technology revealed that ENGIE IT has chosen it for the implementation and launch of a certified global ServiceNow Center of Excellence.

On Jul 21, DXC Technology announced entering a definitive agreement to sell its healthcare software provider business to Dedalus Group for $525 million.

On Jul 14, DXC Technology revealed that Goodville Mutual Casualty Company has chosen its DXC Assure Claims which will optimize Goodville's claims operations and improve agent and customer experiences.

On Jul 5, DXC Technology revealed that certain systems of its subsidiary, Xchanging, have received a ransomware attack.

On Jun 8, DXC Technology announced that Luz G. Mauch has been appointed as the company's executive vice president of Automotive division.

On May 21, DXC Technology introduced its Corporate Incident Response application for ServiceNow to allow large organizations to quickly identify, address and manage important non-IT corporate incidents, including security, environment, health and safety.

On Apr 28, DXC Technology's Assure for Life and Wealth solution was selected by Federal Life Insurance Company to enhance the policy buying experience for their customers and agents and drive business growth.

On Apr 9, DXC Technology's Luxoft announced the completion of the acquisition of mobility systems developer, CMORE Automotive. The acquisition will help DXC Technology enhance its capabilities in the Autonomous Drive/Advanced Driver Assistance Systems (AD/ADAS) space.

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

On the same day, DXC Technology's board of directors approved a quarterly cash dividend of 21 cents per share. Dividends will be payable on Apr 14 to shareholders of record as of Mar 25.

On Jan 10, 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.

Valuation

DXC Technology's shares have lost 50.3% this year so far and 43.9% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have increased 19.8% and 23.8% YTD, respectively. Over the past year, while the Zacks sub-industry increased 24.4%, the sector gained 41%.

The S&P 500 Index has increased 5.5% YTD and 18.3% in the past year.

The stock is currently trading at 6.76X forward 12-month earnings, which compares with 30.78X for the Zacks sub-industry, 26.82X for the Zacks sector and 22.85X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 26.71X and as low as 1.73X, with a 5-year median of 10.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $20 price target reflects 7.1X 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 F12M	Current	6.76	30.78	26.82	22.85
	5-Year High	26.71	32.37	26.82	22.85
	5-Year Low	1.73	15.46	16.72	15.25
	5-Year Median	10.86	22.32	19.61	17.58
EV/EBITDA TTM	Current	0.71	32.93	13.69	12.86
	5-Year High	15.02	33.18	13.69	12.86
	5-Year Low	0.57	19.83	7.59	8.25
	5-Year Median	5.91	27.44	10.93	10.92
EV/Sales TTM	Current	0.50	5.99	4.86	3.32
	5-Year High	2.58	8.02	4.86	3.46
	5-Year Low	0.36	3.60	2.59	2.14
	5-Year Median	1.10	5.74	3.63	2.87

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
ASGN Incorporated **(ASGN)**	Neutral	3
CDW Corporation **(CDW)**	Neutral	3
Amdocs Limited **(DOX)**	Neutral	3
Infosys Limited **(INFY)**	Neutral	3
Remark Holdings, Inc. **(MARK)**	Neutral	4
ServiceNow, Inc. **(NOW)**	Neutral	3
PERSPECTA INC **(PRSP)**	Neutral	3
Science Applications International Corporation **(SAIC)**	Neutral	4

Industry Comparison Industry: Computers - It Services

Industry Peers

	DXC	X Industry	S&P 500	CDW	INFY	SAIC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	B	-	-	A	A	A
Market Cap	4.75 B	3.07 B	23.62 B	15.86 B	53.44 B	4.81 B
# of Analysts	6	5	14	7	7	7
Dividend Yield	0.00%	0.00%	1.65%	1.37%	1.63%	1.79%
Value Score	A	-	-	A	C	A
Cash/Price	1.06	0.07	0.07	0.06	0.06	0.06
EV/EBITDA	2.45	9.99	13.29	13.73	14.28	14.27
PEG Ratio	1.98	2.31	3.03	1.47	2.31	NA
Price/Book (P/B)	0.96	4.62	3.11	15.02	6.07	3.42
Price/Cash Flow (P/CF)	0.46	12.84	12.69	13.80	19.52	10.13
P/E (F1)	8.52	32.96	21.51	19.25	23.09	13.71
Price/Sales (P/S)	0.25	2.50	2.43	0.87	4.18	0.74
Earnings Yield	11.94%	2.22%	4.46%	5.19%	4.37%	7.29%
Debt/Equity	2.09	0.24	0.76	3.79	0.00	1.99
Cash Flow ($/share)	40.21	1.13	6.93	8.05	0.65	8.18
Growth Score	C	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	17.98%	17.84%	10.44%	22.51%	5.14%	17.71%
Proj. EPS Growth (F1/F0)	-59.95%	-3.34%	-5.53%	-5.36%	-0.78%	6.69%
Curr. Cash Flow Growth	133.97%	13.18%	5.20%	10.39%	4.82%	74.09%
Hist. Cash Flow Growth (3-5 yrs)	44.41%	15.72%	8.52%	13.51%	4.59%	23.85%
Current Ratio	1.29	1.50	1.33	1.47	2.25	1.05
Debt/Capital	67.65%	31.36%	44.50%	79.12%	0.00%	66.55%
Net Margin	-29.90%	3.26%	10.13%	4.09%	18.35%	3.17%
Return on Equity	14.79%	9.12%	14.67%	94.36%	27.03%	25.32%
Sales/Assets	0.68	0.74	0.51	2.23	1.03	1.30
Proj. Sales Growth (F1/F0)	-10.84%	1.12%	-1.54%	-2.27%	0.68%	13.40%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	-2.35%	-0.45%	-0.15%	-1.04%	-1.72%	-1.26%
1 Week Price Chg	2.56%	-0.00%	1.09%	-1.09%	0.95%	3.51%
4 Week Price Chg	6.56%	2.97%	1.64%	-6.43%	2.94%	9.35%
12 Week Price Chg	12.73%	16.37%	6.72%	1.37%	37.11%	-6.55%
52 Week Price Chg	-45.86%	12.22%	1.00%	-4.61%	12.40%	-2.14%
20 Day Average Volume	3,186,921	469,553	1,873,576	714,270	8,322,309	491,712
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.29%	0.00%
(F1) EPS Est 4 week change	-7.71%	0.23%	1.79%	7.68%	1.53%	0.00%
(F1) EPS Est 12 week change	-52.90%	1.58%	3.35%	5.79%	9.14%	-0.96%
(Q1) EPS Est Mthly Chg	-28.89%	0.00%	0.42%	5.14%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
VGM Score	B

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.

Disclosures

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