

DXC Technology

New CEO has a full plate

Maintain Rating: UNDERPERFORM | PO: 21.00 USD | Price: 21.65 USD

Disappointing F4Q guide could weigh on shares

We anticipate shares will trade lower tomorrow following F4Q revs/adj. EPS guidance meaningfully below BofAe/Street. While F3Q results were ahead of Street/guidance, this was largely driven by FX (140bps y/y tailwind vs. 60bps guide) and non-recurring resale revs. We continue to view DXC as a turnaround story, and given the uncertainty surrounding the new CEO's path towards positive revs growth, coupled with continued structural headwinds, we maintain our Underperform rating.

Demand remains muted; new CEO focused on execution

Management suggested DXC is seeing longer than expected bookings conversion to revs reflecting continued caution among client base, particularly within GBS. That said, DXC suggested a "great" demand backdrop across 4 of the 6 business units (all but Modern Workplace and ITO), while mentioning revs growth can be accelerated by improved execution, particularly in sales and marketing.

Interim CEO named permanent President & CEO

Following the departure of former Chairman/CEO/President Mike Salvino in December, Board member and interim CEO Raul Fernandez was appointed permanent President & CEO. Mr. Fernandez has been on the Board since 2020 and is an IT Services veteran.

Soft F4Q guide could reflect some conservatism

DXC's F4Q revs guide of \$3,350M-\$3,390M is below BofAe/Street at \$3,407M/\$3,424M, with growth in GBS expected to be similar vs. F3Q and growth in GIS below F3Q due to lower Modern Workplace resale revs. Adj. EPS guide \$0.80-\$0.85 also meaningfully below BofAe/Street at \$1.15/\$1.10. That said, given recent history of guidance misses, management commentary suggested a more leveled approach to guidance, which could include conservatism reflected in F4Q guide.

Focus on sales execution and improving mix

Management emphasized an increased focus on sales execution, updating the company's go to market strategy by geography to better win new deals. This includes gaining better visibility on pre-sales solutioning, staffing, and budgeting, as well as improved marketing at the business unit level. While improving execution, DXC suggested a desire to shift from lower-margin resale revenue towards GBS solutions including high value AI and automation services.

Underwhelming bookings results continue

Total bookings of \$3.4B (\$2.1B from GBS and \$1.3B from GIS) were flat sequentially but down vs. \$4.8B in F3Q23, leading to a F3Q24 book-to-bill of 0.99x. By business unit, GBS reported a healthy book-to-bill of 1.26x, offset by GIS at 0.73x. On an LTM basis, bookings declined 11.5% y/y with DXC reporting an overall book-to-bill of 0.93x. This is the first time DXC printed a LTM book-to-bill below 1.0x since F1Q21.

01 February 2024

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Stock Data

Price	21.65 USD
Price Objective	21.00 USD
Date Established	4-Aug-2023
Investment Opinion	C-3-9
52-Week Range	18.61 USD - 30.27 USD
Mkt Val (mn) / Shares Out (mn)	4,442 USD / 205.2
Free Float	98.6%
Average Daily Value (mn)	48.41 USD
BofA Ticker / Exchange	DXC / NYS
Bloomberg / Reuters	DXC US / DXC.N
ROE (2024E)	16.7%
Net Dbt to Eqty (Mar-2023A)	66.5%
ESGMeter™	High

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GBS: Global Business Services

GIS: Global Infrastructure Services

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Price objective basis & risk

DXC Technology (DXC)

Our 12-month price objective of \$21 for DXC is based on 5x C24e non-GAAP EPS estimate and our discounted cash flow (DCF). Our multiple represents around 50% discount to the comp group based on DXC's Central and Eastern European exposure and subpar revenue growth profile. Our DCF has a weighted-average cost of capital (WACC) of 15.9% and terminal growth rate of 1%.

Upside risks to our price objective are 1) better-than-expected hiring and revenue growth trends, particularly in DXC's legacy IT services business, 2) DXC is able to pivot to higher-growth, higher-margin Digital services more quickly than anticipated, 3) extended period of material margin expansion.

Downside risks to our price objective are 1) DXC's legacy IT services business continues to be a drag on growth, 2) merger integration with HPE-ES, missteps in execution of the company's long-term margin improvement efforts, 3) talent availability, as DXC attempts to further pivot to Digital services, 4) high degree of competition across DXC's end markets, 5) decreased European enterprise spending on IT services in current geopolitical environment.

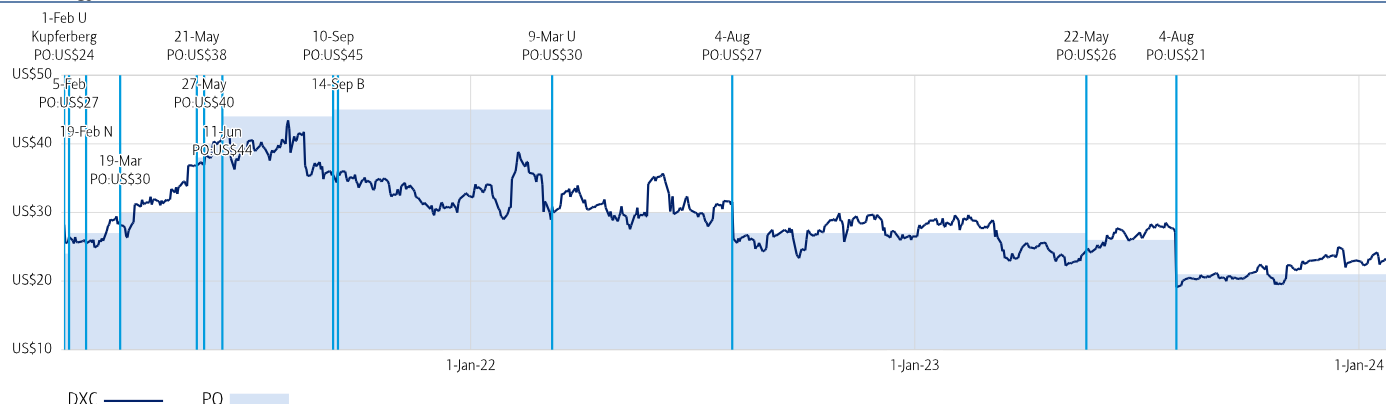
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DXC Technology (DXC) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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