



Call Buys in DXC Tech See Bottom in Shares

Ticker/Price: DXC (\$29.50)

Analysis:

DXC Tech (DXC) traded more than 11,000 calls on 11/4 with the most notable including 2,125 March \$25 calls opening \$6.40 and 1,600 of the March \$31 calls opening \$3.20. DXC also saw November \$30 calls bought 1500X. DXC also has more than 2,500 January 2021 \$35 calls bought in open interest. DXC shares have been weak all year down 45% YTD and sit near new lows, indications this week it is working out of a bottoming base and MACD on the weekly has crossed bullish. DXC has seen the CEO buy stock in July and August in the \$49.56 to \$56.26 range, well under-water at this point. In August the company announced a strategic partnership with Google Cloud and it also acquired Service-Now's (NOW) partner Syscom. The \$7.9B provider of IT Services trades 11X FCF with a 2.85% dividend yield. Forecasts see FY20 as a transition year before returning to 5% EBITDA growth in FY21. DXC is next set to report results on 11/11. In September the company announced the retirement of the CEO. DXC helps its clients modernize their mainstream IT, integrate new, digital solutions, and then deploy at scale. DXC is seeing strength in its digital business to increasingly offset the declining traditional business. Analysts have an average target near \$45 and short interest is at 5% of the float. Wells Fargo lowered its target to \$32 from \$46 on 9/26 citing investor concerns on DXC's ability to revive organic growth without reducing the EBITDA margin outlook. Moffett-Nathanson reduced its target to \$36 on 10/8 seeing it as a good time to hit the reset button and focus on what is next to come for the company. Evercore downgraded shares to In-Line after the CEO departure which may suggest things could get worse before getting better for the company. DXC has also been speculated as an activist target. Hedge Fund ownership rose 4% in Q2 filings, notable concentrated holders include Glenview, Maverick, and Valinor.

Hawk Vision:



Hawk's Perspective: DXC is a tricky one as the management shake-up and lousy price action are concerns, but the opportunity positioned well in the Digital Transformation theme and trough valuation make it an intriguing turnaround story. It would be a stock to pair with downside puts.

Confidence Ranking: \$\$