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Analysis of CSC's 3QFY08 Business Results

Profit, Revenue Surge Lifts Stock, Too

Commercial Sector Boosts 3Q Results

SCOTTSDALE, Feb 5 – A strong growth (revenues up 18% to \$2.73 billion) in the commercial markets boosted Computer Sciences Corp's (CSC) third quarter FY08 results. Without the favorable currency impact, the revenue increase was 10%. The North American government sector was also strong, pushing CSC's revenues up by 9% to \$1.44 billion. Global revenues jumped 14% to \$4.16 billion from \$3.64 billion.

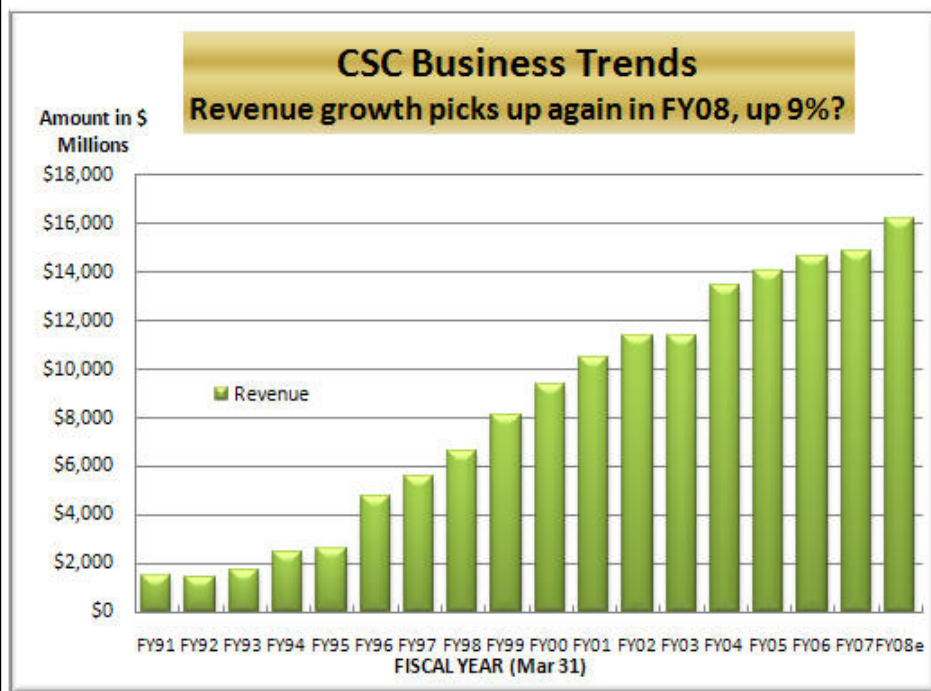
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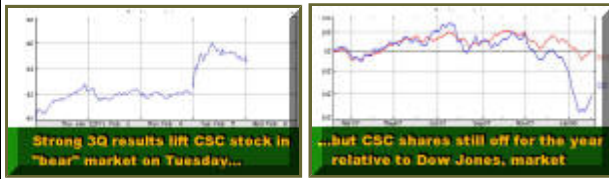
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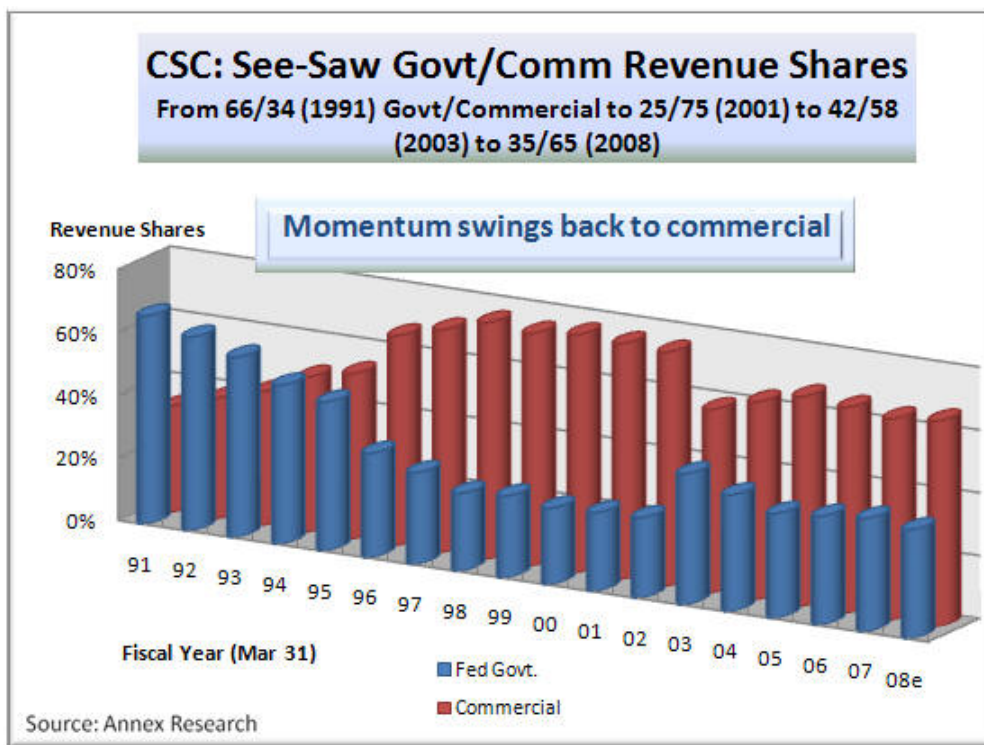
CSC reported late Monday its fiscal third-quarter profit which rose 58% to surpass Wall Street's expectations. For the quarter ended Dec 28, the company earned \$179 million, or \$1.05 per share, up from a profit of \$113.5 million, or 65 cents per share, in the same period a year earlier. Excluding restructuring charges, the company earned \$1.11 per

share in the latest quarter.

The results beat estimates of analysts surveyed by Thomson Financial, who expected profit of \$1 per share on sales of \$4.06 billion.



Shares rose \$2.14, or 5%, to \$44.23 in after-hours electronic trading. The stock had closed earlier on Monday down 5 cents at \$42.09. And the stock kept its gains on Tuesday despite a sharp drop in the Dow (down over 300 points). For the year, however, CSC shares trail the Dow and other major market indices by a considerable margin (see the charts).



Meanwhile, the see-saw trends in CSC's commercial vs. government business share trends continue. In FY08, the momentum seems to be swinging back to commercial sector, which now accounts for about 65% of the company's total revenues.



This is also evident in the company's new contract signings trends. In the third quarter, CSC closed \$2.3 billion of new business, up 44% from a slow quarter a year ago, raising the nine-month total to \$10.8 billion. Last year, CSC had a gangbuster fourth quarter sales that lifted the full year's total to \$16.9 billion (see the chart).

To repeat that feat, CSC would need to close about \$6.1 billion of new deals in the current quarter. And that seems like a tall order even for a company that's on a roll, like CSC.

Outlook

CSC executive said they expected fiscal fourth-quarter earnings of \$1.33 to \$1.43 per share, below analysts' expectations. The company also forecast revenue in the range of \$4.2 billion to \$4.5 billion for the quarter, which ends March 28.

Analysts, on average, are expecting a profit of \$1.47 per share on sales of \$4.4 billion, according to a poll by Thomson Financial.

For the full year, the company forecast a profit of \$3.75 to \$3.85 per share on sales of \$16.2 billion to \$16.5 billion, up 9% to 11% from the prior year.

Annex Clients: [CLICK HERE](#) for detailed CSC 3Q P&L tables & charts

Happy bargain hunting!

Bob Djurdjevic

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