

CSC in Turnaround Mode: Can Troubled Firm Dig Out of Current Hole?

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Over the past few months, FIA has been examining how various vendors have been performing in the federal contracting marketplace, and detailing the steps these firms are taking to achieve success going forward.

In this week's installment, we would like to shine the spotlight on Falls Church, Va.-based Computer Sciences Corp., which has been restructuring its operations over the past few months in an effort to turn things around.

A few weeks ago, CSC hired Gannett Co. Chief Financial Officer Paul Saleh to become its CFO after an extensive search to replace Mike Mancuso, who is expected to retire after the company files its annual report.

FIA Perspective:

CSC taking steps on road to recovery. On its earnings conference call last week, new CSC Chief Executive Mike Lawrie said the IT firm was in a "turnaround situation" and taking "immediate actions to begin to move in a different direction."

As part of its restructuring, Lawrie said CSC plans to cut expenses by \$1 billion over the next 12 to 18 months, noting that it would take a look at selling "non-core" assets, and quickly assemble a new management team to help engineer the turnaround effort in the coming weeks.

Lawrie also mentioned that CSC is currently renegotiating the multibillion-dollar NHS contract, and expects to sign an interim agreement amending the terms of that agreement in the "not-too-distant future." He also noted that CSC has uncovered about 40 other underperforming contracts, and that it's in the process of taking steps to remedy those issues as well. These troubled contracts represented about 20% of CSC's total revenue in fiscal 2012, and generated an operating loss of \$100 million to \$200 million.

On a more positive note, Lawrie said that CSC's new business bookings were "very positive" at \$19.3 billion for fiscal 2012, a 30% increase over fiscal 2011. This increase reflects income from 150 new commercial clients, as well as successful re-competes and a lot of new scope work. He also noted that CSC has more than \$28 billion in its qualified pipeline, while touting increased opportunities in the areas of cloud services and cybersecurity.

Previously, Lawrie had predicted a "pretty significant turnaround effort" for the troubled company, while making plans to address profitability concerns and expanding CSC's business into higher profit services. Lawrie is a former IBM executive who took over the reins at CSC in March.

CSC records major loss in 4Q. In the latest fourth quarter, CSC posted a net loss of \$158 million, or \$1.02 a share, swinging from a profit of \$171 million, or \$1.09 a share, in the previous year's comparable quarter. At the same time, the company's revenues slipped 2.1% from a year ago to \$4.1 billion.

CSC attributed the company's issues in the latest quarter to the troubled NHS contract, and difficulty managing costs and "headwinds" in its business with the U.S. federal government and in Europe. As mentioned, CSC has had difficulties in managing the massive NHS contract, which involves implementing a system for managing digital medical records for Britain's National Health Service.

At the end of the latest quarter, CSC had total backlog of about \$26.4 billion.

Our Take:

Overall, it will be interesting to see if CSC can turn things around with the current restructuring plan they have in place, especially given the increasingly competitive and evolving federal market. While CSC is still a major player in the government IT market, we believe it will take the company some time to adjust to new management and address its numerous issues before it can once again succeed moving forward.