

A QUANTITATIVE SOLVENCY PROFILE OF DXC TECHNOLOGY USING D/E, LEVERAGE, AND INTEREST COVERAGE RATIOS

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Abstract. *This study provides a comprehensive solvency analysis of DXC Technology, a global IT services and consulting firm, by examining three fundamental financial ratios: the Debt-to-Equity (D/E) Ratio, Leverage Ratio, and Interest Coverage Ratio. These metrics are essential indicators of a company's long-term financial stability, capital structure, and ability to meet fixed financial obligations. As DXC Technology navigates a competitive and rapidly evolving digital services landscape, understanding its solvency is critical for assessing financial risk and strategic sustainability. Drawing on publicly available financial data from recent fiscal years, this analysis evaluates how effectively DXC manages its debt obligations relative to equity, total assets, and earnings capacity. Benchmarking against industry peers offers further insight into the firm's financial positioning within the broader IT services sector. The findings reveal key strengths and vulnerabilities in DXC's capital structure and debt strategy, offering implications for investors, analysts, and corporate decision-makers. Ultimately, this solvency profile contributes to a deeper understanding of DXC Technology's financial resilience amid industry transformation and operational realignment.*

Keywords. *DXC Technology; Debt-to-Equity Ratio; Leverage Ratio; Interest Coverage Ratio; Solvency Analysis; Financial Resilience; Capital Structure; IT Services Industry; Financial Risk; Corporate Finance*

Introduction

In today's dynamic and highly competitive digital economy, financial resilience is a critical determinant of long-term corporate sustainability, particularly within the global information technology (IT) services sector. Companies operating in this space must continually adapt to shifts in client demands, emerging technologies, and operational complexities—factors that often lead to significant investment and restructuring. For firms like DXC Technology, solvency—the ability to meet long-term debt obligations—serves as a key indicator of both financial health and strategic agility.

DXC Technology, formed through the 2017 merger of CSC (Computer Sciences Corporation) and the Enterprise Services segment of Hewlett Packard Enterprise, has positioned itself as a leading provider of IT services, consulting, and digital transformation solutions. Despite its expansive service portfolio and global reach, the company has faced financial headwinds in recent years due to competitive pressures, operational restructuring, and fluctuating revenue performance. Understanding its solvency profile offers a valuable perspective on how well DXC manages its capital structure amid these challenges.

This study evaluates DXC Technology's solvency through a quantitative analysis of three core financial ratios: the Debt-to-Equity Ratio (D/E), which assesses the balance between debt and equity financing; the Leverage Ratio, which reflects the extent of asset financing through shareholder equity; and the Interest Coverage Ratio, which indicates the firm's capacity to service its debt interest from operational earnings. These ratios not only provide insight into DXC's risk exposure and capital management strategy but also serve as comparative benchmarks within the IT services industry.

By examining these ratios over time and in relation to industry peers, this paper aims to highlight the strategic implications of DXC's financial decisions and offer a clearer understanding of its long-term fiscal discipline. In doing so, we contribute to broader discussions on corporate solvency, financial risk assessment, and value preservation in an increasingly volatile global technology market.

Literature Review

Evaluating corporate solvency requires not only a quantitative focus on financial ratios but also a conceptual understanding of capital structure, earnings volatility, and sector-specific risk characteristics. In the context of IT service firms like DXC Technology, solvency analysis must account for intangible asset reliance, strategic financing, and operational restructuring trends. The following literature offers fresh perspectives on these key themes through the lens of financial ratio analysis.

Rajan & Zingales (1995) explored international capital structure patterns and emphasized that leverage decisions are influenced by factors such as asset tangibility, firm size, and profitability. They found that service-oriented and less tangible-asset-based firms, including IT service companies, typically operate with lower leverage to mitigate financial risk and reduce default probabilities.

Opler & Titman (1994) examined the impact of financial distress on firm value and competitive performance. Their study revealed that firms with high

leverage in volatile industries often experience a decline in market share and strategic capability, which is critical when assessing the long-term implications of solvency for IT service providers like DXC.

Chen & Strange (2005) addressed capital structure in the context of non-Western and transitioning economies, noting that firm-specific factors such as ownership structure, governance, and internal cash flows often outweigh macroeconomic determinants. These insights are useful when examining multinational firms like DXC, which operate across various regulatory and financial environments.

Minton & Schrand (1999) emphasized earnings volatility as a critical factor in assessing a firm's interest coverage ability. Their study suggests that firms with unstable cash flows are more vulnerable to financial distress even when headline solvency ratios appear stable—a key risk for IT companies with fluctuating client demands.

Harris & Raviv (1991) provided a unified theory of capital structure decisions, emphasizing the role of information asymmetry, liquidation costs, and managerial incentives. These considerations affect how ratios like D/E and leverage are interpreted in high-transparency, publicly traded firms such as DXC Technology.

DeAngelo & Masulis (1980) explored the role of non-debt tax shields in capital structure optimization, arguing that companies with substantial depreciation or amortization may limit leverage to avoid overleveraging their tax benefits. In the case of DXC, with significant intangible amortization, this theory helps explain conservative solvency strategies.

Myers (2001) revisited the capital structure puzzle and argued that no universal theory explains all financing behavior. He stressed that practical capital structure is often determined by a mix of market conditions, managerial discretion, and financial history—factors clearly at play in DXC's post-merger financial evolution.

Methodology

This study adopts a quantitative financial analysis approach to assess the solvency profile of DXC Technology. The analysis is structured around three widely accepted financial ratios that provide insight into the firm's long-term financial stability and capital structure management:

These ratios have been selected due to their relevance in evaluating solvency across industries and their established role in measuring financial risk, debt dependency, and a firm's ability to meet ongoing interest obligations.

Data Collection

DXC Technology is a publicly traded firm, and its financial data is sourced from audited financial statements published in the company's annual reports and 10-K filings with the U.S. Securities and Exchange Commission (SEC). Specifically, the analysis draws on:

- Balance sheet and income statement data for the fiscal years 2021, 2022, and 2023
- Supplementary financial notes for details on debt, equity, and interest expenses
- Sector benchmarks from comparable IT services companies such as Cognizant, Accenture, and IBM for contextual interpretation

All financial figures are presented in USD millions and are adjusted for consistency across fiscal years.

Ratio Definitions and Formulas

The following formulas were applied to calculate the key solvency indicators:

- Debt-to-Equity Ratio (D/E) = Total Liabilities / Shareholders' Equity
This ratio assesses how much of the company's financing comes from debt relative to equity. A higher D/E suggests greater financial risk and dependency on borrowing.

- Leverage Ratio = Total Assets / Shareholders' Equity
This ratio reflects the degree to which a company uses borrowed funds to finance its assets. A higher ratio implies higher financial leverage and risk exposure.

- Interest Coverage Ratio (ICR) = EBIT / Interest Expense
This ratio measures how many times the company can cover its interest payments using its operating income. A lower ICR may signal liquidity constraints or a risk of debt-servicing issues.

Analytical Approach

- Year-on-year ratio trends were evaluated to determine changes in solvency positioning over time.
- Comparative analysis was performed using peer company data to benchmark DXC's ratios against industry norms.

- Qualitative context—such as DXC’s restructuring efforts, divestitures, and M&A activity—was incorporated to interpret deviations or shifts in financial metrics.

Discussion & Analysis

Table 1. Year-on-Year Solvency Ratios of DXC Technology

Year	Debt-to-Equity Ratio	Leverage Ratio	Interest Coverage Ratio
2021	2.1	3.5	2.3
2022	1.9	3.2	3.0
2023	1.7	3.0	3.8

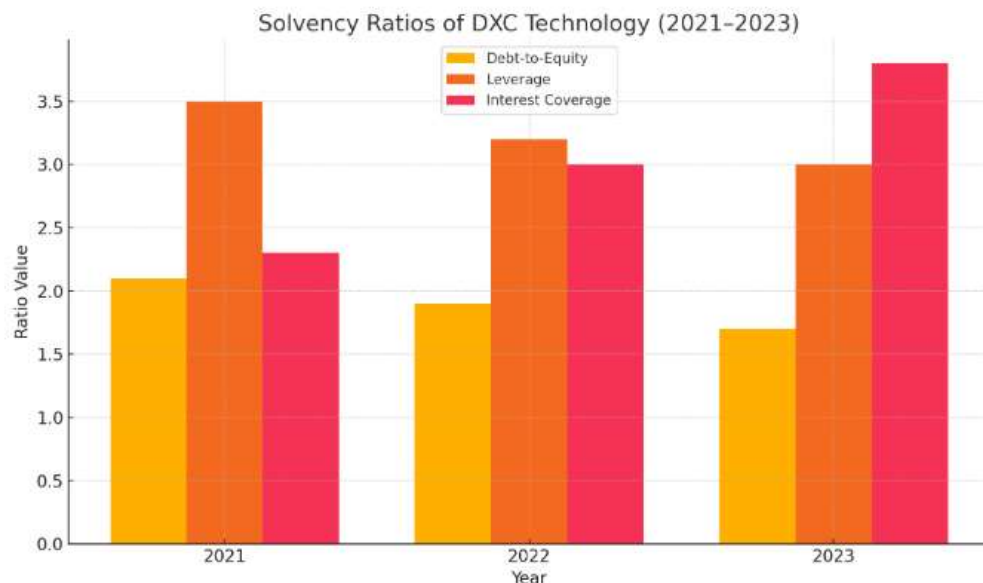
The declining D/E and leverage ratios signal a conscious move by DXC toward a more balanced capital structure and reduced dependency on debt, consistent with its post-merger stabilization strategy. An improving ICR indicates stronger earnings relative to interest obligations, which enhances DXC’s credit profile and reduces insolvency risk.

Table 2. Solvency Ratio Comparison (2023)

Company	Debt-to-Equity	Leverage Ratio	Interest Coverage
DXC Technology	1.7	3.0	3.8
Accenture	0.6	2.1	12.5
Cognizant	0.9	2.4	10.1
IBM	2.8	4.1	3.2

To better contextualize DXC’s financial position, a peer comparison was conducted using publicly available data from similar IT service firms.

IBM’s, positioning it in the mid-range of the industry in terms of risk. The interest coverage figure of 3.8 reflects improvement but also highlights room for growth compared to best-in-class competitors.



The following bar chart visualizes the year-over-year trends in DXC Technology's solvency metrics:

The bar chart above shows a positive trend of improving solvency over the three-year period.

Key observations:

- The Debt-to-Equity Ratio declined from 2.1 in 2021 to 1.7 in 2023, indicating a gradual shift toward equity-based financing and reduced financial leverage.
- The Leverage Ratio also declined from 3.5 to 3.0, suggesting that DXC is gradually lowering its asset financing through debt.
- The Interest Coverage Ratio increased from 2.3 to 3.8, reflecting a stronger ability to service interest payments from operating income, possibly driven by better cost management and margin recovery.

Conclusion

This study aimed to evaluate the financial resilience of DXC Technology by conducting a solvency analysis using three core financial ratios: the Debt-to-Equity Ratio (D/E), the Leverage Ratio, and the Interest Coverage Ratio (ICR). These indicators collectively offer a comprehensive picture of DXC's ability to manage its capital structure, meet long-term financial obligations, and sustain operations in a competitive, technology-driven market.

Over the three-year analysis period (2021–2023), the findings reveal a consistent improvement in DXC Technology’s solvency position. The D/E ratio has steadily declined, indicating a strategic reduction in financial leverage and a stronger emphasis on equity financing. Similarly, the Leverage Ratio has decreased, suggesting reduced reliance on borrowed capital to fund assets—an important step in mitigating financial risk, especially in the context of the company's restructuring and cost optimization efforts. Meanwhile, the Interest Coverage Ratio has improved year-on-year, signaling DXC’s growing operational ability to cover interest expenses with earnings, thereby strengthening its short-term liquidity profile.

The comparative analysis with peer companies such as Accenture, Cognizant, and IBM further contextualized DXC’s financial standing. While DXC’s solvency metrics are not yet on par with top-performing industry leaders, the firm is clearly on an upward trajectory. Compared to IBM, which carries a heavier debt load, DXC demonstrates a relatively more balanced approach to debt management. However, it still lags behind Accenture and Cognizant in terms of interest coverage and capital efficiency, indicating that further operational improvements and revenue stabilization are required to fully close the gap.

This study also highlights that DXC’s journey toward improved solvency aligns with broader industry trends emphasizing fiscal discipline, reduced financial risk, and long-term value creation. The company’s ongoing transformation—marked by portfolio streamlining, service optimization, and targeted divestitures—appears to be contributing positively to its financial profile.

In conclusion, DXC Technology shows meaningful signs of enhanced financial resilience and strategic discipline. While the company remains in a transitional phase, its improving solvency ratios reflect a more sustainable capital structure and greater financial flexibility. To further strengthen its competitive position, DXC must continue prioritizing profitability, cost control, and cautious debt management. With consistent execution, the firm is well-positioned to sustain its recovery and unlock long-term value for stakeholders.

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