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DXC Technology Services, LLC

DXC Technology Q2 2027 Earnings

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TD Cowen; Senior Analyst

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PRESENTATION:

Operator^ Hello, everyone. Thank you for joining us, and welcome to the DXC Technology second quarter fiscal 2027 earnings call. After today's prepared remarks, we will host a question and answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, please press star one again. I will now hand the conference over to Tiffany Horvath, Senior Director, Investor Relations. Tiffany, please go ahead.

Tiffany Horvath^ Thank you, operator. Good afternoon, everyone, and welcome to DXC Technology's second quarter fiscal 2027 earnings conference call. We hope you had an opportunity to review our earnings release, which is available in the IR section of DXC's website.

Speaking on today's call are Raul Fernandez, our CEO, and Rob Del Bene, our Chief Financial Officer. Here's today's agenda. First, Raul will update you on our strategic initiatives. Rob will then

review our quarterly financial performance, as well as provide thoughts on our third quarter and full fiscal year 2027 guidance. Raul and Rob will then take your questions.

Please note certain comments made during today's call are forward-looking and subject to risks and uncertainties that could cause actual results to differ materially. Details of these risks and uncertainties are in our annual report on Form 10-K and other SEC filings. We undertake no obligation to update any forward-looking statements.

Unless otherwise noted, year-to-year or quarter-over-quarter revenue growth rates discussed on today's call refer to organic revenue growth on a non-GAAP basis, which excludes the impact of foreign exchange and inorganic activity. We will also be discussing certain other non-GAAP financial measures that we believe provide useful information to investors. Reconciliations to the most comparable GAAP measures are included in today's earnings release. And with that, let me turn the call over to Raul.

Raul Fernandez^ Thank you, Tiffany. I would like to take a moment to comment on the market speculation regarding a possible sale of our insurance business. While I don't want to get into specifics, I can confirm that we are currently in ongoing discussions.

As we have said previously, management and the board are committed to exploring all avenues to create shareholder value. We believe we have multiple paths to do so, including improving the core, scaling our fast-track agentic and AI-based solutions, and evaluating strategic actions across our portfolio. We do not intend to answer additional questions at this time.

On the quarter, our revenue, adjusted EBIT, and non-GAAP diluted EPS were above our guidance. For the balance of the year, we are adjusting our full-year guide to reflect sales performance in our core business that fell short of our expectations. At the same time, we are pleased with the traction in our agentic solutions.

One of DXC's greatest competitive advantages is the combination of our technical talent, deep industry expertise, and access to the world's leading AI platforms. Since June, more than 5,700 colleagues globally have earned AI certifications. We are building a global bench of engineers capable of moving from AI experimentation to production in complex enterprise environments. That is a capability few organizations can replicate at our scale.

The next step is commercialization, deploying these engineers against customer opportunities and converting that capability into revenue. We are also developing greater visibility into average AI deal size, close cycle timing, and pace of follow-on work, giving us increased confidence in the revenue opportunity ahead.

Creating a growth company out of DXC is an ongoing exercise that will be bolstered by our work in strengthening the core track and growing our agentic, fast-track, and AI-based solutions. We feel that the addition of Paul Taylor and his operational accountability and execution focus as our

President gives us a path to achieving that goal. A few of Paul's key focus areas are removing friction in how we operate globally and improving our sales execution. He will join Rob and I on our next call to expand on his initiatives.

We have continued to invest in agentic and AI-based solutions to drive innovation and position DXC for future growth. The value of AI will go to the companies that control the workflows, data, rights, and distribution. We believe DXC is well-positioned to capture the expanding total addressable market from AI because of our deep global technical bench, existing customer base, and new agentic solutions. We see evidence that what we are building is resonating with clients.

In GrowthX, we secured our first large win with a leading global banking institution to modernize its mission-critical core banking system and accelerate its transition to the cloud. Delivered through our modernization-as-a-service offering, we are combining our AI-powered modernization platform, industrialized delivery factory, and Anthropic's advanced Claude models to discover, document, and validate thousands of business rules embedded in decades of legacy systems.

By integrating frontier AI capabilities with our deep banking expertise and proven modernization methodologies, we are transforming how complex, high-risk modernization programs are delivered at scale. The promise of modernization has been around for decades, but the ability to do it at scale quickly is here. We are very well-positioned to win in this business category. This win demonstrates our ability to turn advanced AI technologies into differentiated, repeatable offerings that accelerate client transformation and create new growth opportunities for DXC.

This quarter, we made progress increasing the value OASIS delivers to our existing clients. Our teams are expanding the capabilities of our agents to solve more complex customer pain points and increasing the number of agents that can make controlled changes within customer environments. We are also increasing the number of agentic workflows in production. For example, we recently launched DXC Workplace Services, an AI-native workplace offering enabled by OASIS that reimagines the digital workplace around employee outcomes.

With Workplace Services, agents and DXC experts help resolve employees' IT issues before they disrupt work. As a result of this capability expansion and increased workflows in production, utilization surged 6x from last quarter. Demand for OASIS continues to be strong, with increased adoption from existing clients and interest from new customers, with patch management emerging as a leading use case. We are currently running two pilots with new customers with incremental opportunities in the pipeline.

In our insurance business, we continue to build momentum in our SaaS-based Assure platform, with customer adoption exceeding 275 enterprise insurance accounts. This expanding platform install base allows more customers to use our AI-enabled Smart Apps. We sold our first Smart Apps in the quarter, and our pipeline has grown more than 20% from last quarter. Additionally, we

are leveraging Smart Apps internally in our BPS business to drive efficiencies and provide proof points for our customers.

As we shared last quarter, DXC is accelerating the development of our AI engineering talent through strategic partnerships and hands-on training programs. In August, I attended Anthropic's partner base camp in San Francisco alongside DXC engineers and forward-deployed engineers from across the industry.

Working and learning alongside dozens of DXC teammates and FDEs in training from other companies gave me a close and upfront appreciation of the operating complexities of being an AI builder. It also gave me insight into what human capital skills are needed to be an A player in an AI world. It demands a combination of engineering excellence, deep industry knowledge, and the ability to translate AI capabilities into measurable business outcomes.

More than 500 of our engineers participated in a multi-platform FDE boot camp in India, working with Anthropic, ElevenLabs, and AWS. Our approach is multi-platform, building expertise across Amazon, Microsoft Copilot, 7AI, Anthropic, and ElevenLabs to deliver solutions aligned with our clients' needs.

Additional base camps are planned for Sydney and Tokyo. Most importantly, DXC engineers are standing out in the marketplace for our operational and industry-specific context that is critical to creating value for our clients. We are already turning these capabilities into differentiated solutions for our customers.

We have recently been approved to productize Claude Mythos into DXC Frontier Code Assurance, a managed service that combines frontier AI reasoning with DXC's cybersecurity expertise and governed delivery to identify, validate, prioritize, and help remediate vulnerabilities in critical software. A scan that produces every alert at once creates a backlog, not security. DXC goes beyond identifying vulnerabilities by validating each finding, ranking it by risk to the client, and fixing what matters first. That is a tangible example of DXC's differentiated commercial offerings for our customers in the cyberspace.

Last quarter, I talked about customers wanting the potential and promise of AI, but also needing to trust the architecture underneath it. Since last quarter, trust and safety considerations have become even more important for customers. Given our work operating the most critical systems, applications, and infrastructure, oftentimes in heavily regulated industries, trust and safety remains a key priority as we embed AI in more of our solutions.

Our architectures are being developed around safe, responsible, and resilient AI operations. DXC's focus is on agent assurance, agent engineering, and harness engineering, which provide the controls, safeguards, and operating mechanisms needed to manage AI systems. DXC has also partnered with LangChain to support agent and harness development for OASIS. From the beginning, OASIS used LangChain to develop agents, and we have continued improving the

harness as agents move to the production environment. We are licensing LangChain to support the development, evaluation, and observability of OASIS agents.

We have more work to do, particularly in improving sales execution and stabilizing revenue in our core business. That remains a priority, and we're not satisfied with our current performance. But when I look at where DXC was at the beginning of this year and where we are today, the progress is meaningful.

We have moved from strategy to products, from products to deployments, and increasingly from deployments to commercial adoption. We have a stronger leadership team, a growing portfolio of agentic offerings, thousands of AI-certified engineers, and customer relationships that give us a unique opportunity to scale.

Our strategy hasn't changed. What has changed is the evidence that it can work. The priority now is execution, improving the core, scaling what works, and creating sustainable long-term value for our shareholders. Through ElevenLabs, my script will be available in six languages following this call. Let me turn it over to Rob to review the second quarter results.

Rob Del Bene^ Thank you, Raul. And good afternoon, everyone. Today, I'll go over our second quarter results, provide guidance for the third quarter, and update our full fiscal year of 2027 outlook. Now, starting with the second quarter results. Total revenue was \$3 billion, down 4% year-to-year, above the high end of our guidance range. Our adjusted EBIT margin was 6.2%, down 180 basis points year-to-year.

Non-GAAP EPS was \$0.67, down from \$0.84 in the second quarter of last year, largely driven by lower adjusted EBIT. In the second quarter, we had a one-time contract modification in our insurance business, which was not anticipated in our guidance. Excluding the one-time modification, we were within the guidance range on revenue and in line with our adjusted EBIT margin and EPS guide.

The book-to-bill ratio for the quarter was 0.8, and our trailing 12-month book-to-bill ratio remained at 1.0. However, we came into the quarter with a robust pipeline, and the bookings performance of minus 10% year-to-year was below our expectation. The performance was driven by large deal timing and project-based services pipeline conversion that declined versus recent history. This modestly impacted our revenue in the second quarter and affected our expectations for the second half of the year. The decline in performance was most pronounced in the Americas and UKI.

Now, turning to our segment results. CES revenue has declined 3.3% year-to-year, in line with our guide and consistent with recent performance. Enterprise application services and growthX continue to grow, with pressure continuing in our custom applications business. We're building momentum in engineering services, supported by an expanding pipeline and year-to-year bookings growth.

The CES book-to-bill ratio for the quarter was 0.79, reflecting a 17% decline in bookings year-to-year, primarily driven by application services. As I've referenced earlier, we had a strong pipeline coming into the quarter, and our bookings performance was below our expectation, particularly in the Americas.

For GIS, the book-to-bill ratio was 0.8, with a year-to-year bookings reduction of 13%. The decline was driven by the timing of several large deals that we now expect to close in the second half of the year, and by weakness in our project-based services performance. The short-term project dynamic impacted our revenue, which was down 10% and slightly below our expectation.

Our insurance business grew 23% year-to-year, well above our expectation, driven by the contract modification previously mentioned. And excluding the modification, the underlying insurance revenue was consistent quarter-to-quarter, with growth in recurring software revenue, offset by the wind down of a business process services contract that would be wrapped in the fourth quarter.

We continued to build momentum in our SaaS business, which grew at a strong double-digit rate in the quarter. As a reminder, our SaaS business includes Assure platform, Horizon solutions, and AI-based Smart Apps, where we're starting to gain traction. We sold our first Smart Apps this quarter, and the pipeline grew more than 20% from the prior quarter. These sales will begin to modestly contribute to our SaaS growth in the second half of the year.

Now, turning to cash flow and the balance sheet. We generated \$91 million of free cash flow during the quarter, and as expected, we made a cash deposit of \$122 million with the IRS related to our tax litigation case from currency losses from 2009. Excluding this payment, free cash flow totaled \$213 million. For the first half of the year, free cash flow is \$405 million, including our TCS settlement from the first quarter and the cash deposit made with the IRS in the second quarter.

Consistent with our capital allocation plans, we retired \$400 million of our U.S. dollar bonds that matured in September 2026. Over the past several years, we've made it a priority to reduce our total debt, strengthening our balance sheet. During the quarter, we also repurchased \$60 million of shares. Our capital allocation plans for the full year remain the same with flexibility on timing of the repurchases.

Now, let me provide you with our updated full fiscal year 2027 guidance. Before getting into the specifics, I want to give a little color on our guidance. As discussed in recent quarters, our guidance anticipated better second half revenue performance supported by an improving GIS opening backlog.

These backlog dynamics remain unchanged. However, there are two factors impacting our second half that are leading us to reduce our full year guide, the first being the impact of the weaker than expected second quarter bookings, and second, our assumption that the lower levels of pipeline

conversion we experienced in 2Q will continue through the balance of the year in both CES and GIS.

Specifically, we now expect our full year organic revenue to decline 5% to 5.5% year-to-year. In CES, we now expect revenue to decline at a mid-single-digit range. In GIS, we continue to expect a stronger second half profile with modest sequential improvements in the third quarter and a more pronounced improvement in the fourth quarter. We are now expecting a high single-digit revenue decline for the year.

In insurance, due to the impact of the 2Q contract modification, we are increasing our guide from low-single-digit to mid-single-digit revenue growth. We continue to expect an improvement in the fourth quarter revenue growth rate driven by the momentum in our AI and cloud SaaS offerings and by the positive impact of the previously mentioned contract runoff, which wraps in the fourth quarter.

As a result of the reduction in our revenue guidance, we now expect adjusted EBIT margin for the full year to be between 5.75% and 6.25%. Our non-GAAP diluted EPS outlook is now expected to be between \$2.25 to \$2.50. We now expect full fiscal year 2027 free cash flow of approximately \$600 million, reflecting the reduction in our adjusted EBIT guidance. The second half free cash flow is skewed toward the fourth quarter, driven by the timing of capital software payments being made in the third quarter.

For the third quarter of fiscal 2027, we expect total organic revenue to decline approximately 6% year-to-year. At the segment level, we expect CES to decline mid-single digits, GIS is anticipated to decline at a high single-digit rate, and insurance is expected to grow at a similar rate as the first quarter. We expect adjusted EBIT margin to be approximately 6% and non-GAAP diluted EPS to be approximately \$0.55. And with that, let me turn the call back over to Tiffany.

Tiffany Horvath^ Thank you, Rob. We'd like to now open the call for your questions. Operator, can you please provide the instructions?

QUESTION & ANSWER:

Operator^ Thank you. We will now begin the question and answer session. (Operator Instructions) Please stand by while we compile the Q&A roster. Your first question comes from the line of Tien-Tsin Huang from JP Morgan. Your line is open. Please go ahead.

Tien-Tsin Huang^ Terrific. Thanks. Good afternoon. On my first question, just thinking about the lower pipeline conversion, can you give us a little bit more detail there? Is that client indecision? It sounds like the deals were pushed out, not lost. Is that accurate? Just curious how you're seeing the next couple of quarters play out here.

Rob Del Bene^ Yes. So, Tien-Tsin, it's Rob here. So, let me take it in a couple of pieces. First, a little more color. It was pronounced in the Americas and UKI, in terms of the deal dynamics, the deal side -- the bigger deal being deferred was weighted toward UKI public sector. And those deals are still in the pipeline being negotiated, and we have confidence that they'll get booked. It's just the timing is uncertain. So, that was a delay dynamic as opposed to deals dropping out.

From a project-based services perspective, the smaller deals, that was more heavily weighted toward the Americas, impacted us mostly in financial services and the retail sectors, and they impacted both GIS and CES. And those are a combination of deals being delayed, slipping, and then some deals dropping out of the pipeline. It's a combination. And the competition in the Americas has stiffened. We could see it reflected in our win rates. So, it's most pronounced there.

Now, that being said, we enter into the third quarter with a really good pipeline, also in the Americas. So, we are generating -- and these are qualified opportunities. These are not raw pipe. They're qualified. So, we continue to generate pipe. And we've got a lot of good content that Raul has mentioned in his remarks. So, we're optimistic going forward, but we're not counting on it in our guide. We're counting on conversion rates continuing at the levels in the second quarter.

Raul Fernandez^ Yes. Just let me add a little bit of color on kind of these agentic deals. The small deals are smaller, but they happen -- they can happen more quickly, meaning they start and end and deliver value, improve value very quickly. But they are smaller than traditional small deals in rolling out SaaS and other types of products or pilots or projects.

They also, though, lead to a clear line of sight on unlocking a tremendous amount of value. So, while they're up front smaller, they move more quickly and deliver the proof points needed to then engage into much larger transactions that can be replicated. And I think one thing that we'll be able to talk about over the period of the next few quarters is a modernization as a service win, where we are executing ahead of time, and the client's super happy, and there's seven or eight projects right behind it.

And you can see that, A, the value is being delivered, it's being recognized, and the follow-on work is being unlocked. So, I think there's dynamics in kind of the traditional older projects. There are dynamics in terms of the new AI projects, size, cycle time, different set of issues, a tremendous amount of IP issues, a tremendous amount of questions, obviously, around safety and security.

Around the right evals and harnesses and agents to make sure that everything that is being built is built in a safe way, where information that our customers own are maintained and contained in a safe environment. So, the complexity is increasing. The time to value in terms of delivering an AI project is decreasing. But the unlock behind that is substantial.

Operator^ Your next question comes from the line of Keith Bachman from BMO Capital Markets. Your line is open. Please go ahead.

Keith Bachman^ Yes, thank you. A couple, if I could, just to follow on from the previous question. Rob, could you speak to the why? You know, if these projects are being pushed, is it your sense because it's a crowding out of other sources other grabs for fun, if you will, or competition. I'm just curious as to the why. Because the messages that we're getting from the various leaders in IT services, frankly, is a little bit different in terms of the backdrop of the market dynamics.

So, I'm just, number one, wanted to ask about the why. And two, you highlighted that they're more competitive. And so, should we infer from that comment that price competition is likewise increasing, which is perhaps impacting revenue growth and the bookings as well?

Rob Del Bene^ Yes, so Keith, look, what we're seeing in the data, and again, this is pronounced in the Americas, meaning the U.S., is that the pricing data we have is relatively stable, slightly down. The window age dropped a bit in the quarter. And I think it's related to the dynamic that Raul was mentioning.

I mean, traditional project-based services are being delayed in that they're undergoing additional evaluations. And priorities are being reset by our customers, and I think that's happening everywhere. So that does delay the decision cycles on traditional workloads.

Raul Fernandez^ Yes, I've talked directly to customers that have been in the decision cycle with us and without us, and I hear consistently that key managers, board members, et cetera, that review and approve, go forward or not, on some of these initiatives are asking more like, okay, should we do this upgrade with this traditional software player, or can we look at an agentic way of doing it? And those sets of questions are adding time to the sales cycle. The other aspect to this --

Unidentified Speaker^ Right.

Raul Fernandez^ -- is if they do move forward, they're saying, okay, instead of a five-year deal, we should probably only do a two-year deal because we don't know where the world's going to be in two years. So those are dynamics that are happening, and I can tell you because I speak with a lot of customers as they're making decisions on our work and on a lot of other companies' work as well.

Keith Bachman^ Let me just ask a follow-up to that, then, as you speak to a lot of customers. Budgets are currently being formed for 2027. It's probably candidly still early on the cycle, and I think there's a risk or concern, rather, with investors that have leading organizations who are trying to allocate incremental funds to AI and, frankly, security as well. How do you think that positions IT services? In other words, do you envision risk to crowding out, or do you think there's participation as you look at budget demands associated with calendar year '27?

Raul Fernandez^ So a couple of things that I think I've learned over the last few months. One, that while popular belief is that any of us can do something prompting and delivering at some level, the complexities to actually deliver something that's enterprise level is tremendous. I mean, sitting

two days in base camp with not just our engineers, but engineers from competitors, I walked out of there going, first of all, it's going to take longer, the transformation.

Second, it is super complex, so people are still going to need outside providers. So, we and all of us will have plenty of work, but we're going through a rough patch. We're going through unpaved roads right now with not a lot of traffic, but that will smooth out.

And then finally, I think there is a bifurcation of reimagining workflows versus executing on your current business. And as I've talked to customers, I think there's a realization that people that are operating existing workflows, existing systems, are doing a fine job at it, but they may not be the best people to reimagine an agentic approach. That's the opportunity we have, and that's the opportunity that, frankly, is nascent today, but will emerge over time.

Operator^ Your next question comes from the line of Bryan Bergin from TD Cowen. Your line is open. Please go ahead.

Bryan Bergin^ Hi, guys. Good afternoon. Thank you. Just based on what you've seen here in discretionary demand and the pipe conversion commentaries, do you foresee any risk that that signed work that is already in backlog is incrementally at risk? And what I'm curious about is certain items you may have signed that may be of a similar nature of where clients may be shifting their priorities in their pipeline. Is there any of that dynamic occurring where there could be elevated backlog erosion risk?

Rob Del Bene^ Yes, Bryan. Bryan, I don't -- in the data, I don't see that. Our backlog erosion statistics for this year are very consistent with historical levels, and they're -- and they've been actually moderating at a very good level. So, we just do not see that happening.

Raul Fernandez^ Yes, and I think there was a comment earlier about AI spending priorities. I think one area that we are super well positioned because of our existing cyber business and remediation business and now with the ability to run our frontier code assurance, which essentially gives us the ability to take an application, any application, run it with Methos, detect vulnerabilities, document those, and help the client prioritize and patch those quickly. That is an area because the offensive side, meaning the bad guys, have the skills and capabilities.

The defensive side has to get up to AI speed in order to fight AI intrusion at AI speed or intrusion at AI speed. So, while there are areas that may hit a longer decision cycle, there are areas where it is going to be required to move very quickly. And having that product offering just released in the market last week and making substantial progress in the limited amount of time we've been in market, I'm very, very optimistic that we've got the right product set available and the right offerings available for the demand that's there today.

Bryan Bergin^ Okay. Okay, understood. And then just as it relates to the 2027 guidance, so Rob, I'm just really trying to unpack the moving parts here. So, you had the insurance modification this

quarter that helped, but I'm not sure if I heard that right. There was a separate offset potentially later. So, first that, and then if you can kind of rank one of the most notable drivers in the reduction elsewhere across CES and GIS, and I think it sounds like you're still assuming GIS ramps in 4Q. If I heard that right, what gives you that confidence?

Rob Del Bene^ Yes, you did hear that right. Well, first on the one-time benefit from the insurance transaction, there was no real offset to that. So that was a one-time second quarter benefit and carries through to the full year with no downside offset.

In terms of the dynamics of our guide change, just going back a little bit to -- we had a strong opening backlog coming in to the year. That opening backlog projected an improvement in our year-to-year performance in the second half of the year, pronounced in GIS. We entered the second quarter with a strong pipeline. We assumed the recent history, historical conversion rates of that pipeline, and what occurred was what I mentioned in my prepared remarks. We had delays in larger deals in GIS. Again, they're not lost.

They're delays, but the revenue impact of those delays carry into the second half of the year, and then we had the drop, particularly in the Americas, in the conversion rate of the pipeline. That also impacts the second half of the year. So, if you look at the dynamics, kind of unpacking them a little bit, half of the takedown is GIS.

Half of the takedown is CES in that range. They're very close, and the drop in second quarter performance, meaning the bookings we had anticipated that didn't come through, are about two-thirds of our revenue decline in our guide, and the last third is carrying forward those lower conversion rates into third and fourth quarter. Now, all of that had very little impact to 2Q. They impact the go-forward third and fourth quarters.

Operator^ (Operator Instructions) Your next question comes from the line of Jonathan Lee from Guggenheim. Your line is open. Please go ahead.

Jonathan Lee^ Great. Thanks for taking my question. Look, pricing is stable, yet win rates are falling, while peers describe what is effectively a steadier backdrop. Can you help us understand if this may be a DXC-specific share loss issue and who is winning those deals that you lose, and what are you changing in sales execution to potentially recover here, and what gives you confidence that that dynamic can potentially inflict?

Raul Fernandez^ Yes, we're simplifying our interaction with the customer so that we've got a single point of accountability between the company, DXC, and the customer with the offerings backing up that single point of accountability. That friction before, we had multiple touch points. It wasn't coordinated.

We were moving at different speeds for different deals and different offerings. The clarity and simplicity that we're putting in place now, and Paul's been here two months now, is quickly

showing up in our ability to engage and put the whole portfolio. So I think to the extent we've had delays, or we definitely have had delays in deals, but to the extent we haven't been able to capture or convert some of those, some of those are self-made.

Some of those are absolutely go-to-market imperfections that we have that we're now clarifying. I feel confident that that will help. If you just step back and you say, at the end of the day, what do you have to offer and what are people buying, we're good.

We have the set of skills, the set of technology, the set of partners, the set of capabilities that are needed today across the world. We just have to match the supply signal with the demand signal at the right time and chase enough deals so that the conversion rates -- so that we're not stressing over conversion rates that slip a point or two in any direction. So I'm confident that the portfolio is solid. I'm confident that we're getting better in execution and go-to-market. I'm super confident that we have the ingredients to win, and I'm confident we're going to win.

Jonathan Lee^ Thanks for that, Raul. This is a follow-up for Rob. With revenue now declining faster than planned, what cost actions protect margins as you go into next year and as you think about your three-year outlook, and how do you ensure you're driving cost actions without meaningfully impacting the investments that you need to make to drive revenue growth?

Rob Del Bene^ Yes. Yes. So, Jonathan, we came into the year with a cost takeout plan, cost reduction plan, that was pretty consistent in terms of year-to-year levels. With the revenue dropping, we've increased that cost takeout objective. We've baked that into this guide. And going forward into fiscal 2028 for us, we are currently evaluating what steps we take under the assumption that we're conservative, so we're going to take the assumption that we have to go deeper. So we're currently evaluating the plans for '28. It's a little premature to comment on specifics at this time, but believe me, we're working hard on developing the plans for next year.

Raul Fernandez^ And I know we all talk in percentages here, but when you just step back a second and you go, okay, you've got a \$12 billion backdrop. The difference between winning and losing against the \$12 billion backdrop is an incremental \$155 million. When I look at what we have to sell, when I look at the size of those deals, when I look at the new offerings that we have, I feel confident when you put it in that context, we can close that gap.

So while percentage-wise it is what it is, on a total aggregate, can you add enough opportunities into the pipeline to close the gap that today, again, is a run rate gap of about \$150 million, the answer is absolutely yes. We just have to execute better.

Operator^ Your next question comes from the line of Jamie Friedman from Susquehanna. Your line is open. Please go ahead.

Jamie Friedman^ Hey, guys. Sorry for the background noise. I'll ask mine up front. I'll ask two up front. So, any update on GrowthX? Because that seems an important element. And then we'll ask about the Guidewire announced after the hyper --

Raul Fernandez^ Hey, Jamie. Jamie, you're fading. Jamie, we can't hear you, but let me take your GrowthX. The modernization as a survey is part of that offering, and that's, as I mentioned in my remarks earlier, that is a great example of an initial win. Again, the promise of legacy code transformation and modernization has been around for a long time. The reality that it can happen at a high quality, that it can get documented, that the deliverables meet the expectations, we feel super confident there.

And we had our Investor Day 140 days ago. We launched many of these initiatives 140 days ago. We've been in market. We've won some deals. We've now completed the initial phases, and we see behind the initial phases of following work as a result of those. And, again, those are all kind of agentic in nature. You cut out at the end of your question, so I think I answered your GrowthX question, but please repeat the rest of it.

Jamie Friedman^ I'm sorry, guys. I'm in a public space. So Guidewire, which is an insurance software competitor to DXC, acquired hyperexponential software earlier this week for 20 times revenue, and I think we'd be tone deaf not to ask about this. I'm not asking about your own process, but we don't, we're not software insurance experts. You are. So do they do something that you do or can do, and how should we be thinking about the scarcity of assets like that in this market?

Raul Fernandez^ Yes, look, I'm not going to get into comments about ISB. What I can tell you is that the profile of highly sticky customers, a very high reoccurring rate of revenue, new products that are agentic in nature and SaaS-like in nature are all the ingredients for high valuations, and that's a fantastic valuation by any measure, right? But I think we have those dynamics, I think, and I know we have those ingredients in ISB, and I know we have them in other parts of the company as well.

So to answer your question, the attributes that make that interesting for that level of acquisition and that level of consideration for an acquisition are pretty clear. Sticky customers, moats, regulatory moats, highly regulated, a lot of reoccurring. All those attributes are in our insurance business, and frankly they're in other parts of DXC as well.

Operator^ Your next question comes from the line of James Fawcett from Morgan Stanley. Your line is open. Please go ahead.

James Fawcett^ Thank you very much, and also apologies for the background noise. I want to just ask back on the data security point that you're making, particularly as potential customers and customers are evaluating kind of their solution sets, et cetera. Just wondering how, like, if you can give us examples of, like, how that's being addressed in the cases you've seen.

It sounds like, well, you feel comfortable with your offering. Like, how do you match that? I think the data security, and if we expand it wider to the data sovereignty question, is an important one for a lot of potential customers. I'm just wondering how we should think about, like, what capabilities you have that are matching that.

Raul Fernandez^ Yes. As I've looked around and talked to competitors and other players in the space coming at it from different angles, I do believe one of the key ingredients for long-term success when we look back in a period of time is the deep engineering bench that we've got globally and the cross reference of that bench with certain industry skills. I think that combination is key.

We have done a really good job with Anthropic and others to certify our engineers 140 days into this relationship. We've got thousands of engineers certified, and we're in the top 10 of all companies in the world with regards to FD certified for Anthropic. So first you have to have the people that have the skills. Then you have to find the demand for those people who have the skills, and you've got to match those in a timely way.

So the first step is there. We know our customers have the demand. There are data security. There are sovereignty. There are, what goes in a public model, what goes in a private model, how you use these models.

There's a lot of complexity here that the complexity fuels the need to get additional heads in the room and help figure out how to move forward. So the demand backdrop for us and for others in this space is very strong if you've got the right combination of raw talent, and I think we do have that as a very strong foundation at DXC.

James Fawcett^ Got it. Got it. And then back on your execution point is it's interesting because it sounds like there's lots of reevaluation, but at the same time you feel like when decisions aren't being made, is that maybe you're not quite in the right position, et cetera. Can you just expand on that? And what are the things that you think need to be done internally at DXC to kind of, as you put it, better meet the opportunity?

Raul Fernandez^ I think it's clarifying and prioritizing the parts of the product suite that we know have traction, where we have proof points, making sure that those proof points are internally distributed, and then ultimately that sales and marketing and case study material delivered to new prospects. I also do think it's the right set of offerings at the right time. I think our cyber business, our cybersecurity, and now the ability to offer the frontier code assurance, where we can take one of your applications, Jamie, we can scan 10 million lines of code really quickly.

We can document the vulnerabilities. It created patching framework. We can use our products to go help your teams patch. That is a very, very hot offering. We are one of the few companies in the world that currently are able to do that. We are selling it.

And I think that is one of the avenues where there will not be hesitation in purchasing because it's a, you must do situation, because unfortunately the offensive side, the bad side, the intruders have access to this and they will take full, they'll just take full opportunity to exploit. So I think it's a combination of right product, right fit, right timing. And then obviously the mechanical execution of engaging with our clients quickly and getting a decision moved along as quickly as possible without having internal friction and then minimizing external friction on the buy side.

Operator^ There are no further questions at this time. And we have reached the end of the Q and A session. I will now turn the call back to Tiffany Horvath for closing remarks.

Tiffany Horvath^ Yes. Thank you all for joining us today. We look forward to speaking with you next quarter.

Operator^ This concludes today's call. Thank you for attending. You may now disconnect.