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# DXC Technology Service, LLC

Third Quarter 2024 Earnings

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## CORPORATE SPEAKERS:

**John Sweeney**

*DXC Technology; Vice President of Investor Relations*

**Raul Fernandez**

*DXC Technology; President, Chief Executive Officer*

**Robert Del Bene**

*DXC Technology; EVP, Chief Financial Officer*

## PARTICIPANTS:

**Bryan Bergin**

*TD Cowen; Analyst*

**James Friedman**

*Susquehanna; Analyst*

**Bryan Keane**

*Deutsche Bank; Analyst*

**Darrin Peller**

*Wolfe Research; Analyst*

**Tien-Tsin Huang**

*JPMorgan; Analyst*

**Ashwin Shirvaikar**

*Citi; Analyst*

**Jason Kupferberg**

*BofA; Analyst*

**James Faucette**

*Morgan Stanley; Analyst*

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## PRESENTATION:

Operator^ Thank you for standing by. (Operator Instructions) At this time I would like to welcome everyone to the DXC Technology Q3 Earnings Call. (Operator Instructions)

I would now like to turn the floor over to John Sweeney, Vice President of Investor Relations.

John, you may begin your conference.

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John Sweeney^ Thank you. And good afternoon, everybody. I'm pleased that you're joining us for DXC Technology's Third Quarter Fiscal Year 2024 Earnings call.

Our speakers on the call today will be Raul Fernandez, President and CEO; and Rob Del Bene, our EVP and CFO.

The call is being webcast at DXC's Investor Relations website, and the webcast includes slides that will accompany this discussion today.

Today's presentation includes certain non-GAAP financial measures, which we believe provide useful information to our investors.

In accordance with SEC rules, we provide a reconciliation of these measures to their respective and most directly comparable GAAP measures. These reconciliations can be found in the tables included in today's earnings release and in the webcast slides.

Certain comments we make on the call will be forward-looking.

These statements are subject to known risks and uncertainties, which could cause actual results to differ materially from those expressed on the call.

A discussion of these risks and uncertainties is included in our annual report on Form 10-K and other SEC filings. I'd now like to remind our listeners that DXC Technology assumes no obligation to update the information presented on the call except as required by law. And with that, I'd like to introduce DXC Technology's President and CEO, Raul Fernandez.

Raul?

Raul Fernandez^ Thanks, John. And good evening, everyone. Thank you for joining today's call. I'm Raul Fernandez, President and CEO of DXC.

Before we start, I would like to thank Mike Salvino for his contributions to DXC. As you saw in the press release issued before the call today the Board of Directors has appointed me to be the President and CEO of DXC.

I am honored and excited to take those positions and therefore, I am no longer Interim CEO.

Let me take you through our agenda for the call. I will start my commentary by sharing my observations of DXC. We will then review the business performance and discuss each of our six offerings. Rob will then discuss our financial results in more detail. And finally, I will leave you with a few key takeaways before opening the call up for questions.

As you can see on Slide 5, we had solid performance in the third quarter. Organic revenue growth came in at the midpoint of our guidance range. Adjusted EBIT margin and non-GAAP

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EPS were both above our guidance range. Free cash flow was \$585 million in the quarter, an excellent result and up 26% as compared to prior year. As you may know, I have been a DXC Board member since 2020, having previously served as Chairman of the Nominating and Corporate Governance Committee and as a member of the Compensation Committee.

A little over 40 days ago, I was appointed Interim President and CEO. In my first 40 days plus, I have met with employees, customers, partners and investors. As a director, you get a good sense of the business, its values and its challenges. But as an operator, you get to go deeper and fully appreciate the talents, technologies and great work that our employees do every day around the world. You also get a really good sense of how we can work smarter and elevate our performance.

In the last 40 days, I have learned to more deeply appreciate the mission-critical nature of the work our employees do on behalf of our clients, the digital systems that we build and implement and the technology and software that we operate for global brands. And here's a great example of our capabilities. I recently visited our Madrid office and met with the leadership and full team. I got to listen to the great capabilities that we have. and the team briefed me on the work they do with Banco Sabadell, a leading Spanish financial institution.

The bank decided to realign their business processes by splitting applications testing from development and maintenance in order to improve quality, time to market and cost efficiency.

DXC partnered with Banco Sabadell to achieve this goal. Legacy application development increased and the speed of bringing applications into production accelerated by 50%. The team reduced application modernization cost by 40% and reduced testing time by 30%. As a result of this initial success, the bank is expanding our engagement into other critical business operations.

Now I will take a few minutes to share my priorities and the near-term actions we are taking. The foundation of our business is service delivery excellence. DXC is trusted with delivering mission-critical IT services for our customers, and we will continue to drive an intense focus on delivery and customer satisfaction.

While our company has an impressive collection of assets, technology and people, it's clear that we need to sharpen our execution and accelerate our performance.

To accomplish this, we are going to continue the full implementation of our operating model, establishing global offerings with full responsibility for offering development, delivery, solution design and P&L accountability. In addition, we will sharpen our sales execution through a geographic market-based sales team. This will enable us to develop market-leading offerings with the right solutioning and pricing and with local sales execution. I have learned that there are many compelling attributes of DXC that are either underappreciated or unknown outside the company.

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We will change this by doing a better job of highlighting each of our six offerings, showcasing how we tailor our services to empower customer success. We will emphasize the unique value we deliver and highlight our competitive advantages with much greater clarity. As CEO, it is imperative to stay closely connected to our employees and our customers as they have great ideas and insights that can be harnessed to take the company to the next level.

I'm going to invest the time to get this feedback on an ongoing basis. Focusing on these priorities will allow us to achieve our financial objectives, maintaining our solid investment-grade credit rating, investing back into the business and delivering on our capital allocation priorities, including buybacks. The Board and I are fully aligned on our capital allocation strategy.

With that said, let's move to review our three GBS and our three GIS offerings. In Analytics & Engineering, we engineer great products, services, experiences and operations for global brands. Our A&E team has an unmatched array of talent across AI, engineering, software development and deep industry knowledge. That combination makes us a trusted partner. An example of our tremendous work here is in the auto industry.

The competitive landscape for auto manufacturers is shifting to full digital transformation, and we have been instrumental in helping our clients make that transition. A leading, German premium auto manufacturer has told us that "We would not have had autonomous driving without DXC."

Next up, Applications. The applications business is made up of two components: custom application development and enterprise applications. DXC is uniquely positioned to service this market because of our decades long and deep industry expertise. Moreover, because of our heritage in running mission-critical systems, we know how to get value quickly and with minimal operational risk.

Our focus and strategy has led us to build our strategic business units centered around platforms such as SAP, ServiceNow and Oracle.

By developing specific expertise, on these platforms, we are more competitive in large deals for these implementations and integrations while maintaining robust project work capabilities. Early results are encouraging, with new logos increasing quarter-over-quarter. Also the size of new work versus renewals is going in the right direction, and our deal sizes are gradually increasing year-over-year.

More data and more tools require our customers to be better and faster across business functions. We have a great experienced global talent base to help with that. As we all know, AI will impact all aspects of society. But in the near term, customers with large data sets are best positioned to extract value from AI. We have many global customers with large data sets, and we have the expertise to help them leverage this data to extract actionable insights and optimize operations for improved efficiency and innovation.

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To round off our GBS segment, I'm excited to give you a little bit more detail about our insurance software and BPS offering. Our software insurance business unit facilitates the operations of 80% of Fortune 500 insurance companies. Our work is valued and appreciated by our customers. We earned about 500 customer renewals in fiscal year '23 demonstrating the stickiness of our platform with our insurance customers. We're building out our portfolio of SaaS-based products to provide our customers with additional features and solutions and in many cases, are co-developing those solutions with our customers.

Turning to GIS. Let's start with our security offering. Cybersecurity is a top C-suite concern given the increase in global and state-sponsored incidents. Customers want simplicity in their security ecosystem. We are able to deliver that for them through our best-of-suite security solutions in which we devise and implement a security setup where the tools work seamlessly with each other to create the best possible security environment for each customer's needs.

The need for security continues to grow, and we fully expect to participate in this growth to a better degree than we have historically.

In cloud and ITO, DXC is one of the largest service providers in the industry. The key to delivery in this space is to leverage automation, working in conjunction with experienced IT professionals that can handle required interventions. With our new geographic sales organization being closer to the customer, we are focused on increasing our share. We are able to provide experienced live support to your current environment. And with our team, we have all the right capabilities to modernize and streamline IT platforms as we enable our clients' cloud transitions.

Next, we have modern workplace. AI will have a big impact here, enabling greater ticket issue resolution in an automated fashion. Our customers move from working in one place to embracing a distributed, location-agnostic work model. Employees expect mobility, employees expect customer service and support models and a frictionless IT experience. We aim to provide a near 0 touch support model that enables employees to onboard, work and solve problems without using traditional IT support mechanisms like calling in and logging in tickets.

With this approach, we enhance and hit on the metrics that are important to our customers. These metrics are employee productivity, engagement and sentiment. Our financial focus is on improving the business mix.

By this, I mean further reducing low-margin resale revenue and driving a higher level of services, including those directly associated with AI and automation. Okay.

With that, I will turn the call over to Rob to discuss the financials.

Robert Del Bene^ Thank you, Raul. I'll now provide you with a review of our third quarter performance with results in line or ahead of our 3Q guidance. Organic revenue growth was down 4.5% year-over-year, which came in at the midpoint of our organic revenue guidance. Our results continue to be impacted by the year-to-year decline of resale revenues which was 90 basis points

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of the 4.5% decline. Adjusted EBIT margin came in at 7.6%, above our guidance range and up 30 basis points quarter-to-quarter.

Margin was down 110 basis points year-to-year with the decline due to a 50 basis point impact of lower noncash pension income, a 40 basis point impact from a lower level of asset sales and a nonrecurring 30 basis point impact from executive severance costs.

Without these three impacts, margins would have been up year-to-year. Non-GAAP EPS was \$0.87, \$0.07 above our guidance range and up \$0.17 sequentially. Free cash flow for the quarter was \$585 million, the result of disciplined operational management and improving control of capital expenditures and working capital. As I've mentioned on previous calls, our free cash flows are seasonally weighted to the second half of the year and that played out in the quarter.

Book-to-bill was 0.99x with improved performance from the first half of the fiscal year. The trailing 12-month book-to-bill is 0.93x. Now moving to our key financial metrics. Our third quarter gross margin of 22.4% was up 70 basis points year-over-year benefiting from our ongoing labor and nonlabor cost reductions. SG&A was 8.5% of revenues, nearly flat in absolute dollars as we are maintaining our go-to-market investment levels.

Other income decreased \$51 million year-to-year, driven primarily by a decline in noncash pension income, lower gains on asset sales and foreign exchange. Adjusted EBIT margins were down 110 basis points due to, as I mentioned on the first slide, lower pension income, lower asset sales and executive separation costs.

Net interest expense was \$22 million, an increase of \$7 million year-over-year, primarily due to a higher level of variable interest expense on short-term debt. Net interest expense improved \$3 million sequentially. Non-GAAP EPS was down \$0.08 year-to-year with the main decreases being a higher tax rate of \$0.12, \$0.06 of lower pension income, \$0.05 of lower gains on asset sales and other impacts such as executive severance and higher interest expense. These decreases were partially offset by a \$0.15 benefit from a reduced share count and an \$0.08 benefit from noncontrolling interest.

Now turning to our segment results. Our business mix continues to trend to our higher-margin GBS segment and the two segments are now almost equal with GBS at 49.9%, up 120 basis points from a year ago. GBS grew 30 basis points organically. The deceleration in the GBS organic growth rate is a reflection of the challenging market environment. GBS profit margin was 11.9%, consistent with the performance from the first half of the year.

We are managing our GBS resource levels to capture future growth opportunities.

Turning now to GIS. Organic revenue declined 8.9%, a modest improvement from first half performance. GIS profit margin increased 40 basis points year-over-year, driven by the ongoing execution of cost reduction initiatives. Now moving on to our individual offerings. First in GBS.

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Our Analytics & Engineering team, which has world-class industry capabilities in the field of design and engineering has been impacted by the economic environment, bringing our growth rate to low single digits. In the quarter, we did have an improved book-to-bill due to a high volume of client renewals, which is a strong validation of the value delivered by the A&E team.

Moving to our applications offering. Revenue declined 2% and is consistent with the performance of the first half of the year and reflective of our bookings for the last two quarters. In the quarter, we improved our book-to-bill to 1.11x with a number of large renewals, new client acquisitions and an increase in project-based services. Our insurance offering continues to grow with organic revenue up 2.1%, book-to-bill was 1.58x, up significantly from our first half performance. Bookings in this business vary from quarter to quarter based on the timing of large renewals.

In 3Q, we had two significant renewals, reflecting strong customer recognition of the value of our software platform and services capabilities.

Our insurance SaaS business continued its strong performance, growing 6% in the quarter. In the fourth quarter, we expect the growth rate to temporarily moderate due to onetime perpetual IP license sale in the fourth quarter of fiscal '23.

Now moving to our GIS segment. Security declined 5.1% year-to-year with revenue flat quarter-to-quarter and in line with the first half of the year. Bookings were 0.81x. Cloud infrastructure and IT outsourcing revenue declined 10.9% year-to-year. This business continues to be impacted by long-term market declines and shorter-term decreases in lower-margin resale revenues.

In the third quarter, resale was over a third of the decline, and we anticipate that this trend will continue into the fourth quarter.

We are taking a very disciplined approach to deal economics and contract management and we'll continue to evaluate opportunities to reduce excess capacity and capital requirements. This approach is reflected in our book-to-bill results, which was 0.72x in 3Q. We Next, we have modern workplace, which declined 4.2% year-to-year. The quarter-to-quarter improvement in performance was driven by two large transactions, which included resale content which we don't anticipate to recur in the fourth quarter.

Looking ahead, the fourth quarter of fiscal '24, we face a difficult comparison due to a high level of resale revenues in the fourth quarter of fiscal '23. As a result of the upcoming difficult comp we expect modern workplace to decline in the mid-teens in the fourth quarter.

Now turning to the financial foundation. Debt levels have remained stable from the beginning of the year at about \$4.5 billion. Net interest of \$22 million in the quarter was up \$7 million as compared to prior year, reflecting the higher interest rate environment on our short-term borrowings.

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Restructuring and TSI expense was down 31% year-to-year and flat sequentially. Operating lease payments and the related expenses were \$88 million, down \$9 million year-to-year reflecting continued prudent management of our real estate footprint. In the quarter, capital expenditures were \$121 million, down \$41 million year-to-year and \$36 million sequentially. The finance lease originations were \$50 million, and as a percentage of revenue, capital expenditures and lease originations declined to 5.0% of revenues, indicative of disciplined management of our capital expenditures and leasing commitments.

Turning to capital deployment in 3Q. We deployed \$252 million and repurchased 11.3 million shares. In fiscal '24, DXC has repurchased over 15% of our shares outstanding, which is in addition to the 7.4% of shares that we repurchased in '22 and 10.6% in fiscal '23. As we've communicated in prior calls, we're funding our targeted fiscal '24 \$1 billion share repurchase program through a combination of \$800 million of free cash flow and asset sales.

Through the third quarter of the fiscal year, our proceeds from asset sales is now approximately \$100 million. We have additional sales targeted, which may extend into fiscal '25. And if so, we'll adjust our '24 repurchase plans accordingly. We remain committed to our capital deployment priorities of managing our investment-grade credit rating, investing appropriately in the operations of the company and returning capital to shareholders. There is no change to our approach or our capital deployment strategy.

Now turning to the fourth quarter outlook. In GBS, while 3Q bookings improved, we're seeing longer-than-anticipated conversion to revenue, which reflects continued caution on the part of our customers. As a result, we expect GBS year-over-year performance to be similar to the third quarter. GIS year-over-year organic revenue growth is expected to decelerate compared to third quarter, largely due to lower modern workplace resale revenues. This brings total Q4 organic revenue to minus 6.5% to minus 5.5%.

We are expecting somewhat similar adjusted EBIT margins compared to the third quarter and anticipate a range of 7.0% to 7.5%.

And finally, non-GAAP diluted EPS of \$0.80 to \$0.85. Turning to our full year '24 guidance. We are reducing our organic revenue growth to minus 4.5% to minus 4.3%. Adjusted EBIT margin guidance is lowered to 7.1% to 7.2% and EPS to \$3.00 to \$3.05, reflecting a tax rate of 34% versus prior full year guidance of 30%, which has an EPS impact of \$0.18. We are maintaining our free cash flow guidance of \$800 million.

With that, let me turn the call back to Raul for key takeaways.

Raul Fernandez^ Thank you, Rob, for your detailed update. I want to express how excited I am to be here leading DXC. I'm convinced that we have a significant opportunity to enhance the execution of this company. We have the right team and the right capabilities to enable us to

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succeed. I also want to thank the thousands of DXC customers who place their trust in our team every day for this mission-critical work.

With that, Operator, please open the call for questions.

### **QUESTION & ANSWER:**

Operator^ (Operator Instructions) Your first question comes from the line of Bryan Bergin of Cowen.

Bryan Bergin^ Maybe we'll start with strategy here. And Raul, nice to meet you. I understand you've been close to the daily operations here for just over a month. But as you officially become CEO, can you talk about what changes you may be considering? Kind of what do you consider to be maybe the top one or two specific action items for you here in the near term?

And just as you think about the offerings, all of the offerings that DXC currently have makes sense to remain in the portfolio?

Raul Fernandez^ Yes. I've been spending a lot of time with the business units individually with the geographies and looking at some areas that I think we can execute at a faster, more efficient pace, how we sell, how we solution, how we deliver, how that turns into revenue and ultimately, how that revenue becomes more profitable. There's a lot of little things that add up and make a big impact. And I think a focus on those things, a focus on execution, operational excellence. This business has a lot of rates times hours, but rates times hours can become frameworks.

Those frameworks can become replicable solutions. There's a lot of things that I think we can do that the industry does that I've done over the years in not just my company, but in other companies that I've advised, invested in or been on the board of. And I think it just gets down to a lot of better execution across the board. That also includes messaging. I think as I sit and hear the mission-critical systems that we develop, we deploy and maintain, it's an incredible amount of great case studies, great content, great solutions, great wins for great global brands.

And we really have undersold ourselves in the storytelling and case study area. And so that's going to be another focus area. I think it's a lot of focus on execution across our business units. We talked a little bit about finalizing our go-to-market model. We're accelerating all of that.

So it's about speed, efficiency and delivering better and faster.

Bryan Bergin^ Just a question on the offerings, do they all make sense?

Raul Fernandez^ Yes. I think the offerings all make sense. I think they all have different comps. If you were to sit back as a private company and say how would you value this, you'd probably take a whole different set of comps across the board. I'm only here 40 days.

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I'll have more to say on that in the next call and the one after that.

Bryan Bergin^ Makes sense. Maybe, Rob, one just on free cash flow. So if the move to breakeven in growth may be a little bit more distant in a slower-spending environment, can you talk about what else you can optimize in free cash flow drivers and maybe capital lease outlays as we think about the future here on free cash flow?

Robert Del Bene^ Absolutely. And I think we've we've demonstrated in the prior quarters and in the third quarter that we are tightly managing those capital expenditures and new lease commitments, and we've made steady progress in bringing down those requirements and contributing to the free cash flow. And that's going to continue. That's not a temporary discipline. It's a discipline that will continue into the future.

The working capital management that we exhibited in the third quarter was improved as well, and we will continue that march into the future as well. So I do think there is room for continued improvement across the board, and that's what we're going to drive.

Operator^ Your next question comes from the line of James Friedman from Susquehanna.

James Friedman^ Congratulations, Raul. You mentioned in your prepared remarks that you were anticipating potentially participating, I think was the language in the growth in security. And it does seem to us like it has underperformed the wider market. So I was just wondering, how is it that you're going to accelerate growth there?

Raul Fernandez^ Sure. Great question. Thanks and nice to meet you. I think there's a couple of issues. One is how we have traditionally sold it.

It's been an ingredient across multiple business unit sales and did not have a focus on selling the great people, the great projects, the great case studies that we have as a stand-alone. So we're emphasizing the ability to go to market directly in Mark's business unit and being able to tell the story, both in combination with the other business units, which is kind of the history but also by itself, I got to participate in the last 30 days in an RFP exercise where we made it down to the final four, we didn't make it past the final four, but it gave me a really good sense of where we could do better, how we can position ourselves better.

As you know, that segment is growing, and we're not growing anywhere near the rate of the market. So there's some upside there that I think if we approach it with the right additional talent and the right focus, we can see those results because the demand backdrop is there and our abilities and our capabilities and our people are here. So connecting those two is the first step.

James Friedman^ And then if I could follow up on the insurance segment. So conversely, that's really been a darling child outperforming the other segments and probably the market as a whole. So I'm just curious, when you look at that segment, what is it that differentiates that in the

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marketplace? You had some comments in your prepared remarks. But so what are the kind of standout qualities of the insurance practice?

Raul Fernandez^ I think if you were to look at the insurance business as a standalone, you'd see that it's a mix of traditional perpetual license and maintenance. You've seen that has a mix of SaaS revenue, other business process outsourcing services and other professional services. And I think if you were to look at it and value it on its own, you'd look at very different comps and very different metrics.

Today it is one of six where we're indexing in terms of the metrics that we look at, the metrics we follow, more towards the people side of the business and less towards the SaaS side of the business. And I think we can do a better job at positioning it and also picking the right metrics that matter for the business unit. So that is one that I'm extremely excited about because the fundamentals are there. And I think if we do a better job at telling the story and selling the story, we'll be able to extract more value there.

Operator^ Your next question comes from the line of Bryan Keane from Deutsche Bank.

Bryan Keane^ Just wanted to step back for a second on Mike Salvino. Departure was kind of abrupt there. Maybe you can help us understand what exactly happened with Mike. And then he hired almost the entire leadership team. So I guess my worry would be what's the attrition like for that leadership team?

And do you expect people to stick around now that he's left?

Raul Fernandez^ Great. Thanks for asking that question. We really, as a Board and me individually appreciate the work that he did in stabilizing the company, in executing some asset sales that were very meaningful for the company at a critical juncture and a point in its history. And then, as you said, for bringing on great people. I have spent the last 40 days meeting with them, planning with them, coaching them, getting feedback from them and figuring out how we as a team can operate better.

I am very pleased with the engagement. We're all looking forward to executing better and faster. And so I'm happy -- very happy with the team that's here. And so I just expect us to continue to move forward. I think they see the opportunity.

I see multiple ways to win here. It's not one game plan, not one way. There's multiple ways, and that's a very exciting position to be in.

Bryan Keane^ Got it. Got it. And then just another kind of big picture for you, Raul. Where are we in the transformation of the company, the turnaround? I know Mike was working through that.

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And now it feels like maybe with some transition and a little bit of a tougher market, it might be a few more extra years added to actually do the turnaround. Can you just give us kind of more of a big picture where we are at DXC and how long it might take to get it to where you want it to be?

Raul Fernandez^ Yes. I think if you isolate up the six and you say look, four have great demand backdrop they -- four out of six business units have great demand drop. Maybe some of the near-term project work slows down a little because of global economic uncertainty. But the bottom line is, we are nowhere near the full digital transformation as companies, as countries as nations and AI is now fueling much more of that. And we're very well positioned kind of in this next wave.

If you step back and think about where AI in the near term is going to have the most impact, it's with organizations with large data sets. We have a lot of clients with large data sets that -- and we do a lot of work with those clients, being able to become a leader in those companies to help them in the next transformation I feel super confident about. So the demand backdrop is there.

The reality on the modern workplace and the ITO front, it's clearly a shrinking macro environment. But we have an ability, I believe, to make it more efficient, meaning reverse the decline and then also make it more cash efficient, meaning it will throw off more cash, and help fuel other parts of the business. As we get into the next call, I'll be able to go deeper on how I would look at this business by business unit and metrics that matter. 40 days in, you're going to have to give me a minute here to finish catching up and finish formulating what I think is a better way of approaching this.

Operator^ Your next question comes from the line of Darrin Peller from Wolfe Research.

Darrin Peller^ Look, Raul, I appreciate it's been 40 days, but I know you've also had some experience on the Board. I guess I just want to understand your thought process around some of the most challenged categories in GIS.

So maybe just -- if you could just touch on a bit around what you think -- if you think should anything should change on the strategy from before until today on modern workplace or perhaps cloud infrastructure and ITO. And if there's anything in your mind that might be able to move the needle a little bit faster. It's been an elusive inflection in revenue growth for the company for a long time. And I think we're all hoping to see something that might be a little more innovative on that front. So just any thoughts would be great.

Raul Fernandez^ Yes. Look, I think a couple of thoughts. And again I haven't had as much time to dig in on all of them. But I think modern workplace, when you think about the customer support services and the impact that AI has, the relationship we have with Microsoft, the ability to take what is now a -- still a pretty human-centric centric ticket/issue resolution business process and to apply in partnership very closely with Microsoft tools that will make it ticketless,

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self-service, more intuitive. I think there is a tailwind on that front that should, if we're able to capture some of that business and become more efficient, reverse the decline.

One of the things that that Rob and I pledge is to manage your expectations better. We haven't had a great track record of hitting all the expectations that have been set out in the past. So we want to be measured and we also want to be thoughtful about it. So I'm not going to talk about numbers or reversals in those two business units because I need more time to dig into it. But I know we can do better and we will do better.

Darrin Peller^ And then I guess just very quickly, the progress and the success of the Analytics & Engineering and frankly, the typical growth that we could see out of applications, I think is something encouraging. And so I guess it goes back to the -- we've heard from different executive leadership of the company over the years, but cross-selling, right? I'm trying to take the relationships you have in GIS and sort of harvest some of those customers to provide services that they would need that are really in demand now, right? I mean is that something that you see going well at the company before today? Or is there some room to improve that from your perspective?

Raul Fernandez^ There's definitely room to improve it. And I think it's not just cross-selling, but being smarter at solutioning, how are we engineering our response, hopefully, to something that's not an RFP, is something that we've come up with proactively. If it is an RFP, how are we putting something forward that's differentiated technically that provides us an ability to make more margin that takes examples of work that maybe we've done before and where we can replicate a methodology, replicate a framework, ultimately replicate code and reuse code there's a lot of basic optimization.

If you want to call it that, on how we enter engagements and then some of that technology that we develop and write not just across the company but across other verticals. So again there is no one magic answer, no one magic, Oh, we're going to do one thing differently. We're going to do a lot of things differently. And fortunately, we've got great professionals here from companies backgrounds, experiences with different models in terms of the business units that they ran in the past, how they went to market. And look at someone who started one of these digital companies with myself and three engineers in the mid-'90s with no venture capital, so I use my savings.

I know exactly what it's like to sell. I know what it's like to deliver. I know what it's like to collect the cash. And I know what it's like to scale. And so the numbers are bigger here, but the basic path of doing that, then doing it smarter then doing it in a more profitable way is something that I've lived through personally.

And I see here, I think we can elevate it and then we can accelerate it, and that should show in our financial results.

Operator^ Your next question comes from the line of Tien-Tsin Huang from JPMorgan.

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Tien-Tsin Huang^ Look forward to working with you, Raul. You have a great sort of background and you've seen a lot of different businesses, including a tech and systems integration on media. I'm just curious, sort of what you've learned from that and what you'll bring to the table here as you take on the task here of DXC and given it's been in turnaround mode as a lot of people have talked to you about already, I'm just curious sort of what you'll bring to the table specifically, if you don't mind going through that.

Raul Fernandez^ Sure. Look, I think it's operational experience literally from the ground up. I think it's working with much larger companies, both, again as an adviser, as an owner, as a shareholder, knowing what those transitions are like. but also knowing best-in-class, look, I've sat on the Broadcom board now for over three years, one of the best companies on the planet, does incredible work on M&A. And they're ready for M&A.

Obviously we just did one of the biggest transactions in tech history. But I can tell you that we're not ready right now. We can get ready, we will get ready. But even if we had the desire to use capital allocation in a different way I wouldn't use it that way because we're not ready to do it.

And so I'm very realistic and grounded, but I'm also setting the foundation that when we are ready, we'll know because we're going to keep a dashboard of it by business unit and then that will open up potentially an opportunity to do something on that front. But just to get back to your question, I'm going to take the experiences in big companies and small companies, and I'm going to apply it here. I think one of the things that excites me as I've traveled around and seen the work that we do is we have incredible referenceability, incredible brands, incredible case studies.

We have not done a great job at storytelling. I've dealt with a lot of companies that are literally dreams and a whiteboard presentation and all of a sudden that becomes a product and that product then gets sold and then it grows and it becomes a company and then that gets sold. So I've seen it being done with a dream. And I think the foundation that we have here is just so solid that if we really focus on operational excellence across the board, from preselling solution through delivery and then making it better and faster and more profitable, we'll see the results.

And it's a lot of little actions. And one of the great things here is smarter way of doing work gets amplified by 130,000 people globally. So that's part of the job here is to lead that, identify, lead it and be an evangelist for it.

Tien-Tsin Huang^ That's great. And then just my quick follow-up, and I'll jump off. I know Brian asked about strategy. But just I know Mike Salvino was talking about transitioning from stability to higher performance that always resonated with me. In your mind, is that still the case?

Where are we in that spectrum? Are we still thinking -- are you thinking maybe more in the stability focus is the right call for now, if you follow my question?

Raul Fernandez^ Yes. Look, it's a great question, and I'll be able to answer it a little bit more in more detail on the next earnings call to gauge how long it will take to do some of the basic things

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that we can do better and then how that ultimately impacts new wins, new margins and how that flows through our business units, how quickly we can deliver that. I want to be measured and thoughtful on that and not make promises that we can't deliver on. So great question. I'll have more on the next call on that.

Operator^ Your next question comes from the line of Ashwin Shirvaikar from Citi.

Ashwin Shirvaikar^ Congratulations on the CEO appointment. I look forward to getting to know you better. I guess my first question alludes to the comment you had earlier on this call about how a private entity might look at some of DXC's assets differently. Do you think DXC is better off in public markets? Was that some of the [parts] comment, if you could shed some more light on how you're approaching the business?

Tien-Tsin Huang^ Great. Nice to meet you, look forward to getting together. As I looked at the business units, one of the things that we've tried to do is to say okay [testing class comps], let's not do the, okay we get comped against these groups, best-in-class comp for your business units. So we're in the process of putting that together and looking at the delta between the key metrics the best-in-class is for every single business unit and what the delta is from where we're performing to where we should be performing.

Breaking it down by business unit is super helpful. It makes it real. It makes it personal. It's obviously more accurate, right, because our SaaS software insurance tech business is very different than our services application and engineering business. So that's a process that we're in right now.

We're a public company. We're here. We're going to perform well as a public company. We're going to execute. And so I won't comment on anything beyond that other than learning or taking from being on both sides of the equation, public and private, we're going to extrapolate the right goals, the right lessons and the right targets and then execute on them.

Ashwin Shirvaikar^ Got it. It seems more like a benchmarking and goal setting exercise. Second question is good to hear your points on execution, how it needs to improve. Does that necessarily translate into sort of management exits, potential talent upgrades? Or is it more a comment on capabilities with regards to -- is there an investment cycle coming from DXC?

Raul Fernandez^ Look, I think it's a combination of all of the above, right? In any business, you're competing for the most important thing, which is your human capital and talent. So keeping the great talent that we have, attracting the additional talent that we need to make ourselves better is key in this business, key in any business, but it's absolutely key in this business.

So that will be a continued focus. And I think one thing that does help us is when we do this benchmarking by business unit, you're going to see the areas which -- where you're on point,

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where you're totally off point, and where you're close, and that's going to then drive some decisions about what talent mix you need going forward. So talent is absolutely key here.

And then this company was a combination of two large divisions seven to eight years ago. If that was a private transaction seven or eight years ago, and at least in my experience, you would have just put together a plan much like the best-in-class companies that do acquisitions in the public and private space and fully integrated every process, every system around the world. That wasn't done, and that's being done -- has been done, is being done and needs to continue to being done. But that journey, we're still building. We're still working off some legacy integration that just frankly wasn't there.

And frankly, one of the reasons that I'm here is that we're going to move all aspects of that forward at a much more faster pace and focus on the fundamentals because that's what's going to deliver us a better platform to grow from.

Operator^ Your next question comes from the line of Jason Kupferberg from Bank of America.

Jason Kupferberg^ I wanted to follow up a little bit on that. I'm just wondering, as you think about the different elements and areas of execution. I know you said across the board, it needs to be better. But I guess if you were going to really highlight one or two areas that have the most room for improvement. Sales, marketing, service, implementation, whatever it may be, we would just like to get some of your initial impressions on that front.

Raul Fernandez^ In this change, in our go-to-market model change, one of the things that we will be able to get a better end-to-end accountability on and then be able to track is pre-sales solutioning, sales execution, use of existing resources, net new resources that we need. So if you think about the whole life cycle of solutioning something, staffing something, delivering the product or the service or the application or solution and doing it in a way that you plan to do it, meaning the budget was right, you're hitting it or beating it. That is one, let's call it, fundamental operations in that workflow that we're very, very focused on.

So that's one. The second one is absolutely on marketing. And I'm not talking about marketing with logos on cars because we're relooking at all of that. It is great for some brands, and it's appropriate for some brands. But frankly, I see a lot of value in putting those marketing dollars at the business units level so they can make a great connection with their customers.

We have a great relationship with our partners in some of the global spend in marketing.

We love the work that we do. We appreciate them. We love the brand association. But I think as someone that sees the different buyers that we have by business unit, they're probably best served by having more control over their marketing spend and targeting it more efficiently and effectively against the 100 or 200 buyers that really matter in their business units. So global brand is great.

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We love our partners.

But I think going forward, you'll see a more business unit-centric approach to thinking about it and then executing on it.

Jason Kupferberg^ Okay. That's good color. And Rob, maybe one for you, just looking at organic revenue growth, I know you came in right in line with the middle of your range for the third quarter. You talked about some tough comps for the fourth quarter. Those were factored into the original guidance.

So I just wanted to isolate what's (inaudible) since last quarter, since I know we are taking the overall full year organic growth down a little bit for the year.

Robert Del Bene^ Yes. So our guide from -- for the full year from two quarters ago had somewhat of a recovery in our project-based businesses in the back half of the year and that really has not materialized in either apps or A&E. So that's the primary reason for the taking down of the guide. Now going from third quarter to fourth quarter, we see GBS is -- the fourth quarter will look a lot like the third quarter. It's going to be flat in the range of flat year-to-year.

The mix is a little different. In the third quarter, we had apps and apps declining, and we had insurance and A&E growing about 2% each. In the fourth quarter, with the good bookings that we had in apps, we see improvement in that business. We see a little bit of a decline quarter-to-quarter in the A&E business, and then we have a really tough comp in insurance. So that -- but bottom line, GBS will be about flat again year-to-year.

GIS in the fourth quarter will deteriorate a little bit, the decline will get a little bigger and that is almost entirely due to modern workplace where we had -- first, we had a tough compare to last year in resale, plus we have a quarter-to-quarter decline in resale going from 3Q to 4Q.

So the entire deterioration is really a modern workplace statement, and it could be isolated to resale. The services modern workplace will be flat quarter to quarter. And we did have -- we're encouraged at the bookings in the third quarter in the GBS business were strong, and that gives us -- that's promising.

One more question, please, Operator.

Operator^ And your last question comes from the line of James Faucette from Morgan Stanley.

James Faucette^ Great. I wanted to ask a couple of questions that maybe as follow-ups. Well, it seems like in your commentary, you feel like that there's been a lot of resources that are being used that could be better directed or where you could get better return, etcetera?

And I guess I'm wondering, particularly in the context of capital allocation over the last few years, whether you think that you have all the necessary tools and resources to make the change

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you're looking for? Or is there incremental investment that we should think about? And it goes a little bit to Ashwin's question, I guess and I'm just looking at the kind of the growth rates and even some of the things that are happening in the market generally and wondering if there isn't a need to at least increase some incremental investment to accelerate the change? Or just would love to get your opinion on that view.

Raul Fernandez^ Yes. No, great. And I came in, obviously with some knowledge and an open mind. And while I think we've done a great job on capital allocation, and we'll continue to use most of it on the buyback program, I don't rule out like could some of that be used to increase the value and increase the performance of the company faster. I think we have the leadership, we have the best practices, we have execution experience that we have all lived through.

We need to apply that here. There is a lot of upside to working smarter, working better, working more collaboratively with the tools we have in place, the people we have in place and the investments we have in place. So that's my first goal is to optimize what we have in place. There's -- like I said before, there's multiple ways to win here, and we don't have to get them all right at 100%. But if we work on it and again going into the business units and getting very detailed, on their action plans, if we work on it, we can make ourselves better, and that will show up across the board.

James Faucette^ Great. I appreciate the candor on that. And then Rob, I think in your prepared remarks, you indicated particularly on the GBS side, the time of -- time to revenue is extending a bit, and it seemed like it was in part because of decision-making and prioritization of customers. What's your sense in terms of where we are in that process? Are we starting to see some stabilization?

Or is there's still a fair amount of uncertainty as to kind of what that time to revenue and beginning of work and cadence is going to look like on a go-forward basis?

Robert Del Bene^ Yes. What I was referring to is in our A&E business, we had a very good booking in the bookings level in the third quarter. And as we call through the detail of that, we found that there was a fair amount of renewing a little bit early. Now in that business, this is not like a big, huge renewal that you get in an outsourcing business or a big apps deal. This is ongoing renewals of project-based services.

And as we went through the waterfall of those bookings turning into revenue, we found that the renewals came a little bit earlier than they normally do. And I think it's just customers prioritizing that spend and planning for that spend. So it's encouraging in that they're indicating that the spend is important to them and part of their budgeting process. But the transition into revenue is just going to take a little bit longer.

And since this is project-based services, that little bit longer is we're not talking quarters, we're talking months.

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Operator^ Thank you. And with no further questions, I'd like to turn the floor back over to Raul Fernandez.

Raul Fernandez^ Thank you so much. Listen, thank you all for joining us tonight. Part of our new approach to communications is to be engaged more on this front. You'll see more of that from Rob and I. And I look forward to meeting you in person and having more dialogue as the days and weeks and months come along.

So thank you again. Good night.

Operator^ Thank you. And this does conclude today's conference call.