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DXC Technology Services, LLC

Q4 FY25 Earnings Call

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Raul Fernandez
DXC Technology Services, LLC; President and Chief Executive Officer
Robert Del Bene
DXC Technology Services, LLC; Chief Financial Officer

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Morgan Stanley; Analyst
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BMO; Analyst
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PRESENTATION:

Operator^ Hello. Welcome to the DXC Technology fourth quarter and Fiscal Year-End 2025 Earnings Call. (Operator Instructions) I would now like to turn the conference over to Roger Sachs Vice President of Investor Relations. You may begin.

Roger Sachs^ Thank you, Operator. Good afternoon, everybody. Welcome to DXC Technology's fourth quarter and fiscal year end 2025 earnings call.

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We hope you had a chance to review our earnings release posted to the IR section of DXC's website. Speaking on today's call are Raul Fernandez, our President and CEO; and Rob Del Bene, our Chief Financial Officer. Let me walk you through today's agenda.

First, Raul will share an overview of our results and provide an update on our strategic initiatives. Then Rob will take you through our financial performance, full year fiscal 2026 guidance, and offer some thoughts on our outlook for the first quarter. After that, both Raul and Rob will take your questions.

Certain comments made during today's call are forward-looking and subject to risks and uncertainties that could cause actual results to differ materially from those expressed on the call.

You can find details of these risks and uncertainties in our annual report on Form 10-K and other SEC filings. We do not commit to updating any forward-looking statements during today's call.

Additionally, during this call we will be discussing non-GAAP financial measures that we believe provide useful information to our investors. Reconciliations to the most comparable GAAP measures are included in the tables that are in today's earnings release.

With that, let me turn the call over to Raul.

Raul Fernandez^ Thank you, Roger.

Our fourth quarter results represent another important step towards our goal of achieving sustainable, profitable revenue growth.

We are gaining momentum with bookings up more than 20% resulting in a book-to-bill ratio of 1.2. This marks our second consecutive quarter above 1.0, bringing us to a second half bookings growth rate of 24%, a clear indication of traction in the market and building the foundation to drive long-term top line growth.

Reversing eight consecutive years of revenue decline remains the highest priority for me, our leadership team and the entire DXC organization. The rebuilding of our operational capabilities is deeper and more extensive than I originally appreciated.

But the work the team is doing is addressing structural, operational and cultural issues that will better position us going forward. Great companies are built by teams of experienced people who share an intense passion to win.

I am proud that we have recruited 22 great new members of our extended leadership team in the last 15 months. Each brings exceptional skills with the intensity to win.

And in that time we also rotated out 14 executives. DXC has had significant turnover in top executive leadership since its inception, and leadership stability is absolutely critical to ensuring we give our turnaround the time attention and persistence it deserves.

In that spirit, I'm happy to announce that Rob and I have received equity grants designed to secure our continued leadership through fiscal year 2028. These grants align our compensation with sustainable long-term shareholder value creation. Another area of critical importance to us is to deepen our customer relationships and identify new opportunities to expand our pipeline.

I recognize this gap in our organization and started rebuilding these capabilities from the ground up with an eye toward operational discipline and improved execution.

My team and I have reviewed quota attainment data and segmented the existing population based on achievement, we developed strict quantitative performance criteria for 2025 year-end reviews with a documented process.

We held CEO calls with HR business partners and sales leaders to communicate changing expectations and initiated better reporting for tracking sales performance.

In preparation for our new fiscal year, we completed a quota deployment audit to ensure proper coverage for fiscal year 2026, further align pay incentives for our sales organization and onboarded our first Chief Revenue Officer, TR Newcomb, someone I've worked with in the past and who brings an incredible amount of focus, energy and operational excellence to the role.

Our work has led to continuous improvement in our systems, processes and pay structures all of which will lay an even stronger foundation.

DXC has been a significant global technology player for over 40 years in four major technology cycles. Personal computing in the '80s, Internet computing in the '90s, mobile and cloud computing in the 2000 era, and now AI in 2020 and beyond. This is a company with tremendous assets, loyal customers deep and broad capabilities and a global footprint with local excellence.

The impact of AI is just beginning to accelerate within our client base and AI spending is increasing year-to-year. This comes at a time when our customers are favoring further consolidation of their IT spending, putting DXC in a unique position to compete with the combined power of our full stack infrastructure and app management capabilities.

We have built an early, but strong track record of delivering real bottom line results for our customers in key areas including modernization, technical support, development time testing, process improvement, deployment and maintenance by harnessing the power of AI.

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While it's very early in the Gen AI adoption cycle, it is clear to me that we are very well positioned to lead our clients into what I believe is the largest transformational technology opportunity of our lifetime.

One of my top commitments as President and CEO is to spend as much time with our current and prospective customers as possible.

During my tenure, I've met with over 100 customers which has equipped me to better understand how we can more effectively meet their changing needs and identify new opportunities for mutual growth. New logos of significant size have been scarce in DXC's recent history, and this is something we have been laser-focused on improving.

We are thrilled to share that Carnival Cruise Line just tapped DXC to manage its critical infrastructure powering operations across the entire fleet. This was a highly competitive bid with ISG advising throughout the selection process, and we won.

We won because we are uniquely qualified, we brought the full weight of our infrastructure capabilities enterprise applications and technical muscle to the table and DXC was chosen to be their critical partner.

Carnival is one of the largest cruise lines in the world that hosts over 6 million guests a year. Their bar is very high. Everything must run safely and flawlessly from shore to ship with great customer experiences. That's where we come in.

We deliver complete operational confidence so Carnival can focus on their customers, knowing every system is firing on all cylinders and running smoothly, no matter where they are. This win isn't just about one client.

It's a clear signal that we are a trusted partner and operator for some of the world's largest brands. Creating a winning culture, which sets the foundation for us to win consistently in the marketplace is not an overnight mission.

It requires experienced leaders who are able to translate vision into action with sustainable results.

Since becoming CEO, I have focused on increasing the clarity, consistency and transparency of internal communication embedding a start-up ethos that emphasizes flat, fast and learning-focused collaboration and ensuring that we all think in terms of generating sound financial results while driving profitable growth, not just growth for growth's sake.

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Over the past year, we've made targeted investments and brought in new leaders to jump start innovation across all our offerings, redesign and expand our AI capabilities and software platforms and streamline how we develop applications using Gen AI.

We expect fiscal 2026 to be a year of continued disciplined execution to sharpen operations and drive efficiencies. Despite near-term uncertainty over tariffs, we are clear on our strategy confident in our team and committed to executing with the discipline required for DXC to generate sustainable and profitable growth.

Reflecting our confidence in the company's future, we will restart our share repurchase program. This underscores our commitment to delivering long-term value to shareholders. With that, let me turn it over to Rob.

Robert Del Bene^ Thank you, Raul. And good afternoon, everyone. Today I'll go over our fourth quarter results, touch upon our full year performance and then provide guidance for the full fiscal year 2026 and the first quarter.

Now starting with the fourth quarter. Total revenue of $3.2 billion was slightly above our expectations, declining 4.2% year-to-year on an organic basis.

We delivered another strong quarter of bookings, up more than 20% year-to-year resulting in a book-to-bill ratio of 1.2. Growth was broad-based across all of our offerings and markets. Adjusted EBIT margin was 7.3%, down 110 basis points year-to-year and like revenue, slightly above our expectations.

Performance was driven by investments in our employee base, improving the capability of our sales force and investments in marketing and communications and IT.

Similar to the dynamics we saw during the first three quarters, the decline in revenue was offset by labor and nonlabor efficiencies. Non-GAAP gross margin for the fourth quarter came in at 24.2%, down 40 basis points year-to-year and non-GAAP SG&A as a percentage of revenue expanded 160 basis points year-to-year to 11.3%.

Our gross margin and SG&A performance were driven by the same factors just mentioned for adjusted EBIT.

As a reminder, the year-to-year changes in our non-GAAP gross margin and non-GAAP SG&A are normalized for the reclassification of certain business development costs to SG&A.
Non-GAAP EPS was $0.84, down from $0.97 in the fourth quarter of last year, driven by lower adjusted EBIT, partially offset by a decline to noncontrolling interest and lower net interest expense.

Now turning to our segments. GBS, which represents 51% of total revenue, was down 2.4% year-to-year organically, with a profit margin decrease of 240 basis points to 10.9%. The margin decline was driven by investments in our employees and to further build our industry-leading insurance capabilities.

Within GBS, consulting and engineering services had a second straight quarter of strong bookings up 9% year-to-year with a book-to-bill ratio of 1.22. The trailing 12-month book-to-bill for CES has now increased to $1.08.

Last quarter, we noted an increase in larger projects in our CES pipeline.

In the fourth quarter, we converted those opportunities to bookings.

While these bookings have less revenue yield in the short term, they contribute to building our backlog and future revenues. The growth profile of bookings in the quarter was more heavily weighted to enterprise applications and data and AI consistent with our growth strategy of CES.

Organic revenue for CES declined 3.9% year-to-year, reflecting ongoing market pressures on custom application projects. Insurance and BPS organic revenue grew 2.7% year-to-year.

Our insurance services and software business, which accounts for about 80% of the total, grew 1% year-to-year organically. Through the first three quarters of the year, the insurance business grew at mid-single-digit rates. Underlying performance in the fourth quarter was similar with the growth rate largely impacted by onetime items.

We have confidence that the growth rate for the insurance business will continue to perform at mid-single-digit growth rates for fiscal 2026. GIS, which represents 49% of total revenue, declined 6% year-to-year organically, the second consecutive quarter of narrowing the year-to-year revenue decline.

The improvement was driven by cloud offerings and workplace support services. fourth quarter bookings for GIS grew 33% year-to-year with a book-to-bill of 1.28.

It was the second consecutive quarter of strong bookings exiting the year with a 12-month book-to-bill of 1.03. Profit margin declined 50 basis points year-to-year to 7.0%, primarily reflecting our increased investments in our workforce.

We continue to drive cost savings through optimization of software and data center costs.

Now let me briefly touch upon our full year fiscal 2025 results. Fueled by our strong performance in the second half of the year, full year bookings increased 7% year-to-year significantly better than the fiscal 2024 performance.

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With bookings up 24% in the second half of the year, the book-to-bill ratio was 1.28 in the second half and 1.03 for the full year. Total revenue was $12.9 billion, down 4.6% year-to-year on an organic basis with GBS declining 1% and GIS down 8.2%.

Adjusted EBIT margin expanded 50 basis points year-to-year to 7.9%, driven by the execution of our cost reduction initiatives which we accomplished with significantly less restructuring than originally estimated. Non-GAAP diluted EPS was $3.43, up 11% year-to-year primarily driven by a lower share count and a higher adjusted EBIT.

Now turning to our cash flow and balance sheet. For our full year fiscal 2025, we generated $687 million of free cash flow, above our most recent expectation of $625 million largely driven by lower restructuring spend and better working capital management.

In the year, we executed on our strategy of minimizing new financial lease originations and funding equipment purchases, primarily through capital expenditures, which is a negative impact to free cash flow, but reduces our debt levels.

As a result, capital expenditures increased year-to-year.

Without this change in approach, free cash flow would have increased year-to-year and CapEx would have declined. Total debt at fiscal year-end 2025 was equal to $3.9 billion, down $213 million year-to-year including $298 million of capital lease and asset financing paydowns. Total cash on our balance sheet increased by approximately $570 million year-to-year to $1.8 billion.

This was driven by our free cash flow generation and asset sale proceeds of approximately $190 million.

As a result, we lowered net debt by $785 million to approximately $2.1 billion.

As a reminder, we do not include asset sales in our reported free cash flow.

At the beginning of fiscal 2025, our financial priorities centered around strengthening our balance sheet, creating financial flexibility and reducing excess capacity with the help of restructuring spending.

We accomplished these objectives while spending less than originally planned on restructuring.

With our improved financial position in fiscal 2026, we will focus on the following financial priorities. We'll continue to invest in our business to accomplish our top priority, driving sustained profitable revenue growth.

We will continue to reduce outstanding debt by minimizing financial lease originations and paying down a portion of our senior notes maturing in January of 2026. And finally, we plan to return $150 million to shareholders in fiscal 2026 in the form of share repurchases. Now let me provide you with our full year fiscal 2026 guidance.

We expect total organic revenue to decline 3% to 5%. GBS is projected to be down low single digits with consistent performance during the year reflecting the larger, longer duration deals booked in the second half of fiscal ‘25 and increased economic uncertainty, particularly with shorter-term project-based services.

In GIS, we are projecting organic revenue to decline mid-single digits, which reflects an improvement to last year’s rate of decline.

We expect adjusted EBIT margin to be between 7% to 8%, which reflects our intent to continue to build our revenue growth capabilities and invest in the business.

With this revenue and adjusted EBIT margin guidance, we expect non-GAAP diluted EPS to be between $2.75 and $3.25.

We expect free cash flow for the fiscal year 2026 of about $600 million, reflecting our EBIT guidance and about $30 million of increased restructuring spending as we complete the execution actions planned in fiscal ‘25.

Consistent with prior years, free cash flow generation will be strongest in the second half of the fiscal year. And now for the first quarter of fiscal 2026, we expect total organic revenue to decline between 4.0% and 5.5%.

We anticipate adjusted EBIT margin to be in the range of 6% to 7%, a function of lower revenue and first quarter seasonality with margins improving throughout the second half of the year. And finally, we expect non-GAAP diluted EPS of $0.55 to $0.65.

Before wrapping up, I want to highlight that beginning in the first quarter, we will report our financial results under a new segment structure that better aligns with how we now run the business.

We will report three segments: Insurance Services and Software; Consulting and Engineering Services; and GIS, which will include cloud and ITO. Modern Workplace, Security and horizontal BPO.

We plan to provide restated historical results under our new reporting segments prior to the release of our fiscal first quarter results.

With that, let me turn the call back over to Roger.

Raul Fernandez^ Thank you, Rob.

We now like to open the call to your questions.

Operator, can you please provide the instructions?

Operator^ (Operator Instructions) Your first question comes from Bryan Bergin with TD Cowen.

Bryan Bergin^ I wanted to just kick off on demand and the broader question about kind of what you saw as you moved through the quarter and then post quarter April into May.

If you can comment on kind of what you've been seeing by industry as it relates to the ones that are more product-based that would have direct implications for tariff dynamics versus those that are not?

So any commentary as you've seen in demand evolve, particularly if you've seen anything in the most recent week change just given, I guess better directionality and geopolitics.

Raul Fernandez^ Sure. It's Raul here. Let me start. Look, we've had really good progress and good wins at the mega level, $100 million plus and at the strategic level of $5 million to $100 million. The $5 million under is the category that's highly discretionary and easier for corporations to turn on and turn off.

There are some segments where there has been some softness since early April.

Those are -- I'm going to hand it over to Rob now.

Robert Del Bene^ Yes.

We -- Bryan, as we look at the pipeline, consumer industries and retail the pipeline has dropped, particularly in project-based services.

So it's been concentrated. The drops have been concentrated there and a little bit also in the media and entertainment industry, which is not obvious why, but it has in those two industries. The pipeline has gone down a bit. The rest of the industries are all strong, but banking, capital markets, manufacturing, public sector, insurance are all really robust for us.

The other thing I will mention, I'll just second is that project-based services pipelines are solid, meaning the below $5 million, but really robust in the -- we call them the strategic segments between $5 million and $100 million, which are more complex, a little longer in duration, but the pipelines there are really solid.

Bryan Bergin^ Okay.

Okay. I appreciate that.

Then for my follow-up on free cash flow.

So the $600 million target, can you help -- can you bridge from fiscal ‘25 levels to this ‘26 target and we speak to kind of free cash flow post finance lease expectations as you go through the year?

Robert Del Bene^ Yes. The bridge going year-to-year into ‘26 is simply the ‘25 result adjusted for the after-tax EBIT guidance that we gave and the increase in restructuring by about $30 million.

So that implies the rest of the dynamics of free cash flow are essentially flat in our guide.

The chart we showed in the earnings presentation is meant to demonstrate the strength of our underlying free cash flow and the consistency of performance and while the number -- the headline number for free cash flow was down year-to-year ‘24 to ‘25 [ph].

When you take into consideration the lease originations on a capital lease financing that we have done in the past and factor that into the equation if we had in the past instead of financing those capital purchases, run them through capital and free cash flow, it shows that we’re improving free cash flow consistently over the last two years.

So strong underlying, very good underpinning of free cash flow performance for the company.

Bryan Bergin^ Okay.

I know the capital finance lease piece was like just under around $300 million for this past fiscal year. Where do you expect that to be comparable?

Or do you still see that being lower for ‘25 [ph]?

Robert Del Bene^ We see those because the originations were far lower in fiscal ‘25, that amount is going to drop year-to-year. That’s going to decline nicely in ‘26.

Operator^ The next question comes from Jonathan Lee with Guggenheim Partners.

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Jonathan Lee^ First, can you help decompose what's contemplated in your outlook at both the high end and the low end of the range from a macroeconomic perspective?

Robert Del Bene^ Yes. Jonathan, so we've -- let's take the first quarter revenue outlook of minus 4% to minus 5.5%. In that -- in that range, we've left room at the low end for uncertainty.

So we traditionally have given a 1-point range one quarter out, we widened it to 1.5 points to give us that room at the low end. The -- so we don't see that exposure sitting here today but we left room for it.

And we gave a traditional 2-point range on the full year '26, but we did account for -- similar to first quarter, we did account for within that range some exposure at the low end if conditions deteriorate.

So we've taken the uncertainty, we think we've taken the uncertainty into account in both the first quarter and full year guidance.

Jonathan Lee^ Appreciate that color. And just as a follow-up, how would you characterize the pricing environment and sort of what you've seen through the quarter and how that may compare to what you saw last year?

Raul Fernandez^ Yes. The-- for us, the pricing environment has been very stable.

When I say that, for us, in particular, at for mega deals, we've made improvements as we have renewals coming due.

So that environment has been favorable for us in project-based services, everything below the mega deal, both strategic projects in the category and the below five categories have both been very stable for us.

So that's actually been good for us.

Operator^ The next question comes from James Faucette with Morgan Stanley.

James Faucette^ I just want to ask structurally your Gen AI spend -- or Gen AI spend generally has been increasing. How is that being reflected in your P&L?

and now and where are you seeing that show up?

And I guess maybe more importantly, how fast are these projects growing?

And what's the relative size compared to your typical engagements.

Raul Fernandez^ Yes. Look, the spend from major corporations in the last two years have been in the smaller side.

So it's $5 million and under and they've been pilots to prove out proof points, meaning great set of building blocks that we're putting in place with regards to replicability, with regards to scale of our solutions and that's key for us in terms of taking the opportunity, the AI opportunity for our clients in different industries and being able to bring them real results, real case studies that have ROI behind them and having them quickly adopt.

So I'm super excited about the demand on that front.

We are still very, very early in the cycle, but we are very, very, very well positioned for several reasons. And let me just add two more.

One of the clear considerations for companies as they're looking to engage any part of their business functions into any sort of Gen AI work is to look at their data readiness, their infrastructure readiness and their people and process readiness, and we are uniquely positioned to have incredible insight there.

So I feel very, very strong about our early returns on that front with our customers and the foundation we're building because that foundation will be part of our growth in the future.

James Faucette^ Got it. Appreciate that.

It seems like you're seeing increasing bookings.

Obviously the time to convert that to revenue is -- it takes a little while, and that makes sense.

But I'm wondering if you can talk about how the duration of the new contracts you're signing in compares to what you've done in the past and how that may be improving, if at all, your revenue visibility?

Raul Fernandez^ I think number one, and I'll turn it over to Rob in a second, is we're building a bigger, more qualified pipeline through the fundamental restructuring and rebuilding of our sales operation.

I went into a lot of detail in the remarks to begin with around that because it gives you some insight as to the level of foundational work that was needed in that particular area. And now with a great new leader that I've worked with in the past here taking that and operationalizing it and scaling it is key for us.

We’ve got the building blocks in place now.

And frankly, if you think about the type of work that we’ve done in sales, we’re doing similar work across every business function. And now with our leadership team in place, we’ve got not just the foundation set in the right direction, but leaders that can continue to grow.

Robert Del Bene^ James, it’s Rob. Let me just throw in one more comment.

So in our CES business, where the pipeline has been very good, and the bookings were very strong in the strategic project category, that means between $5 million and $100 million. Those projects are typically more complex, they’re longer in duration.

So we are experiencing within the CES business, that longer duration entering into our backlog and revenue projections going forward.

So that’s reflected in our guide.

So that became more pronounced in the third quarter and into the fourth quarter where it was really evident to us.

So if we continue to see -- and hopefully, we will, the bookings in that category increase because their strategic enterprise apps related as opposed to custom apps. It’ll be really good for the business, but the yield turn the conversion into revenue is extended a bit versus traditional custom apps, smaller projects.

Operator^ The next question comes from Keith Bachman of BMO.

Keith Bachman^ Yes. My question follows that is more broadly, what are the conditions in order to generate revenue growth.

So I think investors are a little bit disappointed with the fiscal year ‘26 guidance, call it, negative 4% at the midpoint. You talked about maybe duration is impacting that conversion of what appears to be solid bookings into revenues.

But what longer-term message do you want to leave with investors about what would cause the business to turn to a positive number.

I don’t know if you want to venture this far, but when would that be?

Raul Fernandez^ Sure.

So look, the foundation elements there are both quantitative and qualitative.

On the quantitative side, we spoke a little bit about the progress we've made in bookings, the trailing book-to-bill and also the increase in size and quality of our pipeline. That's key.

The size and quality of our pipeline and also the effectiveness of our ability to win those are all part of execution and having a better sales and marketing capabilities, and that's both in terms of human capital and actual materials that we're bringing to market are key to that.

So for me, it falls into two areas are the -- is the foundation in place, meaning the story is in place, the solution in place, the bidding proposals in place, the people to lead those. Do we get the opportunities, absolutely get the opportunities?

Can we execute?

Yes. Can we execute at scale?

That's the key in terms of timing, how quickly can we get to scale. And again the rebuild was pretty substantial. We've got that in place and we've got key leaders in place as we go throughout the year, I feel that we'll have better insight as to when we'll see the turn.

Keith Bachman^ Okay. Maybe my follow-on then is do you think the underlying markets you serve are growing in your seeding share?

Or do you think the markets that you serve, not the broader IT services are contracting and you're doing better, so to speak.

I'd like to hear within that context, maybe you could flush out a little bit on the Carnival Cruise Line deal about why do you think that -- why do you think that you won that deal?

And how important was price in the ultimate conclusion?

Raul Fernandez^ Yes. Great question.

We have more than enough opportunities in every vertical that we serve in every geography that we're in. AI is not -- an AI adoption isn't segmented by geographies or verticals.

It's happening across every industry and every company.

So the opportunity is there. That's a full stop.

Our ability to win is executing on the big and small things.

One of the things that I'm reflecting on, which has been great with regards to Carnival is that I was in one of the very early pitches with the team, new teammates that had just joined us were part of the bid and proposal and solutioning team.

And we competed against 12 others and it was a very, very good competition at the end, we won across the board on all the key metrics, but it wasn't down on price, it was on capability. It was on being a proven partner.

It was on having the foundation, technical foundation, leadership, partnership to take them to another level.

We were able to clearly convey that in terms of what we bring to the table, and that was a great proof point and a great win. The key here is to scale that over and over again.

Demand is there.

We have presence, we have customers.

We just have to scale the winning motions that led to a great, great new partnership with Carnival.

Operator^ The next question comes from Darrin Peller with Wolfe Research.

Paul Obrecht^ This is Paul Obrecht on for Darren.

So now we're a few quarters into the revamped go-to-market approach.

Can you just touch on what the company's cross-sell motion looks like today?

And as we're improving engagement with clients and helping build their understanding of all DXC's offerings, are you seeing incremental demand from GIS clients for the GBS offerings?

Raul Fernandez^ Yes. We've recently begun to hold client engagement inside forums where we bring multiple clients across different industries together to really talk about the current challenges, the opportunities there are with AI, the proof points that we've got with real case studies and real return on investments.

And they've been great to participate and have been in a couple of them.

What it's clear -- what's clear is that when customers appreciate the full breadth of capabilities that we have from the infrastructure side, all the way to the application and AI and custom development side, we are one of only a handful of players that both have the end-to-end capabilities and also can deliver it globally with local excellence.

So we are very, very well positioned to continue to build on that.

We have to just get the motions in place to scale solutioning, to scale premarketing to target opportunities better within our existing customer base and turn that into revenue quicker.

Paul Obrecht^ Great. That's helpful.

Then Rob, if we look at the margin guide for 7% to 8% for the year, can you just walk us through the bridge from the fiscal '25 margin to this range?

Then you're guiding to 6% to 7% for the first quarter.

So just curious on the drivers for expanding margins throughout the year.

Robert Del Bene^ Yes. The -- so the -- from the -- to the midpoint, the drop is about 40 basis points to the midpoint of the guide on a year-to-year basis.

It is a combination of the revenue declines offset by cost -- disciplined cost management, which we demonstrated we are capable of achieving in fiscal '25.

So we're going to repeat that to offset any revenue declines.

Then we have other cost reductions in excess of that to cover investments for the most part, but we have left room in our guide for an increase in investments year-to-year.

And bottom line, that's -- that really accounts at the midpoint for the decline in margin is leaving room for investments to help us continue to progress on this growth journey.

So that is the number1 factor in the margins at the midpoint. And again as we did in '25, we'll monitor that throughout the year and invest appropriately and make sure we're getting the yields we need to from the investments.

Operator^ (Operator Instructions) Your next question comes from Jason Kupferberg with Bank of America.

Tyler DuPont^ Raul and Rob, this is Tyler DuPont on for Jason. Raul, I wanted to start by asking about the current leadership structure. You mentioned you've onboarded 22, give or take new members.

If I heard you correctly to the extended leadership team since you are at the helm of DXC. The new three-year employment agreement was interesting to see this evening.

So at this point, what gives you the confidence that you have all the building blocks in place to improve the second derivative and growth rate and ultimately end up in positive territory?

Robert Del Bene^ Yes. Look, one of the things that gives me confidence is that these great leaders that I've worked with in other companies have voted with their feet and they've joined us. They see what I see. They see an opportunity to take an incredible company that has incredible customers and solutions that have been deployed and use that as a launch pad to really take advantage of the AI opportunity that's in front of us.

So I'm very encouraged that we've been able to give the caliber of new talent in.

And again some like TR are just in for a month or two, some have been here for a year.

But in total, I've been here 15 months.

I think that the team that we've got in place has both the experience and the capacity from an execution standpoint to take what we have been fixing and building and scale it.

Tyler DuPont^ Okay. Great.

So I guess as a follow-up, I mean there have been several bookings related questions after night, and I thought it might be able to pile on and ask one more myself, but from a slightly different lens.

It was encouraging to see book-to-bill on an LTM basis above one for both GBS and GIS. I think that's the first time since June of '23 that we've seen that.

But just given we've seen a decent amount of these contracts moving from pipeline into bookings and then ultimately into revenue. Just from a sustainability standpoint, what's the level of visibility that DXC has into being able to backfill that pipeline to make sure that once the bookings convert to revenue, we're still on a strong footing.

Robert Del Bene^ So we have -- the visibility begins with the opportunity pipeline -- and we have a pipeline that supports sustainability.

We have confidence that pipeline will progress, turn into actual bookings and then convert to revenue.

So it all starts with identification pipeline and progression, and we've improved performance in all areas throughout '25, and we expect to continue to both improve that performance and progress the current pipeline, which is good and continue to add more opportunities as we progress throughout the year.

Raul Fernandez^ And we've talked a lot about the pipeline, the opportunities, both quantitatively increasing but also just from a qualitative standpoint, from a renewal standpoint, we're also more successful in renewing existing contracts on terms that both the customer and we are happy with -- so that's another factor in terms of being able to build a solid foundation to growth.

But it really does begin and end with a better, bigger qualified pipeline.

Then getting that timed correctly so that we can convert that to revenue and building it quarter-over-quarter to a point where, mathematically, you can see a trajectory that's positive.

Operator^ The next question comes from Jamie Friedman with Susquehanna.

James Friedman^ I wanted to ask about insurance.

So are you -- did I hear you say that you're going to break that out as a segment in more detail. I was wondering if that's the case, and sorry, if I heard you wrong, I'm sorry.

Then if so, what the rationale for that?

That's the first one on insurance. And also on insurance.

Could you just revisit where you are in the revenue recognition?

I remember there was some journey between like term and license and subscription. Is that still part of the plan?

Is that underway?

Where are we in that process?

Robert Del Bene^ So Jamie, it's Rob.

We are going to break out -- you did hear that correctly. We're going to break out insurance as a separate segment beginning in '26 and the rationale for that is simply -- it's a reflection of how we manage the business.

The three segments that we are going to be disclosing in '26 or the management system we use internally, right?

And so that's the rationale.

Your last question, I think it's related to in the past, we've discussed progressing and developing our SaaS business within insurance.

That is a longer-term strategy that we have.

We've started down that road and as we progress down that journey, we'll think about the appropriate time to break that out separately as we report insurance as a separate segment.

James Friedman^ Okay.

Then for my follow-up, by the way I like a lot of these new slides to Slide six on the technology innovation cycle is helpful. I guess bigger picture role. Do you feel like if you look at this continuum, where you put Internet mobile cloud AI, I'm just looking at Slide 6.

Is this -- like some of these technologies, I think are (Technical Difficulty) it can be deflationary for the service provider, some create more advantage. How do you feel about your hand and your view of the technology estate relative to what's going on in tech innovation right now?

Raul Fernandez^ Yes. No. I feel great. I think that -- and I spoke about it earlier, our insight in terms of our customers with regards to their infrastructure, their people, their processes, their data readiness, that insight is incredibly valuable, and it makes us best positioned to help them take on journeys In the AI front that are both targeted and meaningful and have a real ROI.

So for us, it's marrying the existing knowledge and relationships that we have with the proven capabilities that we've deployed across multiple industries that have real return on investment and cross-selling that more effectively and frankly, just being better at communicating the real results that we're seeing.

But we are very, very well positioned. If you look at that set of technology super cycles that you were referring to, I started my career after the PC super cycle and the Internet super cycle.

I believe that this actually has more disruption and more capability to really change how companies operate globally, and we're in a great position to be their partner.

Operator^ The next question comes from Rod Bourgeois from DeepDive Equity Research.

Rod Bourgeois^ And I just want to hone in on one topic, and that is the investment plans going forward.

So I just want to ask about your priorities or investing in new solution capabilities in order to drive that more positive growth.

If you could give us any sense also of the magnitude of investments that you're planning over the next year relative to your current investment pace. You said a little bit about that in the margin bridge, but it might be helpful to say more.

But the main question really is what are the specific solution areas that you're investing most in to drive the profitable and positive growth?

Raul Fernandez^ Yes. It's replicability of large capabilities that are repeatable capabilities that our clients are asking for.

We're in the process of putting together great frameworks that we're going to be rolling out again as part of the new team that's come in place to take the point work that we've got going around the globe, package that up create a comprehensive story and be able to both not just cross pollinate internally, but use that as an ability to generate what I believe is going to be great sales opportunities for us because we have proven ROI proof points.

We've got the other factor, which is industry knowledge. And probably most importantly, we've got a great client base.

So for us, it's internal optimization, internal collaboration, internal knowledge sharing and then external packaging. I mean those are the key ingredients.

Robert Del Bene^ And I'd just add to what Raul said that we are also investing in sales and marketing.

So that's the other area where we're building our capabilities, and that's part of the plans for next year as well -- for '26 as well. And Rod, if just look at the guide and the bridge I gave, I think that's a pretty good indication of the magnitude of the year-to-year investment profile.

Rod Bourgeois^ Okay. Are there specific market segments that you want to major in or deal types like core modernization or I mean I get the investment in sales and marketing and working on the pipeline in a more rigorous way?

But in terms of how you go to market and differentiate yourself, are there certain solution or market categories that you really want to major in?

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Raul Fernandez^ We're seeing a lot of traction in financial services, and we're seeing a lot of replicability there in terms of deployments that we have and deployments that we can scale and bring to our customers in new ways of consuming them.

So that is one probably was the biggest industry that both we have a footprint in, and we've got some great ROI models and that we're beginning to share with the larger client base.

Operator^ This concludes the question and answer session. I'll turn the call to Roger Sachs for closing remarks.

Roger Sachs^ Thank you, Operator.

Thank you, everybody, for joining us today and we look forward to speaking with you again next quarter.

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