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DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

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CORPORATE SPEAKERS:

Roger Sachs

DXC Technology Services, LLC; Vice President of Investor Relations

Raul Fernandez

DXC Technology Services, LLC; President and Chief Executive Officer

Ramnath Venkataraman

DXC Technology Services, LLC; President, Consulting and Engineering Services

Robert Del Bene

DXC Technology Services, LLC; Chief Financial Officer

PARTICIPANTS:

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TD Cowen; Analyst

Jonathan Lee

Guggenheim Partners; Analyst

Jamie Friedman

Susquehanna; Analyst

Keith Bachman

BMO; Analyst

Antonio Jaramillo

Morgan Stanley; Analyst

Tien-Tsin Huang

JPMorgan; Analyst

Paul Obrecht

Wolfe Research; Analyst

Rod Bourgeois

DeepDive Equity Research; Analyst

PRESENTATION:

Operator^ Hello. Welcome to the DXC Technology first quarter Fiscal 2026 Earnings Call. (Operator Instructions) I would now like to turn the call 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 first quarter Fiscal 2026 Earnings Conference Call. We hope you've had a chance to review our earnings release posted to the IR section of DXC's website.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

Speaking on today's call are Raul Fernandez, our President and CEO; Ramnath Venkataraman, our new President of our Consulting and Engineering Services segment; and Rob Del Bene, our Chief Financial Officer.

Let me walk you through today's agenda. First, Raul will provide an overview of our results and an update on our strategic initiatives. Rob will then walk you through our financial performance for the quarter as well as provide some thoughts on our second quarter and fiscal full year guidance.

Rob and Raul will then take your questions. Certain comments made during today's call are forward-looking and subject to risks and uncertainties that can 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 included in today's earnings release.

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

Raul Fernandez^ Thank you, Roger.

We delivered first quarter results at the high end of our guided ranges for both organic revenue growth and adjusted EBIT margin with non-GAAP EPS above the high end of guidance.

Specifically, during the quarter, total revenue declined 4.3% year-to-year on an organic basis. Adjusted EBIT margin was 6.8%. Non-GAAP diluted EPS was \$0.68, and we also had another strong quarter of free cash flow generating \$97 million compared to \$45 million last year in Q1.

Bookings increased 14% year-over-year, our third consecutive quarter of double-digit growth, resulting in a trailing 12-month book-to-bill ratio of 1.06, up from 1.03 at the end of fiscal 2025. Growth was broad-based across many of our industry verticals. This trajectory underscores the emerging stronghold of our new go-to-market initiatives and improved execution.

We saw strong bookings in both Europe and Asia Pacific this quarter with book-to-bill ratios well above 1, driven by public sector strength across both regions and solid deal flow in manufacturing and consumer goods/retail in Europe.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

With a healthy pipeline and steady deal inflows, we remain confident in our ability to consistently drive a trailing 12-month book-to-bill ratio above 1.0.

We continue to attract top-tier experienced talent to our leadership team with a shared passion to win.

I'm thrilled to welcome industry veteran, Ramnath Venkataraman as President of Consulting and Engineering Services, to lead the business into its next phase of growth. Ramnath brings nearly 30 years of global experience from Accenture, where he built and grew high-performing businesses across industries and regions. He has a strong track record of helping clients embrace next-generation technologies, especially AI, and delivering operational excellence through innovation and disciplined execution.

Ramnath brings fresh perspective to CES, and we're confident his leadership will help sharpen our go-to-market focus, drive growth and unlock the segment's full potential. Let me hand the call to Ramnath to make a few brief comments.

Ramnath Venkataraman^ Thank you, Raul, for the warm welcome. I'm excited to join the DXC family and lead our CES business at such a pivotal time. The first few weeks have been energizing, and I've been extremely impressed with our exceptional talent and the value that we're delivering for our clients.

As I focus on driving profitable growth, the effort will be on delivery excellence through greater consistency, accountability and operational results.

I look forward to scaling our innovation agenda to keep pace with the rapidly changing technology landscape and deliver greater value for our clients and our shareholders. Back to you, Raul.

Raul Fernandez^ Thank you, Ramnath. AI is redefining every business process and redefining every customer interaction.

Our approach to AI solutions is centered around integrating AI seamlessly into the fabric of our clients' operations, ensuring that AI is not just an add-on but a core component of their business strategy and go to market.

Combining our deep domain expertise with advanced AI capabilities, we help clients across our segments move faster, operate smarter and unlock outcomes that were previously out of reach. Recognizing that technology is only as good as the people behind it.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

We're investing with urgency and talent, training over 50,000 Gen AI-enabled engineers and achieving AI readiness across 92% of our technical teams. Combined with our deep industry expertise, these capabilities are positioning DXC to lead with AI and deliver real enterprise-grade impact.

We are seeing results from our investments. We're proud to share that DXC has been recognized by Gartner as an emerging leader in the inaugural consulting and implementation services market quadrant for generative AI.

We believe this recognition reflects both the strength of our current AI capabilities and our clear strategic vision for helping clients deploy Gen AI at scale with speed, security and real business value.

It reinforces our position as a trusted transformation partner for enterprises navigating complex regulated industries with emerging technologies. Let me share a couple of examples of how we are using AI-based solutions to deliver impact for clients.

First, we signed a long-term agreement with Unicaja, one of Spain's top banks to modernize core operations including mortgages, payments, procurement and loan management, tackling fragmented processes, limited agility and rising costs.

At the heart of the transformation is AI and Gen AI, powering document automation, intelligent customer communication, virtual assistance and frictionless resolution of customer needs. The result, faster service, smarter operations and significant cost savings over time.

Next, a leading German automotive supplier turned to us to take control of a fragmented SAP environment spread across six vendors in multiple countries and sites. They needed one partner to help them streamline SAP service across manufacturing, supply chain, logistics, finance and procurement. We're delivering exactly that.

Standardizing processes, cutting through complexity and building a unified efficient SAP service landscape that enhances productivity and drives growth.

As we expand our market reach, we know partnerships are key to scaling, which is why we continue to deepen our global ecosystem to unlock new opportunities.

That's why I'm thrilled to announce that DXC entered into a strategic partnership with Boomi, a leader in AI-driven integration automation. Boomi connects applications automates workflows, manages APIs and ensures data integrity across cloud, and on-premise environments.

By combining Boomi's AI tools with DXC's full stack engineering talent, our customers can link their different systems like orders, inventory and shipping.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

So everything works together seamlessly. This end-to-end connectivity helps clients streamline operations, automate routine tasks and reduce complexity.

It also enables faster, smarter decision-making by surfacing insights faster to accelerate transformation. Internally, we are embedding AI across all corporate functions. In IT, we're enhancing developer productivity and automating service desk support.

Our security teams are leveraging agentic AI to deliver real-time threat intelligence providing an almost 70% reduction in investigation time with 95% investigation accuracy.

In marketing, we've cut content creation and video production time down by 30%. In HR, predictive analytics are helping us identify attrition risks, accelerate talent matching and improve general workforce utilization.

Our legal team is automating contract reviews and risk assessments. And lastly, in finance, we're improving forecasting speed and accuracy through AI-driven insights. We're not just applying AI to improve our operations.

We're pressure testing and documenting our journey as clients zero [ph]. This hands-on experience helps us move faster, learn in real time and bring smarter, more scalable solutions to our clients.

While first quarter organic revenue growth came in at the high end of our guide, we know we need to do better and we're taking action.

Our pipeline continues to expand, and we're building toward more consistent bookings growth.

Our focus is clear: driving sustainable, profitable growth. We're sharpening execution across the company with our leaders, instilling a winning culture and tackling the structural and operational issues that matter the most.

As part of this journey, we continue to build a workplace where all 120,000 colleagues feel valued, supported and empowered. That commitment was recently recognized by Newsweek which named DXC one of America's Greatest Workplaces for the second consecutive year.

Over the past 18 months, we've rebuilt our foundation, streamlining operations, strengthening leadership, reorienting around innovation, proactive solutioning, performance management, execution and talent. Turnarounds of this magnitude takes time but we're clear on the road ahead.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

We're moving in the right direction, and we have confidence in achieving our full year guidance. Now let me turn it back over to Rob.

Robert Del Bene^ Thank you, Raul. And good afternoon, everyone. Today I'll go over our first quarter results and provide guidance for the second quarter and our updated full fiscal year 2026 outlook. Before I begin, a quick reminder.

Starting with first quarter, we're reporting our financial results in three segments that better align with how we run the business. These are consulting and engineering services or CES, Global Infrastructure Services or GIS, which includes cloud and ITO, modern workplace, security and horizontal BPO. And finally, insurance software and services or simply insurance.

For reference, we filed an 8-K last week that includes two years of revenue, organic revenue growth and segment profitability under the new structure. This information is also available in our excel [ph] data sheet, which will be posted to DXC's Investor Relations website immediately following today's call. And now starting with the first quarter results.

Total revenue was \$3.2 billion, declining 4.3% on an organic basis towards the top end of our guidance range.

As Raul noted earlier, bookings grew by 14% year-to-year, marking our third straight quarter of double-digit growth.

Our book-to-bill ratio of 0.9 for the quarter moderated from the levels we achieved during the second half of last year largely reflecting typical seasonality in our business and the deferral of a couple of longer-term larger deals in GIS. Adjusted EBIT margin was 6.8% and down modestly by 10 basis points year-to-year.

We're investing to support future top line growth while continuing to drive productivity to offset revenue declines. With the transition to three segments, we adopted an updated classification of spending between cost of goods sold and SG&A.

As a result, non-GAAP gross margin expanded by 140 basis points while SG&A as a percent of revenue increased by 230 basis points, reflecting the reclassification and investments. Given the reclassifications, we believe adjusted EBIT represents the clearest view of profitability for our results in the near term. Non-GAAP EPS was \$0.68, down from \$0.75 in the first quarter of last year, largely driven by lower adjusted EBIT and higher taxes, partially offset by lower net interest expense.

Now turning to our segment results. CES, which represents 39% of total revenue, declined 4.4% year-over-year on an organic basis.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

This reflects ongoing pressure in short-cycle custom application projects with clients continuing to invest in larger strategic deals which typically have significantly longer duration than short-term project-based services.

Underscoring client confidence in our capabilities, we drove bookings growth of 32% year-to-year for a strong book-to-bill ratio of 1.2, the third straight quarter of good performance.

Our trailing 12-month book-to-bill also stands at approximately 1.2, which we expect to lead to improving CES revenue performance in the second half of this year and in fiscal 2027.

GIS, which represents 51% of total revenue declined 5.7% year-to-year organically, which was consistent with our fourth quarter performance and in line with our full year expectation. Bookings for GIS grew modestly year-to-year with a book-to-bill of 0.7, driven by a couple of large deals that got deferred out of the quarter, which we expect to close in the coming quarters.

The trailing 12-month book-to-bill improved to approximately 1.1. Insurance, which represents 10% of total revenue, grew 3.6% year-to-year organically largely due to growth in software and volume-based increases in existing accounts.

We continue to expect business to grow at mid-single-digit rates for the year. Now turning to our cash flow and balance sheet. During the quarter, we generated \$97 million of free cash flow, up from \$45 million last year.

This increase was largely driven by lower in-period capital requirements and the timing of certain software payments.

As a result, capital expenditures as a percentage of revenue declined to 2.8% compared to 6% in the same period last year.

We also continue to minimize new financial lease originations, recording only \$1 million this quarter. Restructuring payments for the quarter were an incremental \$4 million year-to-year.

Since the start of fiscal 2025, we've taken deliberate steps to strengthen our balance sheet by reducing debt and building cash to create financial flexibility.

Over the past five quarters, we paid down nearly \$350 million of capital leases while eliminating new finance lease originations to just \$25 million. These efforts partially offset by currency movements in our euro-denominated bonds have brought our total debt down \$60 million to approximately \$4 billion.

Over the same time period, our ability to consistently generate strong free cash flow enabled us to increase our cash balance by almost \$570 million since the start of fiscal 2025, bringing it to

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

\$1.8 billion.

As a result, we have reduced our net debt by approximately \$630 million.

With this solid financial foundation, we will continue to execute with focus and discipline against our capital allocation priorities for the year that include continuing to invest in our business to accomplish our top priority, driving sustaining profitable revenue growth, further strengthening our balance sheet by minimizing new financial lease originations and retiring a portion of our senior notes maturing in January 2026 and returning capital to shareholders with plans to spend \$150 million on share repurchases in fiscal 2026.

During the first quarter, we used our free cash flow to support these priorities, reducing both debt and returning capital to shareholders. This included \$49 million of capital lease paydowns and repurchase of 3.3 million shares for \$50 million with a cash outlay of \$48 million.

Now let me provide you with our full year fiscal 2026 guidance.

We continue to expect total organic revenue to decline 3% to 5%.

As a result of the benefit from currency tailwinds, we now expect total reported revenue in the range of \$12.6 billion to \$12.9 billion, an increase of approximately \$430 million at the midpoint of the guide.

At the segment level, we expect CES to decline low single digits organically with an improving performance in the second half of the year as the larger longer-duration deals ramp. GIS is anticipated to decline at a mid-single-digit rate organically, and insurance is expected to grow organically at a mid-single-digit rate, in line with recent performance.

We continue to expect adjusted EBIT margin to be between 7% and 8%.

We now expect non-GAAP diluted EPS to be between \$2.85 and \$3.35, an increase from our prior guide of \$275 million to \$325 million, reflecting our higher reported revenue projection.

We continue to expect free cash flow for the full year to be approximately \$600 million, reflecting our EBIT guidance and our continued expectation of \$30 million of incremental restructuring spend in the year.

For the second quarter of fiscal 2026, we expect total organic revenue to decline 3.5% to 4.5%.

We anticipate adjusted EBIT margin in the range of 6.5% to 7.5%. And finally, non-GAAP diluted EPS of \$0.65 to \$0.75. With that, let me turn the call back over to Roger.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

Roger Sachs^ Thank you, Rob. We'd like to now open the call for your questions.

Operator, can you please provide the instructions?

Operator^ (Operator Instructions) And our first question comes from the line of Bryan Bergin with TD Cowen.

Bryan Bergin^ Guys, can you hear me?

Robert Del Bene^ We sure can.

Bryan Bergin^ Sorry about that. I wanted to ask about just free cash flow. The puts and takes as you move through the balance of fiscal '26, just the confidence you have there, anything we should be mindful of as you move through the remaining quarters?

Robert Del Bene^ We're confident in the guide we gave.

We did -- as we just mentioned, did a little better in the first quarter.

We have levers we still have room for improvement in working capital.

So that's a lever going forward, Bryan, we expect we're going through the analysis of the new tax legislation.

That, we think will be a modest improvement from a cash tax perspective going forward, which is not baked into the current guide yet.

We have to do our work and we'll update you in 90 days on that.

So there's ample evidence here that we're going to continue to work the number.

So I feel really good about the guide. And from a risk perspective, I feel really good about it.

Bryan Bergin^ Okay. That's clear.

As it relates to bookings, it sounds like some things may have moved to the right [ph] a little bit, understandable in this environment. Just your 2Q expectations, just comment on pipeline view, replenishment, post 1Q signings, those kind of things.

Robert Del Bene^ Yes.

Our pipeline for 2Q is strong.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

The way -- in the short term, the best indicator of general strength is the non-mega pipeline, so below \$100 million deals, if you will, that's not skewed by one or two big deals.

And that pipeline shows solid growth across the board. It's most pronounced in CES.

So the expectation is we'll have another good quarter in 2Q on bookings generally. I'm expecting -- we have the opportunity, let me put it that way.

We have the opportunity to further expand the trailing 12 months in 2Q.

So it would be three quarters in a row -- four quarters in a row of expanded trailing 12 months.

So that's our expectation.

Operator^ Your next question comes from the line of Jonathan Lee with Guggenheim Partners.

Jonathan Lee^ Can you walk us through what's contemplated in your fiscal '26 revenue growth outlook from a macro perspective across the range as well as across each of the segments.

Can you also talk through the thought process of maintaining your revenue growth outlook despite an incremental quarter of visibility and the outperformance in the quarter?

Robert Del Bene^ Yes. Yes.

So thanks for the question, Jonathan. Look, from a macro perspective, my comments will be similar to last quarter. In that, in our guide, our minus 3% to minus 5% guide, we left room for economic uncertainty.

And I should say a worsening of conditions because of economic uncertainty.

So that still stands -- last quarter still stands.

We haven't seen a worsening in conditions.

So I feel like we still have room at the low end of the guide, should conditions change.

So feeling solid in our guidance range from that perspective.

In our prepared comments, we mentioned that we do expect narrowing of the declines in CES as we progress through the year.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

We're starting -- we could see the layering in of the larger contracts that have come from the solid book-to-bills over the last three quarters.

So start to turn into better revenue performance progressively as we go through the year and into fiscal '27.

So feeling good about that trajectory. Insurance, we've got a solid backlog, confident in the mid-single-digit projections for the year, maybe a little better in the second half than the first half is my expectation.

And GIS is going to be in the range of the first half of the year will carry over into the second half of the year. That's the current expectation. Although the pipelines are good in GIS as well.

So hopefully, we can improve that performance, but that's the current view.

Jonathan Lee^ Thanks for the color, Rob. And just a follow-up. I mean have you seen any changes to yield or win rates around your bookings given (Multiple Speakers) or any other macro factors?

Robert Del Bene^ Yes.

So we've been extremely consistent in -- first [ph] and from a pricing perspective.

Our pricing has been very, very consistent year-to-year, quarter-to-quarter.

In the first quarter, our win rates increased low to mid-single digits.

That increase came in both CES and GIS, which was encouraging to us.

So we have good performance from that perspective.

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

Jamie Friedman^ I had a couple of questions. I'll just ask them both upfront.

So in terms of the decline in the insurance bookings, has the company begun to journey of transitioning from like term to subscription yet?

And if not, when do you expect that or would you expect that to occur?

That's the first one.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

Then just a very big picture question, but I'd love to get your perspective on if AI improves or in any way deteriorates your perception of your competitive position.

Raul Fernandez^ Sure. Let me start with the last part and then Rob will pick up on the insurance question. No, look, from -- any time a new cycle of technology where literally, we're reinventing every process every customer interaction, every business-to-business interaction.

It creates a great opportunity not just for established players, but obviously for start-ups and disruptors.

We've got an incredible foundation with our long history of relationships running very complex systems for our customers in many cases, in highly-regulated industries and a proven partner over time.

So AI is a huge opportunity for us. That's why we've talked about it so much in the prepared script of what we're doing internally and then what we're taking to market.

But we are still in the early stages of this.

As an example, we've seen, like others have commented, dramatic gains in code conversion and requirements validation but quality assurance remains super time intensive. AI can produce code fast but it often lacks the contextual depth needed for accuracy, security and compliance.

And so it requires basically more testing.

So while coding time goes down, testing time goes up slightly. Again super early stage of learning by doing, and we're learning by doing across all of our business functions.

Then across our companies that we serve globally. Rob, back on insurance?

Robert Del Bene^ Yes. Jamie, on your insurance question, the dynamics, the bookings and backlog dynamics and insurance are different than the other two offerings that we have.

It's the offering that has the most revenue coverage from -- in the backlog.

So the -- and the booking cycles, are there -- there tend to be larger renewals that come periodically.

So in period and even the trailing 12 months, of bookings for the insurance business doesn't have the same relationship to near-term revenues as it does in the rest of the business.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

And that's why I'm confident, even with the bookings well below a book-to-bill of one in the last few quarters, I know we have the backlog to deliver the mid-single-digit revenue progression throughout the year.

So I feel good about that.

We haven't -- your second point on that question was the transition to SaaS.

We have not had a significant transition yet. It's strategically, we're going to get there, and we're going to go -- we're going through the planning of that transition as we speak and that will be unveiled at a later time.

Operator^ Our next question comes from the line of Keith Bachman with BMO.

Keith Bachman^ I know Bryan had asked about the bookings outlook for the September quarter. I wanted to raise that up a little bit. And just how should we be thinking about bookings through the year in terms of the pipeline and really the orientation of my question, just what do you think the book-to-bill needs to be such that when you arrive at '27, zero or in terms of revenue growth might be possible.

But I'm just trying to -- can you talk about bookings trends that we might expect for the year and what else do [ph] we need to be to get to a 0?

Robert Del Bene^ Yes.

So Keith, thanks for the question.

There's a lot packed into that question. First, I'll just preface everything with we don't give guidance on bookings.

But I'll tell you that the full year pipelines we have are healthy. They're strong.

So that is a good indicator and gives us confidence in future bookings in Raul's comments at the beginning of the call.

So it's prefaced on data, it's prefaced on what's in our current pipeline. The level of book-to-bill required does vary by offerings. Just heard my comments related to the insurance business.

So I'm going to set that aside as I answer this question because it has different dynamics. The rest of the portfolio, CES has less in backlog than GIS as you enter a year or enter a quarter.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

So the bookings dynamics are more important in CES to get higher book-to-bills consistently, get a trailing 12-month above 1, to get to sustained -- to stabilize and get to sustained growth. A little less so in GIS.

So when I think about -- and without any precision, when I think about on a sustained basis, and the other thing I'd point out, Keith, is that all of these businesses have a natural level of erosion in the backlog.

Every company has it, right?

So you have to factor that in for the answer.

So you need a pipeline -- I'm sorry, a trailing 12 months between 1.05 and 1.11 on a sustained basis depending on the line of business, a little higher for CES, a little lower for GIS.

Raul Fernandez^ And let me just give some additional color. Just on the dynamics of this.

As I've been here 18 months, I realized early on that the company had done, obviously a good job historically in responding to RFPs and being competitive in renewals.

We are much better competitively in our RFP process, and we are getting much better in our renewal statistics, but we're also adding proactive solutioning.

That is key.

That is us bringing net new ideas, net new solutions that leverages some aspect of our implementation heritage.

That leads to more opportunities with a higher probability of wins.

So this proactive solutioning that we're literally rolling out this quarter and beyond in scaling will add to the pipe that Rob commented on.

Keith Bachman^ Makes sense. And just any comments on how duration may change as the year unfolds of your backlog?

Robert Del Bene^ Yes. Keith, hard to predict. It depends entirely on the mix of smaller project-based services and larger deals.

I'll tell you the project-based services, as I described them earn in six to nine months.

The larger, more strategic deals earn anywhere in the range of 15 to 25 months.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

So that mix really determines what the average duration is.

So the mix in any quarter could vary pretty significantly.

So we have [ph] had a larger mix to the more strategic deals the last three quarters, which is why in CES we have not had revenue improvements to date, but we could see it on a going-forward basis.

Operator^ Your next question comes from the line of James Faucette with Morgan Stanley.

Antonio Jaramillo^ It's Antonio on for James. I wanted to double-click in the contracts that you guys are looking into, like as far as shutting some of the lower-margin contracts and how the sales traction around that is going with those new pricing constructs.

Robert Del Bene^ Yes. Antonio, we -- so the approach we've taken on -- from a contractual standpoint, where we have a contract where the margins are not favorable we always enter into the renewal period with a strategy to work with the customer on both price and terms to improve the situation for us and to deliver more value to the customer.

So that's the way we approach this.

We don't approach it with a definitive list of contracts we want to exit.

So I'd say over the last couple of years, as we've approached the market upon renewal, we've been able to get more favorable terms and arrive at a mutually beneficial relationship going forward.

Antonio Jaramillo^ That's helpful.

Then on Gen AI, what type of investment strategy are you pursuing there?

Is it more like organic more like inorganic?

Then how is that baked into some of these new engagements as far as pricing goes as well?

Raul Fernandez^ Sure. Look, I think all companies that have got a history or heritage of using technology to advance their businesses are actively learning by doing.

And we are doing the same thing across our internal functions and also across key functions, such as our security operation centers, where we're deploying disruptive but proven technology,

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

testing that technology, getting KPIs that are clear in early POCs and learning how to scale those in a much broader way.

So we are getting and seeing the impact of efficiency how that efficiency then leads to both revenue growth as well as cost optimization is work in progress.

I think this calendar year is about learning by doing and applying those lessons learned in a much more scaled manner in the next fiscal year.

But I am very, very positive and happy with the breadth and depth of where we're applying AI, not just for our own internal operations, but being thought leaders with our customers.

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

Tien-Tsin Huang^ Raul, I also want to pick your brain on AI. I'm curious if you're seeing existing clients look to reengage with DXC to consider adding AI content.

If that's happening already, is it impacting your bookings and ARR in any way?

It's always that question of addition or subtraction, that kind of thing?

I just wanted to pick your brain on that.

Raul Fernandez^ Yes. No. No, no. It's absolutely addition. It's additive.

What I mentioned earlier about proactive solutioning, what we're trying to do is to focus in on highly scalable, replicable frameworks that are AI-centric and have some other hook where we've got some advantage, right?

So we know the industry, it's a highly regulated business that we've been serving for many years.

We know the existing business processes.

We know the existing data situation, meaning is it ready to use, do we both need to work on it to get it ready to use.

So we are targeting our new proactive solutions that we're bringing to our customers, which, by the way being -- everybody wants to hear new ideas that have real bottom line impact in results.

So I'm happy with the packaging up that we've got with these proactive solutions and the initial conversations we're having with great clients.

DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2026

Tien-Tsin Huang^ Okay. Great. I appreciate those thoughts. And Ramnath, welcome to the call. If you're on the call can I ask a question to you.

Just coming from Accenture, evaluating CES in the time you've been there. How strong are the bones there?

Do you anticipate making meaningful or just more modest changes?

Any thoughts on the delivery capability, that kind of thing?

Ramnath Venkataraman^ Thank you. Thank you for the welcome.

It's been a fabulous experience coming in and taking a look at the strength of the people and the capabilities that we have in DXC, the client stories and examples that we have -- what we really need to do is make sure that we follow the pieces that Raul mentioned at the beginning, which is sustainable, profitable growth, and there are really strong foundational elements that are in there, which Rob spoke about, the book-to-bill is very strong with 1.2.

So my focus is really going to be on how do we convert the backlog without any leakages and make sure that in a programmatic way convert those to revenues, which is on the top line side and on the execution side. Clearly, there are efficiencies to be had, whether it's on operational efficiency or on delivery execution by streamlining some of the processes that we have and making it a lot more simpler.

But the foundational elements are extremely strong. The client base is fantastic and the people capability is absolutely world-class.

So I'm very, very bullish of being able to convert this and really translating what Rob and Raul said, from a strong book-to-bill to a strong revenue growth story.

Tien-Tsin Huang^ Excellent. Roger, don't be mad. Third question, really, really quick. Just Rob, for you, does the gross margin comparability, I haven't gotten through the restatements, is when we're getting this question, is there a way to get a comparable gross margin figure for the quarter?

Robert Del Bene^ Yes. I mean our gross margins, and you'll see it in the data sheet, our gross margins are stable.

We had some -- as we've sharpened our -- we've gone through a lot of integration work, systems work as we've sharpened our classification of spending between cost and expense.

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On a year-to-year basis, you see the gross margins going up.

So that year-to-year is really the result of sharpening our pencil and better aligning spending with cost versus expense.

But our margins quarter-to-quarter are consistent -- so -- and we expect that going forward.

So...

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

Paul Obrecht^ This is Paul Obrecht on for Darren. Raul, you obviously have extensive visibility into enterprises, infrastructures and data foundations.

Can you just provide us with an update on enterprise readiness for AI?

What share of enterprises are actually ready to leverage these AI solutions versus the ones who still have extensive work to do before being able to leverage it?

Raul Fernandez^ I spent time obviously with our customers, but I'm also an investor and earlier stage companies.

So I measure ourselves not just against the big competitors and then obviously leading class companies in many industries that we serve but also up-and-coming disruptors.

And so I -- looking at it from that point of view, I'm very optimistic that this will have a profound business impact and will change every interaction, every business to business interaction, every business to consumer interaction.

But that change using AI will require a rethink in process will require a relook at data and will require a new methodology. We've talked a lot in the past about waterfall and agile.

There will be a new way that we implement. And part of what we're doing, what we're documenting by doing is trying to put together a framework that we can share with our customers to take this journey in a much more streamlined fashion.

We are in the era of experimentation. All of us are trying it in many ways. There is no way to learn other than doing.

So curiosity is king here and it's super important for our customers.

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But there is a lot of data readiness that needs to be addressed obviously privacy and all other types of regulatory issues need to be addressed.

So plenty of work to be done -- because again this isn't a plug-in and just accelerate an existing process. This will be rethinking every process using AI to replicate human functions, using AI to augment human intensity by lowering operational intensity, so plenty of change.

If you're in the front line of that change and you can document that change and share that change and experience with your customers, you're in a great position as a partner.

Paul Obrecht^ That's really helpful.

Then there's obviously been lots of change underway at the company in the past few years with new leaders coming in and efforts to enhance the operating model, revamp the go-to-market approach. Can you just touch on how employees have been responding to these changes internally?

Raul Fernandez^ Yes. employees are energized, committed to a winning culture, committed to competing across every opportunity.

I think what we've brought, if you think about the last 18 months and I think about it in 6-month increments, the first month was heavy assessment and beginning to bring in new talent.

The second 6-month period was adding to new talent and laying the foundation for new go-to-market solutions and processes.

We're in the middle of the last period, the next six months where we're scaling those.

And as we enter the second year, we think that the foundation that we've laid is very, very strong. The new talent has been here for a period of time and you can see the impact that they've got across the organization.

But it's not going to be a linear journey. It hasn't been.

We'll have accelerations in some areas. We'll have some areas that don't move as quickly that [ph] we feel that we've got a handle on how to turn this company into a sustainable growth company.

Operator^ (Operator Instructions) Our next question comes from the line of Rod Bourgeois with DeepDive Equity Research.

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Rod Bourgeois^ Great. Rod Bourgeois here.

So historically, DXC's margins seasonally improved as the fiscal year would progress. I think your guidance is not implying seasonally better margins down the road.

So I'm wondering if -- is that reflecting some guidance conservatism?

Or are there other factors at work to offset the past seasonality that would exist?

Robert Del Bene^ Yes. Thanks for the question, Rod.

So you're right, 1Q to 2Q, there typically is some seasonality, and it's varied year-to-year, but it has been some seasonality fairly consistently.

So a little less so this year.

So that's true. However we do have margins increasing in the second half of the year in the guide in the guide.

So we do have an expectation that we'll be improving margins in the back half of the year.

So a little different pattern than previous years, but nevertheless, progressing margins as we go along.

Rod Bourgeois^ Okay.

Okay. Great.

Then just a big picture question. You've mentioned the goal of achieving profitable revenue growth.

And I just wanted to ask, can you just outline the main DXC repositioning factors that give you confidence that you're going to hit that crossover point at some point where you move into profitable growth?

Or maybe it's achieving growth that's more kind of at par with a peer group or something.

But what are the main factors?

And when do you see that crossover point being reached?

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DXC Technology Q1 Earnings FY 2026

Raul Fernandez^ Sure. We've touched on a couple of them.

Obviously a trailing book-to-bill is key to that, and Rob mentioned where the hurdle point is on that.

But for us, it's really around sales opportunities and our effectiveness in winning.

It comes down to winning renewals that makes sense economically for us and the customer. It comes down to winning situations where we get invited to compete and those are RFP or advisory-driven opportunities.

Then one new gear, which was not here before, are the new proactive solutions where we've stepped back and we thought, what can we do, what can we bring using AI that leverages some heritage, meaning industry knowledge, process knowledge, technology knowledge, data knowledge with proactive and highly replicable solutions.

That is just coming into the marketplace today and we are scaling that.

That's what gives me confidence that we're on the right trajectory.

Operator^ With no further questions in queue, I will now turn the call back over to Roger Sachs for closing remarks.

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

Operator^ Thank you, again for joining us today. This does conclude today's conference call. You may now disconnect.