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DXC Technology Services, LLC

Q2 Earnings FY 2026

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CORPORATE SPEAKERS:

Roger Sachs

DXC Technology Services, LLC; Head of Investor Relations

Raul Fernandez

DXC Technology Services, LLC; President and CEO

Robert Del Bene

DXC Technology Services, LLC; Chief Financial Officer

PARTICIPANTS:

Bryan Bergin

Cowen; Analyst

Antonio Jaramillo

Morgan Stanley; Analyst

Jonathan Lee

Guggenheim Partners; Analyst

Tien-Tsin Huang

JPMorgan; Analyst

James Friedman

Susquehanna; Analyst

Bradley Clark

Bank of Montreal; Analyst

Paul Obrecht

Wolfe Research; Analyst

Rod Bourgeois

DeepDive Equity Research; Analyst

PRESENTATION:

Operator^ Ladies and gentlemen. thank you for standing by. (Operator Instructions) At this time, I would like to welcome you to the DXC Technology Services second quarter Fiscal Year 2026 Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to Roger Sachs, Head of Investor Relations. Roger, you may begin.

Roger Sachs^ Thank you, Operator. Good afternoon, everybody.

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Welcome to DXC Technologies' second 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.

Speaking on today's call are Raul Fernandez, our President and CEO; and Rob Del Bene, our Chief Financial Officer. Here is today's agenda.

First, Raul will update you on our strategic initiatives; Rob will then cover our quarterly financial performance as well as provide thoughts on our third quarter and fiscal full year guidance. Raul and Rob will then take your questions.

Please note certain comments on 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. Details of these risks and uncertainties are 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 the call we will be discussing non-GAAP financial measures that we believe provide useful information to our investors. Reconciliations of 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.

Our financial performance in the quarter was mixed.

We were above our guidance and adjusted EBIT margin and non-GAAP diluted EPS and generated very strong second quarter free cash flow.

However I am disappointed in our performance in revenue and bookings, and we are laser-focused on building a predictable and growing company with better execution and pipeline conversion in the quarters ahead.

I believe the strategic and tactical game plan we have in place will position us to create value in the rapidly evolving AI global economy.

We have a strong balance sheet and consistent free cash flow and have the flexibility to continue to make the necessary investments to execute on our AI strategy. In the quarter, we formalized a two-track approach to running our business, core track and fast track.

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Our core track represents our existing business where we are working to bring our portfolio of offerings to their full potential in the market. For an example on how we plan to energize our core business, let's take SAP.

We have a 15,000-person strong SAP practice and ranked number three among all system integrators for certified SAP business AI consultants. Our business needs to convert this strong capability into strong revenue growth.

We now have a structured plan to scale our SAP business over the coming quarters.

We expect this will double our SAP revenue over the next three years. Fastrack represents our new AI native or highly AI-infused solutions that we have been building and piloting with a combination of our existing team and the new group of experienced leaders we have brought into the company in the last 20 months. Fast Track solutions have a goal to be 10% of our business within 36 months.

These AI-based SaaS solutions are highly replicable and built on proprietary methodologies models and frameworks that create defensible competitive moats.

And the best part is that clients can expect to see measurable results in weeks and months rather than quarters and years. Each product has a growth target and a net margin goal higher than our existing core portfolio baseline.

We are targeting our first set of products for large and growing markets. Let me give you a few examples of our Fast Track products.

Within financial services, we are leveraging our strong legacy. Decades ago, one of DXC predecessor companies developed Hogan, the preeminent core banking platform used by some of the largest financial institutions in the world, supporting \$5 trillion of deposits and facilitating \$2.5-plus trillion in daily transactions.

To enhance and modernize this essential banking platform, we are developing a new offering, DXC Core Ignite. We are redefining how banks unlock value from their core infrastructure by turning existing deposits and payment systems into cloud-native API-driven services that power new revenue streams. DXC Core Ignite converts cost centers into growth engines, empowering banks to launch innovative, monetizable services at speed and scale without ever disrupting the core.

Recognizing the untapped potential of Hogan, we identified the opportunity to transform it from a legacy core into a growth platform solving for challenges of interoperability

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We recruited a new entrepreneurial team and are standing up a dedicated group to bring this vision to life.

Our recently announced partnership with SplitIt builds on that same fast track strategy. With this partnership, we would enable banks to unlock their most valuable asset, their existing customer relationships into a powerful competitive advantage.

By offering buy now pay later directly from customers' existing accounts, banks can meet the growing demand for flexible payments without introducing new friction.

This approach strengthens trust, deepens engagement and keeps consumers within the bank's ecosystem. At the same time it unlocks entirely new streams of transaction and interchange revenue, turning a defensive necessity into a strategic growth opportunity.

Now turning to another product in development called Oasis, which is part of our GIS managed services transformation.

Oasis is a unified AI-powered orchestration platform that enhances our clients' current technology ecosystems.

It embodies our human plus AI approach, combining advanced automation with expert oversight to deliver complete IT estate visibility and better outcomes for customers. This positions GIS competitively as enterprises increasingly seek proven AI capabilities in their managed services partnerships while creating new revenue opportunities for us.

Lastly, since we paused our strategic option process for our insurance business about a year ago, we continue to create a more valuable business by growing our SaaS portfolio from 30 to 45 products.

We have execution plans in place to double our SaaS revenue in each of the next two years. These are three of our many Fast Track pilots that are in the works. Fast Track is a prime example of bringing exponential outcomes to our clients and we are bringing this to life in our newly launched Xponential branding and framework. Xponential is a new AI framework that helps DXC clients move from pilots to real business impacts with confidence.

It blends governance, automation and human expertise to deliver measurable results fast. Early client successes show how Xponential is helping organizations, not just operate faster, but unlock new capacity, reduce manual effort and improve decision-making.

As we integrate this framework across DXC, we're strengthening our position as a trusted AI transformation partner, helping customers turn AI potential into tangible productivity and growth.

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We are also showing up differently in the market, and it's getting noticed.

Our engagement with the analyst and adviser community continues to deepen and we are seeing a shift in how our capabilities and impact are being recognized.

As a result, we were recently named as a leader in ISG's Provider Lens ServiceNow ecosystem partner study.

IDC's Marketscape in industrial, IoT, end-to-end engineering and in Everest Group's custom application development service peak matrix. These recognitions matter as they validate the discipline and focus behind our strategy and help fuel confidence with our clients.

With our rebuilt foundation and full stack expertise, we are reorienting ourselves around innovation and proactive solutioning. This signals to the market that we're more than steady operators of tech estates. We are better positioning ourselves as an enterprise technology and innovation partner that helps clients run more efficiently, modernizes their systems and harnesses the power of AI to drive outcomes through services, software and solutions.

We're encouraged by our expanding pipeline, which includes several large deals with clear line of sight to close in the coming months.

As a result, we're confident our book-to-bill will move back above one in the second half of the fiscal year.

With that momentum, we have an incredible opportunity to work across our offerings, markets and teams to solve customer problems and show up as one DXC. And finally, as client zero, we are using existing and emerging AI across all corporate functions.

In our legal department, we are using tools such as GC AI, Harvey and Legora for legal research, drafting and document comparison. This enables our attorneys to automate first pass reviews, rapidly assess risks against our playbooks and generate high-quality drafts.

Our sales and marketing teams deploy AI across the full content life cycle. Agentforce automates CRM workflows and enriches e-mail marketing with real-time firmographic data.

Loopio accelerates proposal generation; Midjourney, generates presentation-ready graphics; video generation platforms, Veo 3, Runway and XLT help us to create compelling video content and voice and video synthesis tools; ElevenLabs and Notebook LM produce training materials and distill complex messaging. This integrated AI toolkit accelerates content production by 10x, while elevating quality and enabling sales professionals to focus on high-value customer relationships.

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Our finance teams are using agentic AI, such as AI Foundry, UiPath robot and copilot to transform our back-office activities by automating manual and repetitive processes. And as an example of how AI will impact every job including the CEO, this script was written by Raul Fernandez, but delivered by my custom AI-generated voice model. Let me turn the call over to Rob.

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

Now starting with the second quarter results. Total revenue was \$3.2 billion , declining 4.2% year-to-year on an organic basis within our guidance range and consistent with the past several quarters. Bookings grew approximately 2% year-to-year for a book-to-bill ratio of 0.85, which brings our trailing 12-month book-to-bill ratio to 1.08, a modest improvement from last quarter.

This marks the third consecutive quarter with our trailing 12-month book-to-bill ratio above one, positioning us for improved revenue performance entering fiscal '27.

While we didn't get to the booking levels we anticipated for the second quarter, we continue to have a strong pipeline and anticipate a third quarter book-to-bill ratio greater than one.

Our confidence is grounded by the most robust list of new large opportunities in recent history. This is a reflection of the building of our go-to-market capabilities and newly developed AI-based solutions across all of our segments.

Adjusted EBIT margin was 8%, coming in above the high end of our guidance range, reflecting disciplined cost management across the company particularly within our GIS segment and corporate functions.

On a year-to-year basis, adjusted EBIT margin declined 60 basis points primarily reflecting continued productivity savings to offset top line pressure, higher investment levels to support future revenue growth and lastly, a one time legal settlement that benefited the prior year second quarter results. The impact of the increased investment levels is visible in our insurance and CES segment margins.

In our insurance business, we have been investing in our cloud-based software platform, building AI-based smart applications to deliver enhanced value and productivity to our clients.

In CES, we are strengthening our advisory capabilities in developing asset-based AI solutions, which are included in the Fast Track initiatives that Raul described earlier.

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Non-GAAP EPS was \$0.84, above the guidance range, consistent with our adjusted EBIT results, down from \$0.93 in the second quarter of last year, largely driven by lower adjusted EBIT and higher taxes, partially offset by lower net interest expense and our share count.

Now turning to our segment results. CES, which represents 40% of total revenue, declined 3.4% year-over-year on an organic basis. This reflects ongoing pressure in discretionary custom application projects which continues to impact the industry. Bookings for CES declined modestly year-to-year, with a book-to-bill of 0.92.

While bookings moderated from the prior three quarters of strong performance, the trailing 12-month book-to-bill is 1.15, which we expect to lead to improved revenue performance in the latter part of this year and into fiscal 2027.

GIS, which represents 50% of total revenue declined 6.3% year-to-year organically, which is in line with our full year expectation. Bookings for GIS grew modestly year-to-year with a book-to-bill of 0.82, reflecting longer closing cycles on several large deals we expect to close in the coming quarters.

The trailing 12-month book-to-bill remained at approximately 1.1. To help drive our long-term performance, we are building our AI-powered orchestration platform and plan to begin pilot deployments with select customers over the next few months.

We expect to introduce the Oasis platform to a broader marketplace in the first half of calendar 2026.

We are also enhancing our GIS offering portfolio with AI-enabled solutions targeting growth segments of the IT services market, and we're beginning to see the project pipeline build around these new solutions that we expect to convert and expand over time.

Insurance, which represents 10% of total revenue, grew 3.6% to year organically largely due to growth in software and volume-based increases in existing accounts.

We continue to expect this 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 \$240 million of free cash flow, up from \$48 million last year. This increase in the quarter was largely driven by improved working capital and lower cash taxes. This brings our first half free cash flow to \$337 million, an increase of \$240 million year-to-year. The second quarter results include an increase in software payments, which we had anticipated.

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As a result of those payments, capital expenditures as a percentage of revenue returned to more recent levels at 5.3%.

We also continue to minimize new capital lease originations, recording \$6 million this quarter.

Over the last six quarters, we paid down more than \$400 million of capital leases while limiting new capital lease originations to just \$31 million. These efforts, partially offset by currency movements on our euro-denominated bonds have brought our total debt down \$107 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 more than \$660 million since the start of fiscal 2025, bringing it to \$1.9 billion.

As a result, we have reduced our net debt by approximately \$770 million and in doing so, created additional financial flexibility.

With this solid 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 sustained profitable revenue growth, further strengthening our balance sheet by minimizing new financial lease originations and maintaining our investment-grade debt levels by retiring a portion of our senior notes maturing in the next 12 months and returning capital to shareholders.

With our strong free cash flow through the end of the second quarter, we've repurchased \$125 million of shares, \$50 million in Q1 and \$75 million in Q2.

In the third quarter, we intend to maintain the same quarterly pace of buyback as the first half of the year.

As a reference point, at the end of the second quarter, \$467 million remained under our Board-authorized share repurchase program.

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

We now expect total revenue of \$12.67 billion to \$12.81 billion, with the organic revenue year-to-year decline narrowed to 3.5% to 4.5%, on the prior decline of 3.0% to 5.0%.

At the segment level, we expect CES to decline in the low single digits organically with third quarter performance roughly in line with last quarter and an anticipated improvement in the fourth quarter as larger longer duration deals ramp. GIS is anticipated to decline at a mid-single

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digit 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% and we continue to expect non-GAAP diluted EPS to be between \$2.85 and \$3.35.

We are increasing our full year free cash flow from approximately \$600 million to approximately \$650 million, driven by our updated view of working capital and help from the new tax law legislation.

With strong first half working capital performance, we anticipate a more balanced cash flow cadence over the course of the year relative to prior years that was more heavily weighted toward the second half.

Now for the third quarter of fiscal 2026, we expect total organic revenue to decline 4% to 5%.

We anticipate adjusted EBIT margin in the range of 7% to 8%. And finally, non-GAAP diluted EPS of \$0.75 to \$0.85. With that, let me turn the call back over to Roger.

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

Operator, can you please provide the instructions?

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

Bryan Bergin^ I wanted to start on CES.

So you've got a, I guess a quarter or so under the belt of your new lead there.

Can you talk about just how that business is kind of bearing under the covers, talk about any early areas to improve, particularly on the go-to-market to restart momentum in bookings. Any natural disruption that's occurring here just in the early stages.

Then, Rob, you just mentioned CES picking up, I think in 4Q. Is that in hand?

Or is that go get type of revenue still?

Unidentified Speaker^ All right. Let me just start.

So we look at everything in terms of each of these offerings is Core Track and Fast Track.

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So let me start on the Core Track. There are many elements of that business and that operation that Ramnath has really dug into and has a very targeted goal and go-to-market plan to improve.

Our SAP share in the marketplace is high from an engineering standpoint, but it's not commensurate with the revenues that we get from that practice.

So that's a really good example of a core part of the business that we just have to operate at a much better functional level.

So there's two or three other major areas that have revenue implications that have pipeline implications, both longer-term projects, bigger projects as well as smaller, shorter cycle projects.

On the Fast Track, as I mentioned in the call that's an area that we're super excited.

We are using our legacy as leverage and we are building on top of some incredible technical connections and footprints that we've got with Hogan Software to very quickly on a Fast Track basis, develop and deploy agentic solutions that will unlock many new services for our existing bank customers and new ones.

And you saw a little bit of that in the release with SplitIt [ph] as well.

So coming in very quickly and having a huge impact since the end of July joining the team, and so I'm very happy with the progress there. Let me turn it over to Rob.

Robert Del Bene^ Yes, Bryan, on your question on fourth quarter, is it in hand or go get. The -- you know the dynamics of the business require bookings and revenue generation in quarter and in especially two quarters out. However we do see, based on the bookings we've had over the last several quarters. You guys hear me?

Bryan Bergin^ I'm here.

Robert Del Bene^ Okay. Good.

Sorry about that.

So based on the strength of the bookings over the last several quarters, which reflected in the trailing-12 months being 1.15 [ph] for CES.

We have a solid base entering the fourth quarter and beyond into fiscal '27.

So I'd describe it as we have the base.

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We could see the inquiry -- improvement coming but there's always more to go get.

We're looking to really strengthen the hand we have now with the third quarter for CES. The -- we have a robust pipeline.

So we expect to do well in the quarter to continue the momentum, let me say it that way.

Bryan Bergin^ Okay.

Okay.

On the free cash flow, it was good to see that move higher within the guide. You mentioned a couple of primary sources, I think.

As you consider those, are those are those lasting as you think about kind of free cash flow conversion or somewhat transitory?

Robert Del Bene^ So the dynamic in the first half of the year was different than the dynamics for the last couple of years.

In that last couple of years, working capital was a drain in the first half of the year and snap back in the second half of the year, which generated most of our cash flow in the back half of the year. This year, we did a really good job, effective job on receivables in the second quarter.

So we -- if you will, we've managed to pull in some of the benefits we used to get later in the year.

So we expect that to be maintained for the rest of the year.

We do expect good performance in working capital, but we will not get the commensurate bump that we've got in the last few years.

So that I'd describe as -- it's sustainable. We're going to keep that benefit.

Then on cash taxes, similar, we expect full year cash taxes to be better.

So that -- that will also be sustained.

And those were the two primary drivers. The third driver was capital expense.

So there, again we expect to maintain a rate and pace that's similar to the first half of the year.

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However I will say if opportunities come around that are worth deploying more capital, we will do that, and we won't hesitate.

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

Unidentified Participant^ Thanks for the question. It's Antonio on for James. I wanted to ask about the GIS business. If maybe like you could walk through any trends in that business?

Then specifically within Hogan, like how that fits into GIS and any trends you're seeing there would be helpful?

Unidentified Speaker^ So Hogan is part of the CES offering and the new product development and the team is all under Ramnath.

On GIS, we've got a great upward tick on all customer related elements.

So our scores are higher, our churn is lower. From an operating statistical standpoint, we're finishing like probably the best two quarters of uninterrupted service across the board around the world.

So super solid from a foundation standpoint, from an operating standpoint. Again new products are the key, not just for generating more revenue opportunities for us and more pipeline.

But for us to change the narrative, frankly, from a safe pair of hands of legacy to a safe pair of hands for legacy and innovators for today's AI economy.

So I feel good across all the offerings of three offerings that we play the right foundation. Rob?

Robert Del Bene^ Yes. And Antonio, I would just add a little what Raul described.

Our year-to-date, we have had the project-based services marketplace has experienced difficulty across the board.

So it impacts us not only in CES, but also in GIS.

So that's been prevalent through the first half of the year.

I will say though, that the momentum building in GIS from a pipeline perspective and our large deal -- I mentioned it in the prepared remarks, the large deal pipeline has been building.

We've got a robust list of opportunities. Those are longer term in nature, longer close cycles, but we're seeing really good demand both from a resale -- new content and resale perspective and

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new customer perspective.

The pipeline for the new offerings that the GIS team is bringing to market are also starting to gain traction.

So we're seeing an uptick in that pipeline as well.

So I think the future is looking brighter.

We now have to convert the pipeline, obviously and bring that home.

Unidentified Participant^ Yes. That's helpful.

Then as a follow-up, I wanted to ask about your investments within AI, like what is the runway for that?

And how far are you guys there?

Raul Fernandez^ I think one of the most interesting things about this kind of technological wave that we're living through, is that the total cost of ownership of creating ideas has dropped almost down to zero.

That's due to a bunch of factors.

One, all these tools.

But two, we're living in an era today of incredible cross subsidies.

So the compute power I use to generate my AI script, what I paid for versus what it cost is way off, right?

If you use (inaudible) if you use any of these platforms, you're getting an unbelievable level of compute and rendering and creation and a fraction of what the real cost is.

So we are very happy to be corporate consumers of many of these tools and to infuse them into our solutions.

So it's a very achievable and maintainable level of investment to keep us at the forefront. Rob?

Robert Del Bene^ Yes. I'd just add that we have the capacity with the balance sheet that we've built over the last 18 months to make the necessary investments and take advantage of opportunities when we see them.

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

Jonathan Lee^ First from me, can you help calibrate what's contemplated across your revenue and margin outlook range from a macro perspective and a project ramp perspective, particularly as it seems there's some variability contemplated quarter-to-quarter in the back half from a margin perspective.

Robert Del Bene^ Yes. Jonathan, we -- in the back half of the year from a margin perspective, you took the midpoint of the range is pretty consistent.

I would describe it this way that, in that guide, we don't anticipate any significant changes to the macro environment.

So we're not dependent on any uptick in the economy or anything, any other -- up or down any big changes economically that would drive increased demand or decrease demand.

So it's pretty stable in terms of our assumptions. We're basing our forecast strictly on backlog.

Our own data backlog pipelines, conversion rates and all the metrics you'd expect us to be utilizing.

Jonathan Lee^ That's good color. And just a follow-up. When your customer conversations gives you confidence in your ability to close these large deals that are in your pipeline, especially given the competitive pricing environment that some of your peers are highlighting?

And are there any concessions that you may have to provide to close these deals?

Raul Fernandez^ I've been personally active selling a lot of our new offerings on previewing them to CEOs, CTOs, COOs, et cetera and I am just really energized by the interest, the sincere interest, the fact that we are showing up with brand new ways of doing things with tools at an enterprise and global level.

And so I think the narrative of the conversation changes as we have more of these proof points out as we deploy more customers with these new tool sets, and it will build upon itself.

But I think the great work we've done for the last 20 months to get this stuff together as a really solid foundation for new growth with new products is terrific as well as solidifying all of the legacy work that we continue to do and frankly, will continue to do because these systems will evolve, they will change.

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But as (inaudible) they've been in technology, it always appears like it's going to change faster than it actually does.

Robert Del Bene^ And just add one final point on that. In terms of concession -- our pricing has been stable. We've -- look at the first lateral quarters, there's been stability in pricing.

Operator^ SP1 Your next question comes from the line of Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang^ Just thinking about the core Ignite product there. Is that going to be -- are you going to go after the back book of Hogan?

Or is this really a new opportunity?

I'm just asking if you're converting existing Hogan account, thinking about the revenue change there.

If you flip to a SaaS or a subscription model under core Ignite, what's the delta between that and the (inaudible)?

Raul Fernandez^ Everything that we are building with core Cognite is accretive and additive. It is not cutting into any existing terms.

What's really cool is because we've got the legacy relationship, we built the thing and we know the code in a way that nobody else does and frankly, have some (inaudible) rights that are pretty interesting.

We are uniquely positioned to do this in a way that no one else can do as quickly as well and with a high level of technical confidence in being able to deploy an enterprise-grade solution.

Tien-Tsin Huang^ And you've been at this for a while.

So thinking about this ability to break the linearity and go after more of the subscription type with this kind of new model. Did you feel like with AI in this product push you're discussing, this is really a turning point for that?

Raul Fernandez^ Absolutely. Look, when I started, I was still in experimenting a lot of what was machine learning was being used as AI. And now we really have revolutionary products that are literally leapfrogging existing players on a week-over-week basis.

It's also going to create a new discussion with customers about how we charge and how we get paid.

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It will be much more value-based over time.

It will not happen overnight, but we are very well positioned to be aggressive players in that value-based discussion, which is around, as you know replicable solutions, whether it's full SaaS, ARR or some replicable combination of software and services.

Tien-Tsin Huang^ Okay. Rob if you don't mind, just one quick question, forgive me for the third one. Just thinking about the segment profit. I just want to make sure I caught that. Any call-outs as we model out the rest of the year across the three segments here, what they consider on the profit side?

Robert Del Bene^ From a segment perspective, no real callouts in terms of different trajectories for what we have in 2Q.

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

James Friedman^ Raul, I'm not sure if that was you or your digital twin, but the creativity is noticed and I want to be tone deaf to that.

It sounds different.

So I'm just wondering First of all, in terms of how you're going to operate, manage and disclose Fast Track, how should we be thinking about the kind of -- is it a champion challenger?

Is that going to be laboratory?

How are you going to incubate the Fast Track opportunity?

Raul Fernandez^ Yes. Well thank you.

We -- I used the tool over the last -- literally the last few days, and it's just getting better and better.

So I thought I'd try it.

So yes, the script was written by me but delivered by my AI twin.

But this is really me.

So the answer to that is in the beginning of the new fiscal year, we're going to have more clarity and more information to share on how these -- what are currently pilots and products in

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production and early stages of client use and give you a much better roadmap for the ramp-up of those. And look, we are going after -- we talked about a handful today.

We're going after more than the ones that we talked about. Not all of them will be successful, but only, only a few of them need to be successful to help change the revenue trajectory of this company.

And I'm super excited again about the creativity, the product focus we have. And really, the biggest thing for me is the replicability, these are not one-off solutions that have to get built or rescoped over and again. These are built to be replicable, and they are then built also to have a higher gross and net margin contribution.

James Friedman^ Interesting.

Then, yes, I mean it makes a lot of sense to stay to refresh the Hogan platform.

Obviously it was a real landmark platform of the industry. Is there any sizing that you can share?

I think the last disclosure on Hogan, I remember were a little dated.

Yes, anything that you could share, how big is it today?

I do -- a lot of financial institutions to run it?

How meaningful is it as any dimension of the business?

Anything you could share about Hogan all that would be helpful?

Raul Fernandez^ Yes. Yes. And again like I said, we're going to -- as we enter the new fiscal year, we'll have some existing customers to talk about that are already using it.

But I think the way to think about it is that it's not a revival.

It's an extension of Hogan in a very lightweight manner in an AI API-centric manner that's going to allow the banks, the customer here to offer new services at a fraction of the cost and speed.

And because you have this legacy, meaning now the code, have access to the code, have maintained the code, we're in a unique ability to leverage it.

So it's a core banking platform and system.

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Some of our customers have used derivative versions, so we're not going to be in the business of trying to rebuild that. We're in the business of trying to expand and extend it using AI and create value for our customers, banks and create, obviously value for ourselves.

Operator^ Your next question comes from the line of Brad Clark with Bank of Montreal.

Bradley Clark^ You mentioned in the quarter to cost discipline driving some margin upside versus the guide.

As you think longer term, DXC's been taking cost out of the business for a while. How sustainable do you think these sort of cost -- management cost takeout (inaudible) in terms of growing aspiration to grow EBIT margin longer term?

Robert Del Bene^ Yes, Brad, this is Rob.

So we've demonstrated that over a sustained period of time we could manage costs to maintain margin levels, and I'm confident we could continue to do so.

When revenue stabilizes and beyond, it will provide a great platform for us, and we will maintain the spending discipline.

It will then provide the platform for growing margins.

So I feel kind of especially now with enablement of AI tools internally, we will continue to tightly manage spending, drive productivity from a margin perspective.

Raul Fernandez^ Brad, client zero, I've mentioned many of the internal products that we're using across every business function.

One that I mentioned in the first call was our Agentic SoC solution that we're now taking to market our partner 7 AI [ph].

That has been running in place and clearly, that's going to have, from an operating standpoint, from an operator standpoint, a positive cost in terms of how we operate in the coming years. Again that's not fully baked into next year's guidance, which we're still working on and we're still working on the rollout of a product in terms of not just using it internally, they're reselling it externally.

Operator^ (Operator Instructions) Your next question comes from the line of Darrin Peller with Wolfe Research.

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Paul Obrecht^ This is Paul Obrecht on for Dan. Can you provide a bit more detail on how you're thinking about head count strategy going forward, especially as we think about AI being increasingly embedded across really every facet of the business, it sounds like.

Raul Fernandez^ Yes. Sure. I'll give you a little bit of color commentary and then Rob will kick in. Look, I think the traditional labor pyramid and the traditional way of thinking about labor in terms of onshore, nearshore, offshore will be obsolete, will be obsolete in three years, six years, I don't know.

But the pyramid will start looking more like a diamond and at the bottom of it are going to be AI agents.

And part of what we're doing is making sure that our workforce is skilled to continue to move up the value chain as we deploy these forms of agents work that was done by Level one and Level two engineers.

So it is an ongoing human capital discussion that we've got. It's a human capital investment that we're doing.

But it's also one that's going to impact every company in this space.

Robert Del Bene^ Yes.

So Paul, as that new model evolves, along the way we'll continue to balance resources with our demand profile and delivery requirements, while we continue to drive productivity throughout the overhead functions in the company.

So we will maintain our normal management approach while the new model is evolving.

Paul Obrecht^ Got it. That's helpful color.

Then last quarter, you noted seeing your win rates increase, I think it was low to mid-single digits during the quarter across CES and GIS. Just curious, any updates there, if you observed a similar trend this quarter?

Robert Del Bene^ Yes. I'd say quarter they were stable.

So no real change in the trajectory.

Operator^ Next question comes from the line of Rod Bourgeois with DeepDive Equity Research.

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Rod Bourgeois^ I have a general question about your Fast Track solution plans. I like the sound of these new plans. It sounds like you're moving past some of the tackling turnaround work and you're now moving to improve positions and some key is there.

So on that note, I'd just like to ask if there's a certain milestone that you've reached that's now enabling you to better pursue these kind of Fast Track opportunities, whereas before those kind of new market approaches were seemingly somewhat on hold.

So is the milestone that you have more room to invest or more of a readiness with execution?

Or is it an AI opening the door (inaudible). Can you just elaborate on the -- what the pivot point is here?

Raul Fernandez^ The absolute number one -- thank you. The absolute number1 pivot point is new that has come in with the skill sets to do this.

That talent has gotten here and we've been able to bring others that we've all worked with in the past in different companies.

That is the absolute key to this transformation. That new talent came up with the opportunity.

That new talent came up with the product framework, that new talent is building and deploying that as we speak.

So that's the absolute key. And finding the right people, getting them onboarded, as you said earlier, it's a playing offense and playing defense. The defense is stabilizing our kind of our core business and operating in a more efficient and effective way of professional services firm.

Then the offense is going to market with these fast-track products.

Rod Bourgeois^ Okay. All right.

Then just a follow-up to focus on the free cash flow from a different angle. If you produce \$650 million in free cash flow this year, can you give us a sense of whether that creates a baseline next year to grow on top of?

Or given that you have some free cash flow benefit that you're reaping this year, is the \$650 million more of a stable level to consider on a go-forward basis. Just -- I know you can't give guidance that far out, but a general idea on the trajectory and how this year's benefits will apply to next year?

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Robert Del Bene^ Sure, Rod. The way I'd describe it is -- this will be our third year in a row of producing free cash flow in that range.

I fully expect that to continue at this point, right, without any major disruptions. I fully expect it to continue.

Operator^ And that concludes our question and answer session. I am now going to turn it back over to Raul for closing comments.

Raul Fernandez^ Thank you, so much. Before we sign off, we'd like to share a short video showcasing the AI capabilities I discussed earlier.

It was created using AI tools at a fraction of the typical production cost. The video is available in the IR section of DXC's website, along with our other earnings material. Thanks, everyone, for joining us on the call today and we look forward to speaking with you again next quarter.