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DXC Technology Services, LLC

Q3 Earnings FY 2026

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CORPORATE SPEAKERS:

Roger Sachs

DXC Technology Services, LLC; Vice President, Investor Relations

Raul Fernandez

DXC Technology Services, LLC; President and Chief Executive Officer

Robert Del Bene

DXC Technology Services, LLC; Chief Financial Officer

PARTICIPANTS:

James Friedman

Susquehanna; Analyst

Bryan Bergin

TD Cowen; Analyst

Jonathan Lee

Guggenheim Partners; Analyst

Brendan Biles

JPMorgan; Analyst

Antonio Jaramillo

Morgan Stanley; Analyst

Keith Bachman

BMO Capital Markets; 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 everyone to the DXC Technology third quarter Fiscal 2026 Earnings Conference Call. (Operator Instructions) And I would now like to turn the conference over to Roger Sachs, Vice President, Investor Relations. You may begin.

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

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Welcome to DXC Technology's third quarter Fiscal 2026 Earnings Conference Call.

We hope you have had a chance to review our earnings release which is available in the IR section of DXC's website. Speaking on today's call are Raul Fernandez, our President and CEO; and Rob Del Bene, our Chief Financial Officer. Here's today's agenda.

First, Raul will update you on our strategic initiatives. Rob will then cover our quarterly financial performance as well as provide thoughts on our fourth 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.

In addition, when we refer to year-over-year or quarter-over-quarter revenue growth rates, we will be discussing organic revenue changes on a non-GAAP basis which exclude the impact of foreign exchange and any inorganic activity.

We will also be discussing certain other 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. And with that, let me turn the call over to Raul.

Raul Fernandez[^] Thank you, Roger. Last quarter, we committed to a dual-track strategy to stabilize our heritage businesses while building new AI native revenue streams.

For the first time DXC has a clear unified strategy and the infrastructure to deliver it. This quarter, we moved from design to deployment, launching our refreshed brand, standing up our first centralized sales enablement function and advancing our Fast Track initiatives.

On the core track, we launched a refreshed brand in Q3, a clear story and new visual identity that articulates why customers choose DXC and stay with us. This wasn't cosmetic.

We retooled our solutions positioning, rebuilt our sales materials and created a consistent message across every customer touch point. The early signals are encouraging, where our teams are using these new tools and leading with our differentiated message, we're seeing it resonate. Customers and influencers respond positively when we lead with clarity and confidence about what makes DXC distinct. To scale that message across the organization,

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we've established a high-impact sales enablement team, the first centralized function of its kind at DXC.

They've rebuilt our onboarding process, created integrated sales plays for priority offerings and established baseline metrics we're now tracking across regions. That said, we are a company of considerable scale and driving consistent execution across a global sales organization takes time and discipline.

But where we've deployed the new approach, it works.

At a recent ISG Provider Summit, third-party advisers told us DXC showed up differently than expected, clear story, strong presence, memorable and distinct from competitors.

Our focus now is making that consistent across the organization. What's not changing is what our customers consistently tell us, DXC delivers.

Our delivery excellence remains a competitive advantage and the foundation we're building upon. The opportunity in front of us is helping our sellers translate that operational credibility into more transformative conversations, moving from trusted partner to strategic adviser in our customers' AI innovation agendas.

A good example of how our go-to-market strategy is working is a significant new logo win with the London Metropolitan Police, a master vendor engagement to lead their enterprise transformation.

We're replacing core ERP and resource management platforms, integrating modern SaaS and AI into mission-critical operations.

We won this engagement because of deep public sector expertise, disciplined execution and a repeatable blueprint we can scale across U.K. police forces.

We're closing the gap between our best performers and the broader organization through these targeted talent and enablement investments, and I'm confident we'll generate results from these initiatives.

Conversely, our Fast Track initiatives are progressing well with development timelines and early client interest tracking ahead of our initial plans. Fast Track is about acceleration.

It's focused on AI-infused solutions, repeatable IP and productized offerings that deliver higher growth, higher margins and durable differentiation. Fast Track is possible because of how we've architected AI inside DXC.

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Our approach starts with a fundamental insight. Legacy systems aren't liabilities.

They're assets. They contain decades of battle-tested business logic and institutional knowledge. Rather than ripping them out, we connect them to AI through an intelligent orchestration layer that roots work across multiple providers, enforces security and governance and maintains complete audit trails.

We built this approach for ourselves first.

We've deployed AI at scale across all 115,000 employees, integrating every major AI provider and routing work to the best model for each task, giving us full technical portability, and we're putting 60 years of institutional knowledge to work, pricing, contract intelligence, competitive insights, project data, all surface through roll-aware platforms that deliver the right information to the right people at the right time.

This approach lets us move from idea to production in weeks, not months, and we're applying the same architecture we're building for clients to accelerate our own product development.

As customer zero, we prove it works inside DXC before we offer it to the market. Here's how that customer zero experience is translating into fast-track offerings.

In security, our agentic security operations center powered by 7AI protects DXC from 4.5 million threats daily with over 90% resolved automatically. We're now offering this proven capability to banking, healthcare, and government clients who are overwhelmed by alert volume.

They see our operational results as proof it works. In banking, we own and operate Hogan, one of the most trusted core banking platforms in the world. It processes over \$2.5 trillion in transactions per day across 300 million accounts.

Rather than forcing customers into risky multiyear core replacement projects, we built Core Ignite. Core Ignite embodies our enterprise AI philosophy, connect, don't convert. Core Ignite allows banks to connect to fintechs, launch new digital products, and modernize customer experiences while preserving the security and performance of the mainframe underneath.

We know our banking customers want to innovate, but when the stakes are this high, they cannot risk their core ledgers.

We are bringing the innovation to them through a curated ecosystem of partners.

We partnered with Ripple to integrate enterprise-grade blockchain digital asset custody and real-time global payments directly into Hogan.

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We partnered with Euronet to bring the Ren payments platform to our clients, enabling instant card issuing and payments.

We partnered with Aptys to give our banking partners immediate access to FedNow and real-time payments, and we partnered with Splitit to allow banks to offer buy now pay later options.

We believe our Fast Track initiatives can achieve 10% of our run rate revenue by the end of Q2 fiscal 2029.

We are deliberately structuring our Fast Track products and contracts to preserve strategic flexibility that gives us multiple paths to create shareholder value as these businesses mature including scaling them inside DXC, partnering or pursuing other value-enhancing outcomes. The focus is straightforward, build high potential businesses and retain the flexibility and choose the option that delivers the strongest return for shareholders.

For decades, this industry operated on a linear equation. To grow revenue, you had to grow headcount. That era is ending. AI allows us to build and deploy solutions faster with lower incremental capital and less dependency on labor growth.

Our strong free cash flow allows us to self-fund these initiatives while maintaining balance sheet discipline. We're excited to share more about these opportunities at our upcoming Investor Day in New York City, the second week of June.

Specific details will be announced shortly. The strategy is clear. The architecture is in place. The work ahead is delivery, and that's exactly what DXC does best.

One final note, this script was written by me, but delivered using my custom AI voice model built with ElevenLabs.

We can now share translated versions in Spanish, French, German, Portuguese and Arabic instantly. This is exponential in action, AI that amplifies human capability and it's a preview of what we're bringing to clients. Let me turn it over to Rob to review the third quarter results.

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

Now starting with the third quarter results. Total revenue was \$3.2 billion, declining 4.3% year-to-year within our guidance range with all three business segments performing consistently with the first half of the year. From a geographic perspective, we experienced declining performance in the U.S. with the rest of the world improving from the first half of the year.

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As expected, our bookings improved from the levels we saw in the first half with a book-to-bill ratio of 1.12 which brings our trailing 12-month book-to-bill to 1.02. This marks the fourth consecutive quarter with our trailing 12-month ratio above 1.

As a reminder, last year's third quarter bookings were our strongest in several years at \$4.3 billion which creates a more challenging year-to-year comparison.

As we mentioned last quarter, we had a robust list of new large opportunities in the pipeline, three of which closed in the quarter, and we have good line of sight for others to close in the months ahead.

We attribute the building pipeline of opportunities to our foundation of delivery excellence and deep engineering skills, coupled with our investments in new offerings and AI-based solutions, deepening our relationships with third-party advisers and our new brand positioning.

All of these factors are repositioning DXC as a strategic partner to the market. Adjusted EBIT margin was 8.2%, coming in slightly above the high end of our guidance range, driven by continued disciplined spending management and the timing of onetime benefits that were not included in our guide.

On a year-to-year basis, adjusted EBIT margin declined 70 basis points, primarily reflecting planned higher investment levels in offering development and marketing initiatives to support future revenue growth.

Non-GAAP EPS was \$0.96, above the high end of our guidance range, consistent with our adjusted EBIT performance and up from \$0.92 in the third quarter of last year, largely driven by a lower share count, net interest expense and taxes and partially offset by lower adjusted EBIT.

Now turning to our segment results. The CES book-to-bill for the quarter was 1.2 which brought the trailing 12-month book-to-bill to 1.13. Bookings continue to be strong in long-term strategic projects with continued pressure on short-term discretionary engagements.

CES revenues which represent 40% of total revenue, declined 3.6% year-to-year. This reflects the discretionary booking dynamic I just mentioned which has been impacting revenue for the last several quarters.

Our expectation is that the strength of the longer-term bookings will lead to improved CES revenue performance in fiscal 2027. In addition, as we have mentioned, we are investing in building AI-based offerings such as Core Ignite, AMBER, and our new AdvisoryX consultancy.

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As these new offerings scale, they will contribute to the performance of CES. Driven by large deal wins, the quarterly GIS book-to-bill ratio improved to 1.09, up from the first half of the year. The trailing 12-month book-to-bill is now just below 1. GIS which represents 50% of total revenue, declined 6.2% year-to-year which is in line with our full year expectation.

Insurance which represents 10% of total revenue, grew 3.2% year-to-year, largely due to growth in our software business. This growth has been driven by strategic customer migrations to our cloud-based Assure software platform and associated offerings.

We are also continuing to invest in our software capabilities. For example, we have introduced a suite of AI-enabled smart apps that help insurers drive revenue growth and productivity without changing their core systems.

While these investments have near-term margin impacts, they will drive incremental revenue growth over the long term. In addition, in 3Q, we anticipated closing a couple of large BPS opportunities that have now been delayed to 4Q and will impact our 4Q revenue forecast for insurance.

Now turning to our cash flow and balance sheet.

We generated \$266 million of free cash flow during the quarter, bringing our year-to-date total to \$603 million, up from \$576 million during the same period last year.

We're on pace to deliver our full year guide of approximately \$650 million. During the quarter, we took proactive steps to further strengthen our balance sheet.

We refinanced our EUR 650 million bond that was scheduled to mature in January of 2026.

In addition, we prepaid \$300 million of our \$700 million bond due to mature in September, consistent with our commitment to maintain a strong balance sheet with the appropriate debt levels.

While continuing to strengthen our balance sheet and fund investments for long-term growth, we have been returning capital to shareholders following a disciplined and balanced approach. Year-to-date through the third quarter of fiscal '26, we repurchased \$190 million worth of our shares including \$65 million in Q3.

We also remain focused on our commitment to lower our capital lease liability.

During the quarter, we paid down \$47 million which brings total reductions to more than \$450 million since the start of fiscal 2025 which is when we amended our financial practice to significantly reduce new lease originations.

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In that timeframe, we held new originations to \$33 million. With these efforts and after accounting for currency movements on our euro-denominated bonds, our total debt declined by \$465 million to approximately \$3.6 billion.

Our ability to consistently generate strong free cash flow enabled us to increase our cash balance by more than \$500 million since the start of fiscal 2025, bringing it to \$1.7 billion.

As a result, we have reduced our net debt by approximately \$970 million. Looking ahead to Q4, we expect to repurchase \$60 million worth of shares, bringing our full year total to approximately \$250 million, up from our initial guide for the year of \$150 million.

With strong free cash flow and expected proceeds from asset sales, we anticipate exiting 2026 with approximately \$1.7 billion in cash. Given this projected cash position, we are providing an early perspective on capital allocation for the first half of fiscal 2027. Along with continuing to make growth investments in our business, we expect to deploy \$400 million to retire the remaining U.S. dollar bonds that come due in September.

We also plan to repurchase \$250 million worth of shares in the first half of the upcoming fiscal year which is equal to our total projected share repurchase in fiscal 2026.

I'll provide further details on our full year fiscal 2027 capital allocation expectations during our year-end call in May. Now let me provide you with our fiscal 2026 fourth quarter guidance.

We expect total organic revenue to decline 4% to 5%. From a segment perspective, we expect CES revenue to decline year-to-year at a similar rate to the past couple of quarters. Previously I had commented that we would see slight improvements in CES revenue performance in the fourth quarter.

While our bookings for the quarter were strong, short-term project bookings were below expectations and have delayed revenue improvements to fiscal 2027.

For GIS, we expect revenue to decline mid-single digits, in line with prior quarters. And finally, insurance revenue growth is expected to be consistent with the prior quarter results which is a reflection of continued software growth and flat insurance business process services performance impacted by the delay of bookings we experienced in 3Q.

We anticipate adjusted EBIT margin in the range of 6.5% to 7.5%. And finally, our non-GAAP diluted EPS of \$0.65 to \$0.75. This fourth quarter outlook implies updated full year fiscal 2026 guidance as follows: total organic revenue decline of approximately 4.3% and at a segment level, we expect CES to decline at a low single-digit rate. GIS is anticipated to decline at a mid-single-digit rate and insurance is expected to grow at a low single-digit rate.

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We expect adjusted EBIT margin to be approximately 7.5%, and we expect non-GAAP diluted EPS to be approximately \$3.15.

Our full year free cash flow expectation remains at approximately \$650 million.

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, would you please provide the instructions?

Operator[^] (Operator Instructions) And our first question comes from the line of Jamie Friedman with Susquehanna.

James Friedman[^] Clearly, a lot of creativity and work going on here, and it is welcome by the investment community. I'd like to get your perspective, Raul, about the fast-track attributes that you're contemplating.

So if you look at one of the engagements you currently have or prospectively have, when you say things like repeatable, scalable IP, could you go in a little bit to what sorts of services it is that you're providing or how the platform works?

I know it's early, but I feel like at this point, some sort of more detail about what it is that you're doing would be helpful.

Raul Fernandez[^] Yes. No, great question.

So let me just start that the key to doing this is obviously being in a position to understand where we have some value, existing value in the work that we do with our customers.

So Hogan is a great example. It's been around for a long time from the '80s, really wasn't invested in, cared for, nourished.

And our customers, some of them stayed on, some of them left, but there's still a tremendous amount of a user base there.

So as I've brought in new product teams, these are more entrepreneurial focused teams that have an ability to quickly look at an opportunity and now with AI scale from Sandbox to MVP in a fraction of the time that it was before.

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We've been targeting the areas that we want to invest in because, again I think the biggest limiter I have is product teams that can execute.

So we've chosen where we have some legacy leverage, where there is something in what we do and what we did that provides some sort of defensible moat on the defense side and then gives us some offensive capability that somebody just can't enter and leapfrog us.

So Hogan is a great legacy platform. This CoreIgnite is a great light layer, call it a gateway that connects new products that banks want in a very technology, easy, friendly way to connect.

Then from a standpoint of value, we are creating value and we are sharing that value in a nontraditional way.

So this is not rates times hours.

This is not services. This is -- in this case, it will be sharing transaction fees.

In this scenario, transaction fees are at a high rate, click rate, right, per day per customer per item that we are bringing to the table, meaning financial product that we're bringing to the table.

And so the attributes are replicability, scalability, IP, some defensive and offensive IP and architecture, and then frankly, having the right team with the right background to quickly build and prototype and launch.

I think this is a great example where we have started building, we've started talking to our customers.

We've started engaging with partnerships. We've started announcing those partnerships before the product is ready to go.

But we're talking quarters, not years.

We're talking months, again not years.

So the attributes across the board, and that's one in CES. There's another offering within GIS called Oasis that we're going to launch.

Our June Investor Day will be a day that we go into heavy detail.

We will have demos there.

We will have product teams there.

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We'll have customers there.

Then Rob and I, in June, we will have a much more detailed look at the next 24 months or 28 months, whatever is left in the 36-month timeline and be able to give you a better sense as to the revenue ramp.

Personally, as I look back and I look at the development schedules that I originally approved and funded and I look at where they are today A, they're running ahead of schedule from a development standpoint, again use of AI tools to get things done and, B, their time to revenue is faster than I originally thought.

So the time between now and June will let us fine-tune the model, let us look at what the ramp-up is going to be.

But I think everything that you see in terms of the AI high fliers of incredible fast penetration and growth, we have an ability if we select, if we invest and if we build the right AI products to benefit from that much stronger rise in revenue and adoption. And again I think we've targeted really well.

We've got six right now. There's another probably three to four that are in the queue. Again the biggest issue I have is the right teams to execute on this and picking the right projects, right?

So we're going to -- they all have a shot at being super successful.

As long as four out of six are successful, it's a win for us. And even if some aren't, we're going to learn along the way.

James Friedman[^] Okay. I'll jump back in queue. I'm going to come back if there's room at the end.

Raul Fernandez[^] Yes.

I'm happy to go into -- this is a higher gross margin or net margin profile, how we're pricing it.

So happy to follow up on questions there as well.

Operator[^] And our next question comes from the line of Bryan Bergin with TD Cowen.

Bryan Bergin[^] Maybe start on the guide. Just curious on the underlying drivers and assumptions you made on the growth rate within the underlying segments and businesses as far as CES, GIS, and insurance. Just how much of the CES improvement is in hand already?

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Then just talk about as far as the insurance side of the equation, just what may have changed there in some of those ramps?

Robert Del Bene^A Yes. Brian, it's Rob. Thanks for the question.

So our guide for all three segments, pretty consistent from a quarter-to-quarter perspective. Now we did -- I mentioned last quarter that we were expecting a little bit of an improvement in CES in the fourth quarter.

The booking dynamics, as I said in the recorded remarks, the booking dynamics in CES were strong in strategic longer-term projects, different duration profile than the short-term projects.

That -- based on the beginning pipeline for 3Q, we expected to do a little better there.

The pattern of the first half of the year continued into the third quarter.

So that delays the improvement.

In the insurance business, where software is growing nicely consistently all year, the business process services segment of insurance is about flattish range in terms of revenue for fourth quarter. That's the prediction.

Now we -- again coming into the quarter, we had a robust pipeline. A couple of deals we expected to close that would have driven incremental revenue in Q4 has got pushed to booking in Q4 instead of booking in Q3.

So that is also a bit of a delay which dampens the growth rate we had previously expected in insurance for Q4.

Bryan Bergin^A Okay. Understood. My follow-up just on the margin side.

So maybe talk about the performance in 3Q and the guide for the 4Q. Is there any kind of expense timing shifts there?

And as you think about drivers for margin improvement and cost takeout and maybe even beyond the 4Q, just as you ramp deals that you do win, how should we be thinking about that as you get into the early part of next fiscal, too?

Robert Del Bene^A Yes.

So we -- in the quarter, we did a little better than we had expected.

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We had good resource management and savings from that.

Then we had some onetime pennies that we didn't exactly know the timing.

We didn't have it in our guide and they hit in 3Q.

So that is the part of the decline from quarter-to-quarter going into fourth quarter.

Then the absolute revenue comes down a little bit quarter-to-quarter, and that's the remainder of the quarter-to-quarter underpinning of the guide.

Now we have -- extending out into fiscal '27, the 4Q guide is a good launching point heading into '27.

We are going to be pulling together all of our cost takeout as we normally would do, all of our cost takeout plans heading into the new year during the next 60 days or so.

We'll have a much better picture of the cost takeout detailed plans in 60 days.

But I would say that we have plenty of room for cost improvement and spending management.

We are utilizing our AI capabilities internally which will help us drive cost reductions next year and into the future.

So we feel confident in our margin profile heading into next year, but the particulars, we'll know more in 90 days.

Operator[^] And our next question comes from the line of Jonathan Lee with Guggenheim Partners.

Jonathan Lee[^] What have you seen across your client conversations in January as it relates to calendar '26 spending intentions?

And how does that compare to last year?

And in those conversations, what gives you confidence around any potential improvement in pipeline conversion going forward given some of the deal delays you've highlighted?

Raul Fernandez[^] Yes. Let me hit it first, and then I'll let Rob comment.

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One thing that has been a factor that we've noticed in the last quarter is that we are getting a lot of opportunities that are driven by corporate spinouts, restructurings, and breakups.

We have existing customers and new customers that are going through the business rationale and then the actual execution of those spinouts. Those spinouts require a tremendous amount of support from a system standpoint.

And we are getting a good amount of opportunities, both existing clients and new clients. And again that is a step-up that I think is reflected by the macro environment where it's easier now to potentially do deals and get things approved in various governments around the world.

If you remember, April last year, the tariff, we started the year with a lot of hope and promise. Then we had the tariff issue.

I think those have been internalized as kind of a normal operating mode where people understand that their tariff situation is what it is, and it will change over time but it is almost like a volatile factor that is now factored in as part of a normal planning. That definitely provided some pause last year in the spring and summer. We're beyond that.

I think that the realization that AI has a huge unlock of economic value and potential far beyond anything that we've been through before is absolutely resonating across C-suites. And -- but they're also being thoughtful about how to take the right approach with the right parts of the business with the right partners.

So while I think in some instances, it may delay some decision-making, the delay isn't about stopping any sort of investment in innovation, not that whatsoever. It's really about thinking how big their AI agendas will be rolled out and at what pace and sequence.

Robert Del Bene[^] And just, Jonathan, to add to what Raul just described, just looking at the data, our pipeline for 4Q is robust. The win rates we experienced in the third quarter were very stable with the rest of the year. Pricing is -- I'll describe that as stable as well.

So indicators are pretty consistent for the three quarters of this year. There was definitely this mix impact of longer-term projects versus shorter-term projects which the longer-term projects are -- I think the close rates have been pretty stable.

So the shorter-term projects, they haven't. The closed, there's been more delays and there's been more carrying over from one quarter to the next in the pipeline.

So that pattern which has existed for all three quarters, we see it -- I see it continuing into the fourth quarter, and that's what's baked into the guide.

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Jonathan Lee[^] That's really helpful context. And just as a follow-up, I want to dig into the Connect and Converge strategy.

On that and sort of connecting the AI and solutions, how do we think about any risks or potential client hesitancy there?

And how do you convince clients around the benefit of essentially not modernizing their tech stacks?

Raul Fernandez[^] I think it's about optionality. Many clients have tried to do big lifts and shifts and have failed. I think a lot of factors are now coming together.

One, much better AI-based tool sets for code conversion which does two things.

One, allows you to revisit the old legacy systems.

Of course we could be players in that scenario.

But more importantly, being able to build lightweight offerings that are AI-based that can be delivered very quickly that can also be priced from our standpoint in a more disruptive and value-based way. I think it's a win-win.

I think that the era of rates times hours is ending, and now we're moving into a new era of value-based pricing. It will take longer than we all think because we have huge organizations, purchasing organizations, procurement organizations that have grown up doing that.

So I think it's less of a tech challenge than it is a bid process challenge and a procurement and thinking challenge in terms of who do you want your partner to be and how do you want their business model to work side-by-side with your business model.

But we're taking a very creative, innovative and disruptive approach to all of this.

As you know we've had a history and we own it of having since these companies came together, a decline in revenue.

We are committed to solving that issue, to getting it to zero, and then to growing again.

We think AI is an incredible tailwind for us to do that if we position ourselves correctly.

The investment that we're doing in Fast Track is exactly that to position us as great partners in their AI journey.

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Operator[^] And our next question comes from the line of Brendan Biles with JPMorgan.

Brendan Biles[^] Thanks for sharing the results with us today. I love the refreshed look and the branding in the slides. It looks awesome. Question for me is on free cash flow. It seems like you outperformed versus at least what we had penciled in for free cash flow in the quarter.

So I just want to confirm, is that consistent with your expectations?

Or did you outperform your expectations as well?

Then what's the thinking on the full year number staying at \$650 million, I take it to the extent you outperform, is that just going -- allocating that cash flow into these kind of these fast-track initiatives to the extent there was outperformance?

Robert Del Bene[^] Yes. Thanks, Brendan. I'll take that one.

So we did a little bit better than we anticipated in the quarter. And just to step back, for the full year, our pattern of quarterly free cash flow this year is different than the last several years in that we normally would have flat free cash flow in the first half and produce 90% of our free cash flow in the second half of the year.

We pulled -- and that was because of working capital dynamics. This year, we pulled forward the benefits of working capital into the first half of the year.

So it changed our normal SKU.

In the third quarter, we did -- also did a little better than we anticipated in a couple of areas, not materially.

I do think that is more of a pull forward from 4Q into 3Q rather than adding to our full year guide.

Now we always try to do better, right?

So we will keep working all elements of free cash flow and try to outperform.

But right now what I can see is we'll be on our original guide.

The deployment -- to answer your question on deployment, we were really clear in our script where we're deploying our cash in the first half for the fiscal year.

So we gave color on both repurchase and debt repayments.

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Operator[^] And our next question comes from the line of Antonio Jaramillo with Morgan Stanley.

Antonio Jaramillo[^] I want to go back to your comments on the pricing environment. How does pricing vary for like each of the business segments?

And where do you see like the most change?

Robert Del Bene[^] Our pricing dynamics are different in each segment depending on the profile of the engagement.

So let me just take it step by step here.

In GIS, where there are longer-term commitments including at some engagements have capital, some engagements don't.

So the pricing would vary depending on the level of upfront commitment being made by DXC.

Some engagements require more transition and transformation.

So the pricing structure of those contracts would look very different than a consulting contract, right, where it's people related and skills related and the value you're bringing to that engagement.

So really, the -- and the same the insurance business is different even within insurance, you have a software component to insurance which is priced as typical software providers price their products.

There's a BPS component to insurance that's priced more typically like an outsourcing contract.

So each of the three segments have different dynamics and the level of upfront investment will determine part of those pricing dynamics. I will say that for all three, this year, our pricing has been stable for all three segments.

Antonio Jaramillo[^] Got it. That's helpful.

Then I wanted to follow up on the cap allocation priorities. It looks like the share buybacks will be ramping up in the first half of fiscal year '27 which is matching what you guys are going to do for this fiscal year. Yes. Like how do you balance that with investment as well?

Robert Del Bene[^] Yes.

So our first priority is investing to grow the business.

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So that is our number one priority. We've also -- the other two priorities are equally important to us, maintaining the right debt profile, strong balance sheet and return to shareholders.

So we -- once we set our investment levels that we require and determine how much incremental cash we have to deploy to the other two priorities, we will balance the right debt profile with what we feel like is the appropriate return to shareholders.

So it's judgment.

So you could see from all the actions we've taken for the last two years that we've been applying judgment along the way.

We -- with our cash balances we currently have and project to have through the end of the year -- fiscal year, we feel confident in those -- in the cash generation and the cash projections.

So we thought it was appropriate this year to give guidance for the first half of next year which is a little unusual for us, but that should be a signal of confidence in our cash projections.

Raul Fernandez[^] And let me just give a little bit of color.

As investors and builders of AI products and services that we're bringing to market, we are benefiting from the incredible amount of compute that is available to us.

I think what's happened in the last two years is that you've got a democratization, small D, of compute and an ability to have access to that -- for anybody to have access to that as a user, as a consumer and as an enterprise.

We clearly see the benefit and value and the fact that you can build incredible solutions in a fraction of the time at a fraction of the cost.

So we are super confident in our ability to continue to invest.

And as I said before the issue isn't the ability to invest in these, the issue is about having the right number of teams ready to go out and build them, sell them, and deliver them.

So I think it's just the backdrop of the environment today as a big company building solutions or as an entrepreneur and a start-up building solutions in an AI world, it's an incredibly faster, cheaper way of bringing value to market.

Operator[^] And our next question comes from the line of Keith Bachman with BMO Capital Markets.

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Keith Bachman[^] I wanted to go back to some of the initiatives to try to stimulate growth. And a couple of questions.

One is, how do you think about promoting Core Ignite and others while also balancing margin expectations?

And as you mentioned, you have to build it, you have to promote it, and that usually means an investment profile.

I think it is the right thing to do to try to stimulate the top line.

But how do you balance those initiatives?

And I think Rob, you started to address some of these new initiatives. How are you pricing them?

Are you moving into consumption-based models?

Then I have a follow-up, if I could.

Raul Fernandez[^] Yes.

So I think first and foremost, the ability to build these, again in a very quick and capital-light and investment-light way kind of underpins our financial flexibility in terms of how we price and how we capture value. I think we're moving towards value-based pricing.

We're moving towards an ability, and we are absolutely going to be doing that. The other thing to not forget is that these start-ups inside of DXC have the benefit of a \$12 billion company with 115,000 colleagues around the world with fully spun up marketing and sales organizations.

So we are investing in product.

We are investing in solutions that are new and AI-centric, but then they get to benefit from the new branding, the new positioning, all the human capital that we've built around it.

So those shared services that are here to support the corporation as a whole also support these new initiatives.

So we're benefiting from being large and from being legacy, but we're also benefiting from being fast and then the ability to go and use these tools to quickly build solutions and bring them to the

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marketplace. And frankly, it gives us an ability to be more disruptive versus our competitors in pricing and to think about this as long-term value capture for ourselves and for our customers.

Keith Bachman[^] Then as you think about -- you guys have done an admirable job certainly on lowering your net debt and some trade-offs have existed. And at this juncture, I think part of it was also you wanted to clean up the business.

But at this juncture, I appreciate the capital allocation description you've given in the slide deck.

But how do you think about M&A to try to also use as a source to spur growth within that context of capital allocation?

Raul Fernandez[^] So we've said that we'd be open if we have the infrastructure that's ready to be able to have an accretive acquisition of a company that would help accelerate the business goals of one of our three offerings, we would absolutely look at it.

We are looking at it.

But the ability to create products and services inside of our organization and bring those to market, a, we control more of it. There's less risk, there's less friction, and we just have more control on all sides of the equation.

To the extent we can find a company with a solution or value proposition that clearly adds value to one of our offerings and clearly adds value to where we want to double down and invest in, we will absolutely look at that anywhere in the world, and we have active teammates that are working on that every day.

But I'm -- A, I want to make sure that the foundation that we bring anything into is solid and good and accretive and it will grow faster than it did independently.

I'd say we're probably 80% of the way in that journey from an organizational structure standpoint. And B, we have an ability to create new offerings.

We should continue to fully do that and then selectively look at where M&A can help us accelerate our business (inaudible).

Keith Bachman[^] Okay.

I'm going to get in trouble with Roger, but I'm going to ask a third question in terms of asset dispositions, you guys did make a comment on during the course of the prepared remarks.

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Is there -- are these smaller type of things or anything more material that you would think about?

I know you don't want to get specific, but just broadly speaking.

Robert Del Bene^A Yes, Keith, they're small. It's older data centers, office space that we -- that are -- everything that's underutilized, we put on the market and try to sell.

So it's -- they're really small problems.

Raul Fernandez^A Nonstrategic.

Robert Del Bene^A Yes. Nonstrategic, yes.

Operator^A And our next question comes from the line of Darrin Peller with Wolfe Research.

Paul Obrecht^A This is Paul Obrecht on for Darrin. Rob, you mentioned the improvements in the rest of the world, but declining performance in the U.S. Can you just provide a bit more color on what you're seeing geographically?

Robert Del Bene^A Yes. Yes. The results in the U.S. are -- have decelerated a bit, and you could see that in our Q.

So you could see that over the course of the year.

The rest of the world has been on an improving trajectory across the board.

So that is true of all three segments improving, again on an improving trajectory in the rest of the world.

So we're very encouraged by that. The phenomena of longer-term projects being the focus is more pronounced in the U.S.

So the short-term projects have been slower in the U.S.

So it's partly the market, partly execution on our part.

But there is a pronounced difference in performance between the U.S.

The rest of the world. And by rest of the world, I should add that Europe and our APAC region are both on the right trajectory, have both done better.

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Paul Obrecht[^] That's really helpful.

Then as a follow-up, you've discussed the continued discipline around cost management. Can you provide a bit more detail on the productivity and cost savings you've seen over the last year as you've increasingly embedded AI internally?

Robert Del Bene[^] Yes.

That -- and Paul, that -- we have seen benefits internally.

Our resource reductions, our headcount reductions have kept pace with the revenue profile of the company.

So good discipline management that we've had in prior years has continued.

I'd describe AI as an enabler to let us continue that good profile and disciplined management.

We see that accelerating in the future, not slowing down because specifically because of AI, we will see that trajectory accelerate.

Operator[^] Our next question comes from the line of Jamie Friedman with Susquehanna.

James Friedman[^] So if you were to look, Raul, at Hogan engagement before and after the AI say Core Ignite migration or do you think of this as an add-on to the current installation, like a totally new de novo type work?

Or is it more a new delivery or engagement mechanism?

How should we be thinking about the before and after as this initiative evolves?

Raul Fernandez[^] So I think you should think about it is we have an installed base of customers, and there's a kind of run rate set of professional services and limited other services that we provide for them around the Hogan product. This is all net new. This is all additive. This is all accretive. This is absolutely no negative impact to anything that we're doing today.

The other thing I want to point out, as I said, we're building on some legacy assets.

We also have some very favorable IP rights and contract rights in many of these instances where not only do we know the code, do we have proprietary hooks and APIs, et cetera.

But in many cases, we're the only ones that can touch the code.

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So it's a great position to be in. You keep all the business you have, you create a new set of products and services on top of that old legacy and you create new revenue opportunities for DXC in a more value-based way and you create new products and offerings for our bank partners, our bank customers that have invested and have been with this product for many, many years, and you're giving them more things to sell.

So it's an absolute win-win.

James Friedman^A In terms of the architecture of Hogan, my assumption, correct me if I'm wrong, is that probably a lot of that is still either mainframe or client server on-prem.

If that's wrong, just stop me.

But is that an obstacle to an AI transformation?

Like don't you need to modernize it before you apply it?

Raul Fernandez^A No. No. That's the beauty of this, that it's a light layer gateway that sits on top of the existing infrastructure regardless of where it's housed, on-prem, off-prem, hybrid cloud or any combination. The way we've architected the ability to add new products to our bank customers. Essentially, what we're doing is we're creating a gateway where on one side, we connect to our bank customers, 300 DDAs.

On the other side, we sign up new products and offerings that people -- that the bank wants to offer to its consumers, you name, stablecoin, buy now pay later. And by enabling it without having to touch that core infrastructure, it's a total win-win, win-win for us and a win-win for the bank customer.

James Friedman^A All right. All right. I'll back in the queue because this covers -- I'm sure you have a lot to talk about.

Raul Fernandez^A I'm looking forward for you to come to demo day because you'll see it all there on our Investor Day and we can go as deep as you want.

James Friedman^A Yes, me too.

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

Rod Bourgeois^A You mentioned earlier that AI can help you drive better revenue growth. I just wanted to see if you could point us to what are your main AI solutions that you're currently driving revenue at clients?

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And if you can give us any sense of what your overall AI revenue mix is at this point?

Raul Fernandez[^] Yes.

So look, there's AI revenue that is infused, and I'll use insurance as an example. A lot of the applications and capability that we are building for our insurance customers are built on top of a ServiceNow AI infrastructure that we can add more value by adding business process, business flows, business logic to that underlying AI code. In other cases, we're using other language models and putting those in place.

So if you think about it as a layered cake, we play at all layers of the cake and we have an ability to do so. Each offering is different.

So Core Ignite within CES is, again a lightweight layer that sits on top of a legacy system.

We are building within GIS an ability to have an orchestration and visibility platform that we call Oasis that we're just about to start in pilot phase with a few lighthouse customers.

So we will monitor and we will report on our Fast Track metrics, and we'll give more color on that in the June Investor Day.

But today throughout all of the organization, we are using AI to do many different things to port code, to write code, to check code.

So the ability to go, okay. What part of this bill is AI and what part is not, that becomes more and more difficult as you're using AI for every part of the life cycle.

But specifically, what we want to call out and especially on the 10% reference that I had before those are going to be tied directly back to these very specific offerings that are branded, that you'll read a lot about and that the offerings and all of those project teams will have a chance to discuss in further detail in our June Investor Day.

Operator[^] And that concludes our question and answer session. I'll now turn the conference back over to Mr. Roger Sachs for closing remarks.

Roger Sachs[^] Thank you, everybody, for joining us today.

We look forward to speaking with you again next quarter and at our June Investor Day.

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Operator^ Ladies and gentlemen. this concludes today's call.

We thank you for your participation. You may now disconnect.