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DXC Technology Services, LLC

DXC Technology Q1 Earnings FY 2027

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BMO; Analyst
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JPMorgan; Analyst
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Morgan Stanley; Analyst
Rod Bourgeois
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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 Services First Quarter Fiscal 2027 Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to Roger Sachs, Vice President of Investor Relations. Roger, please go ahead.

Roger Sachs^ Thank you, Operator. Good afternoon everyone. And welcome to DXC Technology's First Quarter Fiscal 2027 Earnings Conference Call. We hope you had an opportunity to review our earnings release which is available in the IR section of DXC's website.

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

First, Raul will update you on our strategic initiatives. Rob will then review our quarterly financial performance as well as provide thoughts on our second quarter and fiscal full year 2027 guidance. Raul and Rob will then take your questions.

Please note certain comments made during today's call are forward-looking and subject to risks and uncertainties that could cause actual results to differ materially.

Details of these risks and uncertainties are in our annual report on Form 10-K and other SEC filings. We undertake no obligation to update any forward-looking statements.

Unless otherwise noted, year-over-year or quarter-over-quarter revenue growth rates discussed on today's call refer to organic revenue growth on a non-GAAP basis which exclude the impact of foreign exchange and inorganic activity.

We will also be discussing certain other non-GAAP financial measures that we believe provide useful information to investors. Reconciliations to the most comparable GAAP measures are included in today's earnings release. And with that, let me turn the call over to Raul.

Raul Fernandez^ Thank you, Roger. On June 11th, we held our Investor Day where we put our strategy on the table and demonstrated the agentic solutions we have built and deployed. We also announced our global partnership with Anthropic.

Since then, we have continued to move from strategy to execution. And what is becoming increasingly clear to me is that the opportunity in front of DXC is not simply to use AI to make our existing business more efficient.

It is to use agentic AI to change how we build, sell, and deliver technology and ultimately return DXC to growth. People and leadership have always mattered, but they matter even more as we enter this next phase. An agentic company operates differently.

It needs to move faster, make decisions closer to the customer, build and deploy solutions more quickly, and continuously learn. That requires leaders with deep customer understanding, commercial discipline, entrepreneurial thinking, and the ability to bring people together to deliver better outcomes for customers. That is why I'm very pleased to announce that Paul Taylor is joining DXC as President.

Paul brings more than 30 years of technology and commercial leadership experience, spanning financial markets, enterprise technology and entrepreneurship. He was a partner at IHS Markit through a period of significant profitable growth and scale, culminating in its approximately $44 billion acquisition by S&P Global.

Most recently, he founded and led HUB an AI-driven technology business acquired by OSTTRA, where AI agents and workflow automation were central to the company's operating model. Paul brings the combination of commercial leadership, entrepreneurial thinking and operational expertise needed to leverage world-class technology, great teams and deep customer relationships to help customers transform their businesses.

Together, Rob, Paul, and I will streamline how DXC operates, bring our markets, offerings and delivery teams closer together, and execute an aggressive agentic playbook that helps our customers move faster.

We are also making a leadership change at GIS. This morning, we announced Dan Gray will take over leadership of GIS from Chris Drumgoole. Dan has co-led the development of Oasis and our agentic SOC solutions.

So he brings both the technical understanding and the operating mindset that we need to accelerate the transformation of GIS. I want to thank Chris for his service to DXC and wish him the very best in his next chapter. Chris will remain connected to DXC through my CEO, Counsel of Advisors.

Earlier this week, we also announced the promotion of Holly Grant to President of AI Innovation, Strategy and LabX. Together, these changes reflect a single principle placing the strongest leaders in the areas where we see the greatest opportunity to create value for customers and shareholders. The most important thing we can demonstrate today is not our vision for AI. It's proof.

Over the last year, DXC has adopted a simple philosophy we call Customer Zero, build it, run it in our own environment, prove it works, measure the results and then take it to our customers. This approach is producing tangible results.

In our own security operations, our Agentic SOC has transformed how we detect and respond to threats. With traditional software and manual processes, meantime to intrusion detection was approximately 21 minutes.

With our agentic SOC solution, we are seeing that reduced to approximately six seconds. This is not incremental improvement. This is a fundamentally different operating model for our cybersecurity.

We are seeing similar outcomes for DXC Oasis which is now deployed across 57 customer environments.

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Oasis is helping organizations improve the speed, consistency and intelligence of mission-critical IT operations. In measured use cases, we have seen significant reductions in resolution time and ticket backlogs while maintaining high diagnostic accuracy.

What matters is not simply that these technologies work together, what matters is that they are creating customer demand, shortening time to value and expanding the set of opportunities where DXC can lead.

As I meet with CEOs, CIOs and business leaders around the world, one theme comes up consistently. Organizations are excited about the potential and promise of AI that they want to adopt it responsibly. They want innovation, but they also want trust.

We believe enterprises will not deploy agentic AI at scale unless they can trust the architecture underneath it. That means protecting customer data, preserving governance, maintaining auditability and ensuring accountability for business outcomes. This is where DXC is uniquely positioned.

For decades, our customers have trusted us to operate some of the most critical systems, applications and infrastructure. As AI adoption accelerates, we believe that trust becomes even more valuable. Another principle that differentiates DXC is what we describe as Connect, Don't Convert strategy.

We do not believe enterprises should have to discard decades of business logic, institutional knowledge and technology investment in order to benefit from AI. Instead, we connect new intelligence to existing environments.

We help customers preserve the systems that run their businesses while unlocking new levels of automation, insight and productivity. Their legacy investments are not liabilities. They are strategic assets.

By combining AI with the technologies customers already depend on can accelerate modernization while reducing risk, cost and disruption. And because our architecture is designed around flexibility and portability customers retain the ability to adopt new models and technologies as the market evolves.

We believe this flexibility will become increasingly important as enterprises seek to avoid becoming dependent on any single AI provider or technology stack.

And this brings me to the most important point. The return to growth at DXC will be fueled increasingly by products and solutions that we can build in a capital-light way. This is not an M&A strategy. It's not about buying growth. It is about taking the assets we already have.

our customer relationships, our industry expertise, our heritage platforms, our proprietary IP and our 113,000 colleagues and using AI to build products around them faster with less capital and less dependency on incremental labor.

Since Investor Day, we are already seeing evidence of this in how customers move where traditional enterprise technology sales cycles have historically taken six to 12 months -- we are now seeing evaluation, proof of value and contracting in six weeks or less. For Oasis, prospects are completing full evaluations and reaching contract stage in under six weeks.

With our agentic SOC offering, a leading global entertainment and technology company, completed their technical evaluation in just over four weeks and went on to sign a multiyear, multimillion dollar engagement. That acceleration matters because of speed compounds. Faster innovation creates faster adoption, faster adoption creates more proof points, more proof points create more demand.

One of the clearest examples of how we are moving from AI strategy to execution is the launch of our forward deployed engineer model. FDEs are a new class of hybrid AI builders who work directly inside customer environments, turning AI concepts into deployed outcomes and then capturing the reusable patterns that allow us to scale.

In mid-July, we began certifying DXC engineers with Anthropic through hands-on base camps in San Francisco and London. This brings together some of the best technical talent from DXC and Anthropic and creates a new class of forward-deployed engineers who take these capabilities directly into customer environments. We are seeing early momentum with our first 86 trained, giving us an initial deployment-ready bench.

As we shared last month, together with Anthropic, our goal is to certify tens of thousands of forward deployed, cloud-certified engineers and builders. We are taking that one step further.

DXC is developing a multilingual forward-deployed engineer certification model that combines Amazon Quick Suite, Anthropic, Microsoft CoPilot, 7AI and ElevenLabs whose FDE partnership we announced earlier this week with our proprietary Discover, build, scale methodology. Historically, Technology Services grew largely through labor expansion. Revenue growth generally required proportional increases in headcount. AI changed that equation.

It allows us to build faster, operate more efficiently support more customers and increasingly deliver outcomes that are measured by value rather than effort. At the same time the economics of AI continue to improve.

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As models become more capable and operating costs continue to decline, the number of economically viable use cases continues to expand. This creates opportunities to introduce new products new pricing models and new sources of recurring and consumption-based revenue.

Combined with our scale, customer relationships, intellectual property and industry expertise, we believe this represents a meaningful opportunity to improve both growth and profitability over time. Most importantly, we can pursue this opportunity while remaining disciplined with capital and focused on free cash flow generation.

When I compare DXC today with where we were a year ago, I see a company that is increasingly turning strategy into execution. We have clear priorities, we have stronger leadership.

We have built and deployed real agentic solutions with measurable results. We have trusted partnerships and we are creating a new generation of AI-enabled talent and capabilities.

Importantly, we are seeing customers respond. The strategy remains unchanged. We will continue to stabilize and improve the core business while building AI native sources of growth.

What has changed is the evidence. We are proving our technology, we are improving our operating model, and we are proving that AI can help create a stronger, more profitable and more sustainable DXC.

Now our focus is on execution, scaling what works creating value for customers and delivering long-term growth for shareholders. Through ElevenLabs, my script will be available in six languages immediately following this call. Thank you.

Robert Del Bene^ Thank you, Raul. And good afternoon, everyone. Today I'll go over our first quarter results, provide guidance for the second quarter and update our full fiscal year 2027 outlook.

Now starting with the first quarter results. Total revenue was $3 billion, down 6.7% year-to-year, slightly above the midpoint of our guidance range, driven by better-than-expected performance in CES. Market conditions remained as expected with continued customer caution and short-term discretionary projects, most pronounced in IT infrastructure projects.

Total bookings increased 5% year-over-year driven by several large deal wins in GIS. This resulted in a book-to-bill of 0.99 the highest first quarter level in the past three years, bringing our trailing 12-month book-to-bill to slightly above 1.

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As expected, our adjusted EBIT margin was 5%, down 180 basis points year-to-year. The performance reflects the revenue profile we anticipated for the quarter as well as normal seasonal factors. Non-GAAP EPS was $0.40, in line with our guidance.

Now turning to our segment results. The CES book-to-bill ratio for the quarter was 0.98x, with a trailing 12-month book-to-bill of 1.04. Bookings in both DXC Engineering and GrowthX grew year-to-year while a tougher comparison to the first quarter of fiscal 2026 in the applications business led to a total CES bookings decline of 19% year-to-year.

As we discussed in our Investor Day presentation, both DXC Engineering and GrowthX are important elements of our platform-based product strategy and our longer-term revenue growth plans. CES revenues declined 3% year-to-year modestly ahead of our expectations, primarily due to better performance in project revenues in both GrowthX and DXC engineering.

Our applications business performed consistently quarter-to-quarter and in line with our expectation with growth in enterprise application services for the third consecutive quarter and consistent quarter-to-quarter declines in custom applications.

For GIS, the book-to-bill ratio was 1.11, reflecting a year-to-year bookings increase of 35%, driven by several large deal wins including both new logos and renewals in our intelligent infrastructure and workplace businesses.

With the introduction of Oasis and other new product content like our agentic SOC solutions, we're now delivering AI-based products to our clients, greatly enhancing the effectiveness and productivity of their IT operations and security posture. This is translating into increased opportunities with new potential clients and with our installed base of existing customers. This is encouraging and supports our longer-term outlook for GIS.

By the end of the first half of the year, we expect 85 customers to be on the Oasis platform and have a deployment plan for 125 customers by the end of the fiscal year.

We're solutioning all new intelligent infrastructure engagements with Oasis and the client feedback on existing accounts and the market interest levels have been very positive.

In the short term, revenue in 1Q continued to be impacted by softer levels of discretionary project work to have a more immediate impact on our quarterly revenue. As a result, GIS declined 11% year-to-year, slightly lower than our expectation and fourth quarter performance.

Insurance grew 1.4% year-to-year in line with our expectation. We continue to build momentum in our SaaS-based Azure platform and Horizon Solutions with SaaS revenues more than doubling year-to-year.

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Our SaaS-based revenues will build with the continued migration of customers to our Azure platform and the sales of our AI-based smart apps grow throughout the year.

Total insurance software revenue grew 13%, while services were down about 1%, impacted by the wind down of a BPS contract which will also impact the second and third quarters of this fiscal year.

We generated $314 million of free cash flow during the quarter including $214 million associated with the successful resolution of our long-running trade secrets litigation involving TCS. Excluding that benefit, free cash flow totaled $100 million, a modest year-over-year improvement driven by lower annual executive compensation and reduced cash tax payments offsetting lower adjusted EBIT.

We ended the quarter with approximately $1.9 billion of cash, an increase of $200 million from fiscal year-end 2026 including proceeds from the TCS litigation.

During the quarter, we also repurchased $70 million of shares and reduced capital lease obligations by $38 million. As a result, net debt declined by nearly $270 million from Q4 levels to approximately $1.5 billion, further strengthening our balance sheet.

Consistent with our previously announced capital allocation plans, we anticipate retiring $400 million of our U.S. dollar bonds maturing in September 2026 and expect to repurchase approximately $250 million of shares during the fiscal year. Now let me provide you with an updated view of our full year fiscal 2027 guidance.

We continue to expect total organic revenue to decline 3% to 5% year-to-year, with an improvement in the rate of decline in the second half of the year. The drivers of our top line trajectory for the year are reflected in our segment outlook as follows.

In CES, we now expect revenue to decline at low single-digit range consistently throughout the year reflecting better performance in project-based services than we previously anticipated.

In GIS, we continue to anticipate a mid-single-digit revenue decline for the year. Performance is trending modestly below our original assumptions largely reflecting lower levels of discretionary project activity.

We continue to expect a stronger second half profile as the impact of contract losses incurred in previous years moderates.

In insurance, we continue to expect low single-digit revenue growth for the year with better second half performance driven by the ramp of expected new customer contracts, continued momentum in our AI and cloud SaaS offerings and the positive impact of the previously mentioned contract runoff which wraps in the fourth quarter.

The midpoint of our guidance for all three segments does not assume any change to the current macro environment.

We continue to anticipate adjusted EBIT margin for the full year in the range of 6% to 7%, with margins improving sequentially throughout the year, supported by cost management, operational efficiencies and improving revenue profile in the second half of the year. Our non-GAAP diluted EPS outlook remains between $2.40 to $2.90.

We now expect full fiscal year 2027 free cash flow of approximately $685 million. This outlook reflects the following: maintaining our underlying prior free cash flow expectation of approximately $600 million, a $214 million cash benefit from the TCS litigation I discussed earlier, and a payment related to a previously disclosed tax litigation case with the IRS regarding currency losses from 2009.

While we determine the appropriate path forward including potential appeal, we included in guidance a deposit with the IRS to stop future interest from accruing.

For the second quarter of fiscal 2027, we expect total organic revenue to decline between 5.5% to 6.5% year-to-year.

And at the segment level, we expect CES to decline low single digits consistent with the first quarter. GIS is anticipated to decline at a high single-digit rate and insurance is expected to grow at a similar rate as the first quarter.

We expect adjusted EBIT margin to be approximately 6%, and we expect non-GAAP diluted EPS to be approximately $0.55. And with that, let me turn the call back over to Roger.

Roger Sachs^ Thank you, Rob. We’d like to now open the call for your questions. Operator, can you please provide the instructions?

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

Bryan Bergin^ Thank you. I wanted to ask about the 2Q to second half walk. Can you help unpack the implied improvement in the second half relative to kind of what you’re guiding here in 2Q? And any particular factors as you look across CES, GIS and insurance?

Robert Del Bene^ Yes. Bryan, it’s Rob. Thanks for the question. Yes, let me unpack the revenue for you. there’s a material improvement in growth rate going from the first half to the second half. And it implies it's going from the range of call it, minus 6.5 to minus 2-ish in the second half, right? So that's the improvement required.

Now when you look at the factors driving that improvement, the majority of that is going to -- the majority of the improvement comes from our GIS business and about 90% of the improvement to quantify it for you.

And then looking at the dynamics within GIS, about 3/4 of that improvement comes from the opening backlog dynamics throughout the year. So we have line of sight and have a high degree of certainty around 75% of that improvement.

The remainder of the improvement comes from in-year sales performance and that performance does count on a modest improvement in your sales for GIS and we think it's a reasonable improvement given all the new content we're bringing to market and the momentum we see with our client base. And so to characterize that a little bit for you about 15% to 20% of that was delivered already in the first quarter bookings.

So when you cut through all of that, there is confidence in our ability to have a significant improvement in the growth rates of GIS. And then we're not counting on significant improvements in CES first half to second half and we did a little better in CES in the first quarter, and we think we have some momentum building.

So we feel confident there. And then the same with insurance. We have line of sight, modest dollar improvement into the third quarter.

In the fourth quarter, we wrap on the one contract that I mentioned in my prepared remarks. So we have pretty good line of sight in insurance as well. So that's what gives us the confidence for the second half improvement.

Bryan Bergin^ Okay. Okay. That's clear. My follow-up, maybe I'll go to CES then. Just looking at the organic revenue decline in the bookings this quarter, I guess, what needs to happen here to really get that going again and improve CES and reaccelerate the client caution continues with muted discretionary.

But what -- can you -- can you more than offset the custom at weakness with new offerings in Engineering and GrowthX? Taking that, please.

Robert Del Bene^ Yes. So yes, let me take that one, too, Brian. So we the dynamics of the bookings in CES really have to be parsed between smaller project-based deals and larger deals. Just if you recall first quarter of last year, we had a significant number of larger deals in CES. So we had a very tough comparison, and that drove our bookings numbers down year-to-year.

The project-based services portion of CES in the first quarter performed better than we anticipated. And that stability gives us more confidence going into the second quarter and the rest of the year.

So that dynamic, the project-based bookings give us the foundation for the guide for the remainder of the year. And then the big deals will kind of come and go with the pipeline and the closing cadence of the big deals.

But the fundamental underlying bookings of project-based services were better. And they were better in Growth and DXC engineering, two of the business areas that Ramnath emphasized in our Investor Day, and we had really good growth in enterprise apps are best in a couple of years.

And we've had three consecutive quarters of growth there. And so yes, we do think with the momentum of GrowthX DXC engineering and the performance in enterprise apps that we will be able to make progress against the industry declines in custom apps.

Raul Fernandez^ And let me add -- it's Raul. Let me just add that when you step back and look at the biggest beneficiary from an offering or business unit standpoint, to the anthropic relationship where we're getting certified, forward-deployed multilingual engineers, CES is the single biggest beneficiary within our offerings.

We have taken an extremely conservative approach to modeling that near 0 because, a, they're just getting certified, as you heard in the prepared remarks, the cohort of 86 just came out. And we've just started to market and since we announced it in June, those FTE pods, both through our existing customer base as well as the new customers that we know are looking for that kind of talent.

So it's everything Rob said plus a reliance on a new set of products that we know are hot and in demand in the market, that's what gives us confidence.

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

Jonathan Lee^ GIS bookings up 35% year-on-year second consecutive book-to-bill, but you saw revenue get worse and margins more than half to 2.6%.

Can you help us reconcile those 2? What's the expected timing for the bookings to start converting into revenue? And with Dan now leading GIS with sort of an operating and technical mindset, are there specific execution changes that we should expect on the margin side there?

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Robert Del Bene^ Yes. So Jonathan, in GIS, it was kind of the opposite situation from CES in that we had -- we have a strong pipeline of larger deals, and it continues to build.

We executed on the closing of those deals in the first quarter, and there was some carryover from the fourth quarter. So that was expected. And so we had better execution in the quarter of the larger deals.

The discretionary short-term infrastructure projects were a little softer than we anticipated. So that is what drove down the revenue versus our expectation for GIS in the quarter. It did fall -- fell through to margin.

But as we progress with the revenue improvements throughout the year, we do expect the margins in GIS to bounce back. And by the end of the year, we'll have year-to-year flat margins or slightly better -- and we have -- we're very excited with Dan taking over in we've got a lot of muscle behind the cost takeout plans that we're going to execute on for the rest of the year, and Dan is going to just accelerate that and help us...

Raul Fernandez^ Yes. And let me just add to that, that Dan has been the architect of our genic transformation with -- now he's the architect plus the P&L owner, that unification of responsibilities and outcome is absolutely critical and clear and the speed at which that we have to get it done fully appreciates and understands and I have a lot of confidence that we'll get it done.

Jonathan Lee^ And just as a follow-up, the fiscal 2017 outlook midpoint flosses no change to the current macro, but your commentary through June and July has trended a little more cautious.

What gets you to the high end of the range versus the low end of the range. And then within that range, how much of that back half improvement is already contracted or in late-stage signing versus what remains in that go-get phase?

Robert Del Bene^ Yes. So we do have no change in macroeconomics baked into the forecast. If there is two things for us would help get us to the high end of the range.

First is, if there is a loosening of discretionary project-based work, that would be very helpful and get us -- push us to the higher end of the range. And secondly, as Raul just mentioned, we've been very conservative in the yield or the new content that we have, particularly the Anthropic content.

So if we make progress there, and generate bookings and start to generate revenue in the second half of the year, that will help us as well. So those are the two factors that could push us to the higher end.

In terms of the risk, I kind of framed it in my first answer to Brian's question, we have a very solid base of improvement baked into our opening backlog. And we are we are not contemplating a significant improvement in project-based services and GIS.

It's very modest. The CES assumptions right now are a little more conservative than GIS. So we are not expecting a pickup in project-based services in GIS. So I'd say there's more opportunity than not in the guide on balance.

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

Jamie Friedman^ Those were all good questions. I was wondering, Raul, I mean that we're only one quarter into a long journey relative to the Analyst Day and that one landed right in the middle. But is there -- is there anything in either GIS or CES that you're seeing that would influence or inform your view about this long-term strategy.

For example, I think GIS is really predicated on an Oasis incremental value contribution, strengthening the core on the CES side, it's a lot of growth. So yes, I realize it's -- you're just first couple of steps after that event. But is there anything to -- confidence or on track or otherwise?

Raul Fernandez^ Yes. I just finished since Investor Day a really great tour of existing customers and prospects. And I led with the most important content from our deployments with Oasis and agentic SOC and that is the real unbelievable reduction in time and cost to do critical functions that are very routine, both in network operating centers and security operating centers.

Those two pages, those two charts, are the only things I bring to a CEO-level conversation, because once they see what we can document -- and by the way, I mentioned this win for agentic SOC with a major entertainment and technology company.

That evaluation time from beginning to end to then beginning in contract phase, was less than four weeks. So an incredible time to decision making. We're seeing that with agentic SOC. We're seeing early similar signals from our Oasis sales.

And so that gives me a, that we have data and solutions that have real benefit and impact; b, that it gets us in a totally different conversation than we've traditionally been; and c, technically, as we win these new engagements, I'm just really, really proud of the team because they are technically winning and really standing out very, very far ahead of any competitive benchmark.

So technical win, speed to close and just data that no CEO, CIO, CTO or business unit head can afford to a norm, those are all the positive signals that I've seen since Investor Day.

Jamie Friedman^ Okay. And then just as a follow-up, and I should know this, but with the bookings, do you give the net new or renew? And if not, at least qualitatively, can you talk about how the new is resonating.

Robert Del Bene^ Yes, Jamie. Qualitatively, the net new bookings have improved. And the first quarter was better than it's been in a while. So we are making progress in net new.

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

Keith Bachman^ I wanted to ask, you brought in new leadership. What do you think was missing, why the new leadership and do you feel like you have the leadership in place to execute on the plan?

Raul Fernandez^ With running a company in an agenetic world is very different than anybody's previous work experience. And that cuts across every industry, every type of company.

So finding the right attributes that define an A player in an AI world has been something that we're all going through the discernment phase, but you realize that there are certain things that keep coming up as early indicators of success.

One, an ability to move very quickly and ability to move in a nonlinear way and also in a nonstructured way, so traditional engagement pyramid, et cetera. Those are gone. In a world where you are quickly discovering, building and scaling traditional methodologies are gone.

So looking for quick, thoughtful, technically deep talent that can manage in a new fashion. And really, the bottom line is speed and agility. Those are the key attributes. And I'm just super happy that we had a great bench of great young leaders that are now getting an opportunity to be front and center and display what I think are the key attributes for success in an AI world.

Keith Bachman^ Okay. Okay. I wanted to transition to insurance revenue of a little over 1%. The book-to-bill was well below 1, just maybe outline with the advancement of a quarter, how you're thinking about the year and sort of what the puts and takes are on the insurance segment?

Robert Del Bene^ Yes, Keith, it's Rob. So the book-to-bill is low, but again, but insurance has very big, lumpy deals that are predominantly renewal based. So they'll get big swings in the book-to-bill in any given quarter.

We do have line of sight to a couple of larger transactions, again, new customers for us that are baked into our guide for the year and our forecast for the year, and we have confidence that we're going to land them. So that's the dynamic. I'll just remind you that at the beginning of any given year, the revenue from backlog for insurance is the highest proportion of any of our offering.

So the go get within a year is relatively small. But part of that go-get we have this year is a couple of deals that we have line of sight to. And I think we're going to -- obviously I think we're going to execute on those.

Keith Bachman^ Yes. And sort of the spirit of the question is, it would help, obviously if you could demonstrate some acceleration in that business over time. So getting those new customers is leading indicator.

Robert Del Bene^ And in my -- and just one last point in my remarks, I mentioned that we will wrap on one particular contract, the contract stability in insurance is extremely, extremely high.

We don't have customers leave, but we had one contract where we're winding down the relationship with the customer, and it's a drag on our growth rate for the first three quarters, and we -- that will be behind us. And so you'll see a little bit of a pickup in the fourth quarter partly because of that relationship. We're wrapping on that and partly because of the couple of deals I mentioned.

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

Tien-Tsin Huang^ So the large bookings did come through helped the book-to-bill in GIS, the opening backlog, you talked about Rob. So I'm just curious from here thinking about bookings in the coming quarter or 2. Any callouts and visibility and the ability to replenish that's one question I had

Robert Del Bene^ Yes. So our -- a couple of different elements that are baked into our forecast which are important. And the first is that the project base in CES, the benefit we saw in the first quarter is also reflected in the pipeline going forward.

So we have confidence that we're going to be able to continue to execute at the rates we had in the first quarter. So that's a real positive.

The second thing I'd mention just longer term, in GIS, even though we had a good quarter of bookings, a pipeline and a long big deal -- longer-term big deal pipeline and infrastructure services is strong.

And I attribute a lot of that to the fact that we now have Oasis and there's lots of interest in it. And we have a lot a very nice proportion of new customers in the pipeline. So that is encouraging and gives us confidence in the longer term here in GIS that will improve our performance.

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

James Faucette^ I want to follow up just quickly on the bookings and pipeline conversion. It seems like that there is some opportunity to improve that. And it seems like you have -- just can you talk to us about like how we should think about ongoing improvements and how important those are going to be to being able to realize kind of targets on a go-forward basis?

Robert Del Bene^ Yes. So James, I think one thing that’s encouraging to us, and we’re albeit early, that the discussions we’re having on potential Oasis customers are moving at a faster pace than traditional IT outsourcing discussions we’ve had in the past. So it gives us it gives us optimism that the rate -- close rates on those longer-term deals are going to move faster.

Now we have to prove that, and we’re just beginning here. But the early indications are that customer interest is driving an acceleration of timing. So we’re hopeful with that. Now we don’t have that baked into our numbers. So we’re not counting on that in the numbers in the guide.

James Faucette^ Got it. Got it.

Okay. That’s super helpful. And then I wanted to also follow up on Raul’s comment on a change of leadership. Are you feeling like clearly, like agentic has some different skill set requirements, et cetera, and that may be -- there may be some opportunity there at the leadership level. But what about just regular staffing and developing skills of the organization generally.

Is that something you can do organically? Or should we look for you to look outside, whether it be acquisition or increased hiring and associated churn. I’m wondering how to think about that component of management?

Raul Fernandez^ Yes. No. That’s a great question. And you know what’s interesting is in this calendar year, we have gone from thinking about engaging with a customer, with a mindset of discovery taking three to six months, prototyping six to 12 months, deployment at month 12 and beyond.

Those have now been cut down to days and weeks and the ability for people to think differently, to move beyond best practices of yesterday move on and not be burdened by what used to be a great way of building things like Agile. It’s a completely different mindset. We are all going through this.

We are all discerning how our teams are across every company, and we are taking lessons learned in terms of what makes a great AI player and trying to put those tools in that training in the hands of every single employee that we have. Now having said that, some will make it, some will not.

But I also believe that an organic non-M&A approach where you are selecting players in a very thoughtful manner is absolutely the best approach. The skills, the mix of collaboration, the mix of being able to own an outcome, the mix of being able to work in much smaller but faster teams, that is a different combination.

And frankly, we have some of those people. And if we don't, we're going to try to retrain our people. And if we don't -- aren't able to do that, we will aggressively recruit those people.

So I think it's a complexity of this moment in time in the transformation that both provides as an opportunity and the challenge of finding the right skills, the right players in the right places to take advantage of that opportunity.

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

Rod Bourgeois^ I want to ask about how AI is impacting data center activities and spending priorities and how this is affecting your demand you had IBM get hit by clients shifting their spending priorities. You've got enterprises trying to optimize their token usage and wanting to work across multiple AI model types -- and so there's a lot of shifting happening with data center priorities, it seems.

Should those trends be helpful to you? Or is some of the weakness in your discretionary demand in GIS related to those shifting priorities. Help us sort that out because it might also be an opportunity as you roll out Oasis to address some of those railing trends?

Raul Fernandez^ Yes. No. you're totally right there. And I think the dynamics that I have viewed that I have spoken to customers about is that as they are making decisions, their management team, their boards are asking extra questions with regards to, is this the right technical approach?

Is there enough a genic in this solution how long is the solution going to have a useful life? Those questions are absolutely smart needed and should be asked that those questions do introduce delay in decision-making.

I think that, that is something that will dissipate over time as those questions at cycle time become shorter. And as more proof points are deployed and people can point to real returns and they can move more quickly to saying yes to the new kind of genic products.

Now I think, clearly, our whole sector has been impacted by a macro shift in spend and focus on kind of the infrastructure side.

But the other point that you made about complexity, complexity drives the need for DXC and others more than ever because that complexity, meaning to understand how to optimize architecture, tokens, harnessing, where you use what model -- that is a real time you only know it if you're doing it, and we are doing it.

And so I do believe medium to long term, it's a huge upside for us. because we're in the middle of solving these for a small set of customers but that small set of customers and those proof points are going to be very valuable to us as we scale. And frankly, as we have deployable multilingual certified FTE town.

Rod Bourgeois^ Makes sense. I'm getting some follow-up questions. Just about GIS margin situation. So the margins are quite low.

I mean even relative to history, what's the main driver of improving those margins during -- so what's the main reason they're down? And what's the main driver of getting them up as the year progresses?

Robert Del Bene^ Yes, Rod, it's Rob. So in the first quarter, the revenue decline is the main driver of the decline in margins. First quarter is normally seasonally low, but the revenue performance in the quarter drove the margin down below where we expected.

Now going forward, we have two main factors which are going to drive the improvement. The first is the improvement in revenue performance throughout the year.

That is a significant driver. And second is just progress on our cost reduction roadmap or cost takeout roadmap. And we do typically have that normally builds as we progress throughout the year, and we expect that to happen again this year. And as I mentioned earlier, we expect to exit the year at margins that are similar to last year's.

Operator^ And that concludes our question and answer session. I would now like to turn the conference back over to Roger Sachs for closing comments.

Roger Sachs^ Thank you everybody, for joining us today. Thank you for your ongoing support. And we look forward to speaking with everybody again next quarter.

Operator^ This concludes today's conference call. Thank you for your participation. And you may now disconnect.