

Event Transcript

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Participants:

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Mike Salvino, President and Chief Executive Officer, **DXC Technology**

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Lisa Ellis, Analyst, MoffettNathanson LLC

All right. I believe we are on live never 100% sure and that's happening. But thanks everyone, Lisa here again. Thanks to folks that joined us for our breakfast session just previously. But if you are now just starting you are here for one of our absolute main events that we are very excited about. Mike Salvino, the CEO of DXC is joining us for our next fireside chat.

And I will give one shout out, which is that I had a few requests when I said we were doing virtual fireside chats asking me if we were actually going to have a fireplace, and I said, yes, we do. Hi Mike.

Mike Salvino, President and Chief Executive Officer, DXC Technology

Let's move forward.

Lisa Ellis, Analyst, MoffettNathanson LLC

It's my fireplace, yes. So excellent. Mike, why don't we get started? Wait one quick housekeeping item again, before I forget to folks, if you were on the earlier session, if you want to ask a question, they will be funneling into me on your video screen, right below the video you should see something that literally says, ask a question, send them that way. If you send it over email, which I know we often do on our webcasts, I won't see them in the current setup we have, but I will see them if you send with that functionality. So please do that. If I don't get to them during the session, we'll be coordinating afterwards and make sure you get those questions answered.

All right, so thanks everyone and let's get started Mike. I'll turn it over to you. You have been in DXC for eight months now, almost to the day, I think. So why don't you talk about just a little bit of like, now that you've been here for eight months, what are DXC's greatest strengths and what are the big areas of opportunity for DXC?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay, well, Lisa, thanks. And before I get started, I just wanted to wish everybody in these unprecedented times, right, good health and prosperity stay safe, because that's what we've been focused on here at DAC, making sure that we take care of our people and our customers.

Look, when I took the job it – I always thought that it was a huge opportunity for us. And the reason for that is because of our customers and our people. And the reason I say that is when I look at our core customer base, 65% of our revenue is with 200 of the Fortune 500. And the more and more I get to know the key executives of these accounts, there's some of the best brands in the world and they describe the work that we're doing Lisa as work that's critical as work that is at the heart of what they do every day or the fabric of their company.

Now, why do I say that? I say that because the knowledge that our folks have that are doing the detailed work it is so important whether it's on frame or in the cloud. Every time we get into this discussion that the work is potentially going to go to the cloud, we realize that look, the knowledge our folks have same thing, short of walking into a data center. As we move to the cloud, those clients need us and we need to support them.

The other thing that I saw was you can see the stack what I call the enterprise technology stack, all right. And our strategy is very clear. The situation that we want is we want to be able to move our clients up that stack. So we understand we've got quite a bit of on-prem IT estate work. We know that that's going to move at some point in time. We also know that it's pretty big market where there is more work to be out there to get. So when you think about that stack and moving on-prem up into the cloud and security, then the orange, the way we call it is application, rationalize, modernization.

And then finally the analytics and engineering which having that kind of scope and scale is also something that I saw eight months ago. And it's proven out each one of those is a multibillion dollar business for us. And what we need to do is we need to make sure that we're more proactive with our clients. So that's the opportunity, right? Looking at our base clients, making sure that we take care of our people and making sure that we're talking to those clients about the scope and scale that we have.

Lisa Ellis, Analyst, MoffettNathanson LLC

Excellent. All right. So let's address the elephant in the room maybe right up front, which is that one of the biggest challenges DXC has had over the last couple of years, particularly the last 12 months has been some deterioration in the revenue base. I think you just finished your fiscal 2020 that you just reported literally last week and you are down for fiscal 2020, somewhere in the mid single digits. So what actions are you taking holistically to address that revenue decline? And then what data points are you seeing that give you confidence that you are seeing some improvement?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay, well look on the revenue decline, we basically have been very transparent with everybody. To say that after all I've done my detailed account reviews and gotten closer to these clients. The first thing that we've seen is this is not about our revenue running off to the cloud. That trend is not the core reason for the revenue run off. The core reason was inability to deliver and also not being proactive enough with building client relationships. So when I talk Lisa about our transformation journey the key thing is for us to secure the customer base.

So I've talked about first and foremost, the 200 customers. What we are doing is actively talking to those customers with COVID-19, I've talked to them personally, three times on one with video calls, I've got another one today and I'm pushing my team to make sure that we're showing up as being very, very proactive because the key to that is when you deliver for a customer and you are proactive, they will tend to give you more work.

Now, if we get to some specifics facts. Some specific facts, as I've highlighted, 40 challenged accounts, and the good news is they are not challenged anymore, 35 out of the 40 fixed. And when I say fixed, it's I personally have called these accounts and they are now pleased with what we're doing. And unfortunately, as bad as the COVID-19 crisis was for the world, and I don't want to minimize that, it was an opportunity for us to show our clients again, that we can deliver. We want to deliver, and we can go above and beyond. So that allowed us to get closer to these clients again.

And then the final thing is I've mentioned a number of times that the best resolve or evidence of us showing these clients are turned around is when they give us more work. So that's why I've highlighted in earnings that we've already sold \$2.1 billion in TCV on these accounts. And the key

thing of that TCV is some of its renewal, but the other piece was new work. And it's new work in things like analytics and engineering, which is as I talked about our staff, is at the top of the stack. So that's a good avenue that we're trending the right direction.

The other thing I highlighted Lisa in my call on Thursday was the uptick in workplace and mobility. So that's not any earth-shattering news that when everybody had to start working from home, like all of us, our workplace and mobility business got fit right in a massive, positive way. And we've seen a \$1 billion uptake in terms of our pipeline there.

And then the last thing is my strategy all along has been to secure customer base, we want to optimize cost and then the last thing is cross sell against those top 200 accounts. And so far in the last two months, when we've launched our campaigns to cross sell our pipeline has increased by 23%. So that's hard evidence. I understand that the activities that I see won't present themselves into the numbers yet, it'll take a little bit of time. That's what I'm used to, I've done this before, but those kinds of activities around clients and customers seeing those kinds of numbers is huge.

And then the last thing I will tell you is this, I didn't bring the slide with me, but it's on our website. All of our customer testimonials in terms of the emails, the calls, the quotes that have been written to me, that's what I was trying to show our shareholders along with our people, because our people have delivered in COVID-19. Our customers are incredibly satisfied with what we're doing.

Lisa Ellis, Analyst, MoffettNathanson LLC

Excellent. Let me dig into a couple of these topics in a little bit more detail. Let me start with ITL, because this is one thing, I think, that has been very interesting about your strategy since joining DXC, which is you've really embraced DXC's strength in ITO. So talk a bit about how your strength in ITO is a core part of your strategy? How do you use that to build going forward, even though just at the industry level, ITO is a very mature sort of stable, modestly declining like piece of the market, but it's an area where you've got real strength and expertise?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay, so what's interesting is everybody wants to try to hate ITO, but that's not us. Okay? And having been in the industry, as long as I have the thing that I always focus our team on is the criticality of what we do at that space and the knowledge that we have when we do that kind of work. So that's not work we're going to run from. In fact, what I stated in the earnings call is I had the hypothesis that our work was not just going to fly to the cloud, okay. And in the industry so far the work has gone to the cloud roughly 25%, that's what I call the easy work. The applications, the data that is easy.

Now we're starting to get into the hard phase. And what I mean by the hard phase is that when you look at the IT estate, that's on front, the key thing is clients will be incredibly careful about how and when they move that. And instead of being just conjecturing with that hypothesis, what I did was I used Virtual Clarity, which, and I tapped in to the strategic nature of it. And I think if you all remember that that's an asset I bought as soon as I got here. So we use them to go study our existing 200 accounts.

Now we are halfway through roughly those 200 accounts. We've looked at 95 and we asked the folks from Virtual Clarity to study the estates and see how much was actually going to go to the

cloud now, in terms of what's on-prem today, over the next few years. What the analysis has shown so far is that those 95 clients or customers, they aspire to have 20% of that state move to the cloud over the next two years. However, when you actually look at the technical feasibility, the risk, the business case, along with the ability to execute that 20% turns to 5%, and what that speaks to Lisa is the criticality of what we run and also the thoughtfulness that these clients now are thinking through to say exactly how is that next piece going to move.

All right now, why is that so important to our strategy? Well, what the study also showed was that our clients want to modernize over 60% of the current ITO and that's good business. That's good business that we're sitting on right now and then we ought to go get. And then the other piece is the leaning roughly 40%, they are not going to touch over the next two years. So what that tells me is don't run from them. You got to embrace it, you got to make sure you are delivering for those accounts. When you deliver for those accounts, guess what you get, you get more of an opportunity to do more work. We should be the first ones at the table to talk to our clients about moving up the stack and about going to the cloud and security or rationalizing an app or delivering something in analytics and engineering.

But that's why ITO is so important. Okay, because that stuff is important to our clients, I don't see it going away anytime soon in terms of this demand. And I understand what our competitors are talking about. I'm an industry veteran. I used to say that exact same game, right? But the net-net is this. We've got a very good business that we're stabilizing, once we get that stabilized, the revenue runoff will stop. Once we continue to build those customer relationships, you move it up the stack and when you move up the stack, that's how we're going to get the business to grow.

Starting out, Lisa, that's a long winded answer to your – but I feel passionate about this, because I read everything. I read everything you print, I read everything that the other analysts print. And I'm not trying to say that the ITO business is something that we should have for the rest of our lives. Well, what I can tell you is not going anywhere quick and we better be making the most of it while we're here and it's important to our customers. And lastly, I checked that we're in the customer service business and that's what we ought to be focused.

Lisa Ellis, Analyst, MoffettNathanson LLC

And so you've got this foundation, like you'd said, these extremely relationships, this deep expertise in your client environments, as they are now looking to do some of that modernization, some of that shift to the cloud, also shifting to digital, adding more digital capabilities, which tends to be, like you said, a layer on top of the existing infrastructure, what are the skill sets that DXE has that lead you to win in those situations or those deals?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay, well, specifically as we go up the staff, when you look at the yellow again, that's a multibillion dollar business for us. And I've been very pleased with our relationships with Microsoft, in terms of Judson there, in terms of Amazon, in terms of Google with Rob there. I mean, these are folks that I've known for pretty much the entire course of my career. I used to sit on the board of Allen, alright with Judson. Just for – I was actually coming off, he was coming in, all right.

So I've known these folks for years. And they see that in order for them to move to the cloud, they need our capability. And the capability is the knowledge that we have running these systems in a

stage right now. In addition to that, we've got good core capability in the cloud, meaning every time we talk about the transformation that needs to be done we're the ones doing that analysis.

And then when I look at what we just did with Virtual Clarity, Virtual Clarity from a strategic standpoint, gives us just one more piece of what I would call, skill set to say, all right, are we being thoughtful about the movement to the cloud? So point being is, I think, we will be able to drive that transformation through our knowledge of the business and also giving good expertise on when and how to do it.

The second is in the expertise when you think of ServiceNow, Microsoft Dynamics, Salesforce, SAP, and Oracle good capability there. And we got to continue to cultivate that, particularly in my thinking is ServiceNow and Microsoft Dynamics where you see we've got some of the best capability in the industry there.

And then when I think about analytics and engineering what I did there was I brought together DX and Microsoft. And the reason I did that was to simplify what we're bringing to the market. And when you look at what we can do in that area, in terms of banking and automotive, those are two industries that we've got incredibly good capability, for instance, our RoboDrive capability within automotive. We've got some of the largest automotive manufacturers in the world that's using that.

So I like our capabilities, okay. And I like our chances to make sure that with those 200 accounts, we're having the right dialogue, which is what we're doing now. So when you go back to the eight months ago, it was hard to have that dialogue when, when our customers were not real thrilled with right, the, the, the, the question was basically my team just deliver on what we gave you. And that whole situation has changed now significantly to say, Mike, not only did, did you listen to what we said when you delivered in a critical time for us during COVID-19? So now what are your next ideas? So again, this is us being first at the table, as it relates to cloud applications and analytics and engineering.

Lisa Ellis, Analyst, MoffettNathanson LLC

So talk about that the 200, like you said, you've really focused the organization on revitalizing that 200 Fortune 500 or – out of the Fortune 500, right, that's kind of the cornerstone of DXC. And many of these clients, I think, you have decades long relationships where they contribute, as you said, about two thirds of revenues. What type of trajectory should – are you seeing in these accounts? And sort of how does that translate then into the revenue trajectory of DXC?

I know Paul always talks to us about how DXC is like a sequential business, it's a run rate business. So as you are having these dialogues, like what's the lag time? You what I mean, how do we think about how – what you're doing, have been doing for the last eight months translates now into the forward looking revenue trajectory, even at the individual account level, or there may be in aggregate?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay. So let's talk about what we're doing at the individual account level. And then let's come back to exactly what we're doing and what we see should happen and is going to happen in FY'21. First of all, the focus for us now is delivery, listen and be proactive. So, on the delivery, again, a

huge opportunity to deliver during COVID-19, that's what we did. That's why I showed you the customer testimonials, as it relates to our earnings call.

Second is you lead by example. So what I've been doing is personally calling these customers during this time, right. Not only have I given them an update on DXE, but I've also assured them that we are focused on delivery and I've personally asked them to let me know if there is any issues. And when somebody does that, and then our teams start following up and so forth, it's amazing the dialogues that you start having, because in this environment Lisa everybody now is hitting up against their IT estate. That IT has state has been incredibly critical in the performance of that, all right, just as it is today has now become more critical.

CEOs, CIOs they're asking why isn't this state performing? Why is for instance, Zoom freezing, all right? Why can't things move faster? Why is there lag? And that's all stuff we've been doing for years, right, to fix all that.

So when I think about step one, as it relates to what we're trying to get done with the customers, it's just doing the fact of deliver, listen, and be proactive. The one example I always give is from a productivity standpoint when we saw the surge happen, one of the clients, we knew that they were moving their workforce to work-from-home. We knew the surge was going to happen in the support center. We build a chat bot basically in 30 hours that significantly reduced, that serves right. In day one, I think, it was 12%, but the client, was like, okay, I do see a new DXC now. I see somebody being proactive. I see somebody really understanding our environment. And Lisa that's where we want to be, okay.

Now in terms of what we're doing in 2021, our focus areas of 2021 are simple. First of all, secure the existing customer base, meaning let's basically stem the revenue run up, which is what I'm trying to show everyone that we're doing by fixing the troubled accounts and also making sure that I'm touching base with these 200 person, because if you stem that revenue runoff, that will help us build the foundation by which we then can grow.

Second, is as you have the revenue runoff, we've got to continue to look at our margins. And we also have to look at simplifying our organization. That's why I announced the delay and what we call the optimized costs, part of the transformation journey. And I'm not sure we can come back to that.

And then the last piece is the cross sell, meaning this environment has now given us some green shoots in terms of what to cross sell in terms of, on prem IT infrastructure, along with workplace and mobility, along with let's not forget analytics and engineering. Because now these customers want to know what their people are doing, what they're working on, how productive they're being, and so forth. So it gives an opportunity to cross sell.

And that's why I said just over the last two months I have now right, started getting into optimize costs in FY'21 in we call seizing the market. So we kicked that off in FY'21. And in two months we saw our pipeline across those 200 accounts increased by 23%. So look, we're doing the right things. Okay?

And the other thing that I would say is our customers are really, we just have a different dialogue with them now. So it's a totally different dialogue. And there's nothing better than one of your largest accounts saying, hey, you know what, I appreciate you delivering for COVID-19. And

because of that, we're going to give you the first shot at the next piece of work that we're looking to do. So that's all, goodness, it doesn't get any better than that.

Lisa Ellis, Analyst, MoffettNathanson LLC

Yeah. So what level of improvement in some of these accounts, are you seeing? Are you expecting revenues to flatten out as you look forward in a lot of your larger accounts, are you expecting even growth year-on-year, as you look across that the top 200? What does that portfolio look like?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Focus for this year is to stabilize. Paul said it, I said it all right, what we're looking to do is stabilize those existing accounts. And in some cases they will grow, right. But like I said, in some cases we had two of them that will leave us. So now we've got a revenue gap we've got to make up, okay, but the days of us having that significant revenue run off, right. Our drive is to make sure that that's done, all right. And that these things are stabilized and that we now can have discussions about the rest of the staff, or additional pieces within the ITL, because there's still a stage there, that still need to be run.

And again, some of these CEOs and CIOs are now questioning, why are they still running? Because in this kind of a market Lisa as you know, having lived through at least like I have in 2000 and then in 2008, 2009 outsourcing comes to the forefront why, because you can save money quickly.

So the rest of that ITO layers out there that we should be hunting on with these accounts still and I have spend a lot of time on the top 200. The other reason we spend all that time on the top 200 is, in order to go and win new logos, you need those references, okay. You need those references in terms of these clients to be able to show up and give you those great testimonies. And then the other thing you need is you need to make sure that the people are happy. That's the other thing that I mentioned is, four detailed folks that are doing the work.

We announced raises for them, some of them started at the back end of last year when we announced raises in India ahead of the market because we knew that was going on and then for the rest of what we call our detailed level folks, the raises will be done by August. So you got to be able to take care of those folks that are doing the detailed work. Starting out, that's what our expectation is it's all around stabilization and what I call securing the customers in terms of the first initiative of our transformation journey, along with optimizing costs, along with cross-selling to our top 200.

Lisa Ellis, Analyst, MoffettNathanson LLC

Got it. So speaking of the optimizing cost, I think the added challenge, which is always true in IT services and I think DXC has not been immune to this issue is that, when you have some revenue runoff, margins get challenged too, because at least on a shorter-term basis, your cost base is sort of semi-fixed in the sense that you can't adjust the labor base necessarily as quickly. So you faced some margin pressure in fiscal 2020 as well. So what steps are you taking at this point to stabilize margins and what are your goals around margins looking-forward?

Mike Salvino, President and Chief Executive Officer, DXC Technology

So three things in the immediate-term and then another three things long-term, so obviously the first thing to stabilize margins as you said Lisa is stabilize the breadth and right now with some of the revenue runoff, what we need to do is we need to take the costs out to align to the revenue, which is what we're doing. I would tell you that we're moving at pace. But when COVID hit there were some things that we were too slow to act. So that's why we're focused and making sure that we've got the optimized cost plan out there right now.

In addition to that, we're taking out an incremental \$700 million on an annual basis, all right, \$550 million this year. And the reason for that is the simplification of our organization. When I studied the various accounts and when I talked to the customers, I spent a lot of time going through basically here's the customer who are the folks that are really doing the work. And what's in the middle? What's in the middle that gets in the way of us being responsive, us being looking like that the complexity has gone, what's there. And that's where I saw this opportunity to delay that we've got management layers that quite frankly we don't need.

So the focus right now for 2021 is to do that de-layering of the management of layers. My view is it causes confusion and complexity. We validated that with our customers. I told you before, when I wrote to our customers over the last three months, my final letter, I told them that we were going to do the de-layering. On my weekly calls that I have with a number of customers, I've explained basically the de-layering to them, actually with people by describing here the people that you see every day, those folks aren't going to be gone, but here are the folks that are behind the scenes that you may not have noticed and they've confirmed a lot of that.

So the \$700 million of the \$550 million for this year was focused on that de-layering. And I think it's going to absolutely allow us to serve our customers better. Now, in terms of long-term we're not done, there's still more to do. And the three things that we will be looking at this year in putting plans in place is the pyramiding, which I've done all the way up throughout the course of my career, is looking at that pyramid and saying do we have the right people doing the right work at the right location.

Next, this technology, one of the things that DXC has done great is Bionix. That piece of technology was a good investment. The issue we have is we need to get it across more of our delivery centers. And then the last thing will be real estate, right now we're staying very, very close to our people. We've got 99% of our population that's virtually enabled and we need to figure out how much we're going to bring back, how many people want to come back and work in a physical location. Because when you start thinking about bringing people back, you got an answer two questions. How do I get people comfortable? And then how do I keep people comfortable?

And what we want to do is, we want people to basically talk to us about, we do want to be in a physical location, some people need that daily interaction and they don't want to stay in their work environment. Some people want to work virtually and then we're going to have other people that we call flex, alright. That's a word that I actually basically stole from one of our clients. I told them that I was always going to give them recognition for it, but I won't give it – I won't give total recognition on the call, because I'm not sure that she wanted me to say it, but I like looking at it that way.

As we bring people back, we first want to listen to our employees, right. Do you need to go to a physical location? Do you have a desire to work from home? And then do you have the ability to

flex? And as we looked at that, out of the back end of that analysis, Lisa will be a real estate analysis, because we've got quite a bit real estate and that's going to be an opportunity for us to get out here towards the back end of 2021, but definitely in the 2022, so those three things moving forward pyramiding the use of technology like Bionix and the real estate.

Lisa Ellis, Analyst, MoffettNathanson LLC

Shortly after coming on as CEO, you had set out a goal to achieve about 12% non-GAAP EBIT margins for DXC over the longer-term. As you look at these shorter-term and then longer-term initiatives, is that sort of still roughly the benchmark that you're aiming at or have things changed given the pandemic and the broader environment?

Mike Salvino, President and Chief Executive Officer, DXC Technology

No, I mean, look the net-net is like I said we're going to be focused on working hard in our margins. I clearly know what the industry margins are for the industry. My focus right now is around the transformation journey, Lisa. And what I'd like to do is get further along that journey, before I comment any further on what our margins look like moving forward, there's still work to do.

Lisa Ellis, Analyst, MoffettNathanson LLC

Fair enough. All right. Let's talk about the impact of COVID. Now IT services isn't a sector obviously less like directly in the line of fire when it comes to the pandemic, but it certainly had some impact positive and negative on your business. One, let's just start with delivery. I know this is a piece that many investors have been nervous about given how much of IT services work is delivered onsite or remotely from other country – work centers in other countries and it's a very labor intensive organization. How has the pandemic impacted your delivery?

Mike Salvino, President and Chief Executive Officer, DXC Technology

So very pleased about our delivery and the reason for that is a lot of the work that we do every day we can do virtually. So what I did say in the earnings call is 99% of our population is able to work from home, that's near as I can tell that's industry leading, which you would have expected, because we've got the number one workplace and mobility business in the industry. But nonetheless, it was fantastic for us, to see us deliver for our customers.

If you look at our business from a resiliency standpoint, you immediately go to the first mix of analysis on your revenue, which is how much is outsourcing, how much is projects? And we're 73% – 70% outsourcing 30% projects. And then when you look at that project work Lisa, that 30% isn't all discretionary, because we call a lot of the maintenance that we have to do on the on-prem IT estates.

Maintenance, think about a new server, think about us getting a patch for a security standpoint, getting an update on an application, that stuff really is not that discretionary. So there's project work in there that I don't see running off. But there are also where we've gotten the head is the discretionary project work that's in that 30%. The second piece of the analysis then is, of all that work that revenue where do you get it from? Do you get it from industries that are most impacted by COVID or do you get it from industries that are moderately or less impacted by COVID-19? And what we've seen and our analysis shows is 15% of our revenue comes from highly impacted industries. So things like consumer retail, travel and transportation, hospitality, you get it.

So when I looked at those two numbers, Lisa and I look at how well we've delivered in this environment, I sit there and go, okay, look we will have an impact, there's no doubt. But, when I looked at the ranges that people are publishing in terms of the industry, we should be on the lower-end of that range.

Lisa Ellis, Analyst, MoffettNathanson LLC

Yes. And I think that's what we saw, if you look at the composite pieces of DXC from back in the financial crisis yes, you do tend to be

Mike Salvino, President and Chief Executive Officer, DXC Technology

You made a call on that even before I did, very, very good analysis. Let me just tell you that. So I was a little bit – I was like, okay, she out ahead of us, so we better make sure we've got that number in space which we do. All right, but you were very good analysis. You are at 6%, if I'm not mistake, something like that, correct?

Lisa Ellis, Analyst, MoffettNathanson LLC

Something like that, yes, yes. I think in the financial crisis, the full peak-to-trough swing for IT spending overall was about 10 points, but I think the folks tied to non-discretionary like DXC's composite pieces was about half of that, so like 5% or 6% type of number.

Mike Salvino, President and Chief Executive Officer, DXC Technology

Yes. And that's good. I mean so when we look at that stack, that's behind me. Look, I've spent a lot of years in the BPO business, right. That BPO business tends to lend itself to people being on-site and bringing folks back. In contrast the technology business, we've done some huge implementations here over the last two months for some very, very big clients. And the reason I bring that up is being able to deliver in a virtual environment for a major brand, also helps us from a sales standpoint. Because in sales right now, people are like, okay look, we'd still like to do the deal, but how are we going to get into that transition? And being able to have those used cases and those testimonials, where customers can call other customers to say how have we delivered in a virtual environment that's huge.

The other thing I would highlight is, we talked about the U.S. State – the U.S. state health and human services business, and us being able to deliver that at the end of Q2, we've also separated that business in a virtual manner. So it's not like we got people sitting there right in a physical environment separating that business. So there is good work that we do from a virtual standpoint and we're actually really good at it.

Lisa Ellis, Analyst, MoffettNathanson LLC

So on that point, you just mentioned the HSS divested, sure. I know you highlighted on your earnings call expected to close within the next six months so by the end of fiscal 2Q, I guess it's less than six months now. Is there anything about that deal that investors should be worried about in terms of it actually being able to close and go through?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Look that's actually why we highlighted at Lisa. We said that because originally we thought more end of this calendar year, clearly Paul and I are targeting now second quarter – end of the second quarter ahead of schedule. We don't anticipate any issues. Our team has been working around the clock to get that stuff done. And we're closely coordinated with their task. So what I would report is exactly what we reported last Thursday, so far so good.

Lisa Ellis, Analyst, MoffettNathanson LLC

All right. And the other two divestitures that you had earmarked, now one of them I know was the workplace and mobility business, which I think you're now rethinking. But is the other one still how is the deal process happening while we're under some of these lockdown situations?

Mike Salvino, President and Chief Executive Officer, DXC Technology

So Lisa, on both of those we're in active discussions with multiple parties on both businesses. And it's taken us slightly longer based on the current environment, but for the most part we're on track. So I expect that BPS will continue to go. We did flag everybody that when your pipeline increases by \$1 billion over a couple of months for an offering and you sit there and look at it and go, gee, the offering used to be a nice to have and now it's a must have as everybody's working from home. And as we look at the people that are knocking on our door to get the asset, it was a little hard not to hit the pause button.

Now let me be clear, Paul is still in the marketplace, actively working on the strategic alternative, but what I'm doing is I'm leading an effort to redefine that business. Because we're not just going to bring that business back in the way it was being run. If we do bring it back in, there will be some modifications to it that we think will unlock value for us even quicker. And that'll be mostly around technology and so forth. So we like to say internally at DXC, Paul and I are running a little competition, at the end of the day I'm going to see what price he comes up with from the multiple-parties that he's talking to, I'm going to weigh that against the option that I'm putting on the table to say, look here's the way this business could look over the next few years, and then we're going to make a decision.

But the bottom line is yes, right. We are rethinking and I think it's prudent. I think it's the right thing to do in this marketplace. But it's not going to take us right, that long to sort out what we're going to do one way or the other. I expect that'll be done here in the next 60 days.

Lisa Ellis, Analyst, MoffettNathanson LLC

Are there any broader – so demand for workplace and mobility is clear outcome of the pandemic, any other broader secular trends in the industry that are either accelerating or slowing down as a result of the pandemic?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Yes, I mean let's talk about the acceleration. The acceleration was again, the focus on the IT estate and that's where it started. Lisa. When everybody went from home, the first thing was okay, do they have a PC, can they connect and so forth. Then the very next thing that came was, well how efficient are they? What was the speed that they could hook into? Was there enough – what

have you power, right? How was the IT estate performing, who owns the various pieces of the IT estate? Why hasn't it's been upgraded? Why were we trying to sweat the asset?

That wasn't all being done before. You're trying to sweat the asset, because people kept saying that everything's going to move to the cloud. Right, so if I'm a CFO, I'm sitting there and saying look, I want to get as much as I can out of this thing before it moves. So was everything upgraded perfectly, were good BCP plans in place and so forth, so it wasn't just the work from home phenomenon. The other phenomenon that we've seen and this is why I was pleased, was that look the on-prem IT estate maps, and what are 137,000 women and men that we do pretty much every day, right, the stuff that they do matters now.

And it's not like it didn't matter before, but I'd tell you it's really relevant now. So I'm seeing more of an opportunity there. And the key thing is, how quickly can we capture it and what else can we do? Because everything we capture in that green will help stem the revenue wrong. Okay. And again, it's still a big marketplace, that ITO marketplace a \$133 billion marketplace where folks have these IT estates that need to be transformed. And at this point in time, the focus is let's just run them as best we can to get through what we're going through.

And nobody can really anticipate when that's going to be done, but we want this stuff to perform as best as possible. So not only did I see the workplace phenomenon, but I also saw the phenomenon on the existing on-prem estate, let's run it as efficiently as we possibly can.

The last thing is security. As soon as you put all those folks from working from home and they start hitting up against – they started hitting up against that estate. What's on the CEO and CIO's minds is how secured is it, and again not an opportunity for us. So Lisa, that's what I saw, I saw workplace, I saw on-prem and I saw security. And I'm looking hard at this whole acceleration to the cloud that people keep talking about, because we're obviously going to play in that too, but it's amazing how the PR machines continues to stay out there, the people are just going to run to the cloud, alright.

Because again, we're in the phase of the cloud where the criticality of the systems map and not everything just goes to the cloud, so I will continue to have that debate, I am sure as long as I'm in the seat here as CEO of the DXC.

Lisa Ellis, Analyst, MoffettNathanson LLC

All right. We only have a couple of minutes, so I have a couple of wrap up questions for you.

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay.

Lisa Ellis, Analyst, MoffettNathanson LLC

First, fiscal 2021 priorities. What are – for, so investors kind of know what your top three to four top priorities this fiscal year?

Mike Salvino, President and Chief Executive Officer, DXC Technology

Okay. Five, there's five. And it's something that our team talks about all the time; securing the customers so we can lockdown the revenue. Second is optimize that cost, so get the cost to match the revenue also make sure we can on an annualized basis get the \$700 million out. Three, is cross-selling against those 200 accounts. Four is, continue to build my team. You've talked a lot in your write-ups about the war for talent out there and I liked my chances on getting good talent. I think I've brought a number of really, really good people. And when I bring those folks and I always tell them, they owe me another 10, okay.

So I meant the team that's already here. So I liked the team that we're building. I think they've got great capability. And they're augmenting themselves very, very well with the team that's been at DXC for years. And then the last one is deliver on the strategic alternatives. So that was five.

Lisa Ellis, Analyst, MoffettNathanson LLC

Yes. And on that last one, your leverage level target, I know investors newer to DXC the leverage level can make them maybe a little bit nervous. But post-divestitures using the proceeds to pay down debt what were – what is your goal there?

Mike Salvino, President and Chief Executive Officer, DXC Technology

So look, what we've done is we've taken a number of on – taking on a number of steps, initiatives, code, whatever you want to strengthen our financial position and improve our liquidity. So I really liked the fact that I think we're – when you looked at us exiting COVID-19 that our balance sheet is going to be in a better position than it was going in.

Just to highlight a number of things that we've done, right. The first thing is we raised \$1 billion of debt. Next, we paid down the term-loans. We extended our maturity schedule, modified the covenants that are out there to give us ample runway to execute our transformation plan. So if you sum all that up, we basically have less than \$600 million of debt, that's going to come due in the next two years, which is totally differently, Lisa than what we had when I showed up.

If you then compound that, say we're going to use the proceeds to pay down the debt, my expectation is that – look, our objective has always been to maintain a strong financial position consistent with an investment grade profile. And I think that's going to be one of the key things that the investors will look at moving forward to say we've done a really good job.

Lisa Ellis, Analyst, MoffettNathanson LLC

All right. And then the final word, how would you frame the investment pitch for DXC for investors may be joining today that are less familiar with the company, how would you frame if you are going to make the argument for investing in DXC right now.

Mike Salvino, President and Chief Executive Officer, DXC Technology

What I would do is, look where we're heading is I'm looking to become one of the market leaders and I want to grow it at or above the market and be the employer of choice. So if you want to invest in something that's headed in that direction and you want to invest with some person that's done it before and is building a great team, that's basically showing people how we're doing that

step-by-step. This is the place to be, all right. The opportunity is there, the client base is there, the people are there.

And like I said, I liked the scope and scale that we have, there's not too many of us in the IT services industry that can do all those layers in the stack. And remember each one of those layer is a multibillion dollar business. So to me it's on us to execute and the more we execute, the more folks ought to be getting into the stock because it's going to be a good story.

Lisa Ellis, Analyst, MoffettNathanson LLC

All right. Excellent. Well thank you, Mike. Thanks for joining us this morning. And I think with that we will close out the session. Thank you again.

Mike Salvino, President and Chief Executive Officer, DXC Technology

Lisa. Thanks for having me. And listen, everybody stay healthy during this time. And I look-forward to more discussions right in the future as we make more progress.

Lisa Ellis, Analyst, MoffettNathanson LLC

Excellent. Wonderful. We look forward to keeping up the dialogue. All right. Thanks Mike. Have a good day.
