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PRESENTATION

Operator

Good day, and welcome to the DXC Technology First Quarter 2018 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Jonathan Ford, Head of Investor Relations. Please go ahead, sir.

Jonathan Ford - *DXC Technology Company - Head of Investor Relations*

Thank you, and good afternoon, everyone. I'm pleased you're joining us for DXC Technology's First Quarter Fiscal 2018 Earnings Call and Webcast. Our speakers on today's call will be Mike Lawrie, our Chairman, President and Chief Executive Officer; and Paul Saleh, our Chief Financial Officer.

The call is being webcast at dxc.com/investorrelations, and we've posted some slides to our website which will accompany our discussion today.

Slide 2 explains that the discussion will include comparisons of our results for the first quarter of Fiscal 2018 to our pro forma combined company results for the first quarter of Fiscal 2017. The pro forma results are based on the historical quarterly statements of operations of each of CSC and the legacy enterprise services business of HPE or HPES, giving effect to the merger as if it had been consummated on April 2, 2016. As a consequence of CSC and HPES having different fiscal year-end dates, the pro forma financials represent a combination of CSC on a fiscal year ending March 31, and HPES on a fiscal year ending January 31. On that basis, last year's first quarter results consist of CSC's quarter ending July 1, 2016, and HPES' quarter ending April 30, 2016.

Slide 3 informs our participants that DXC Technology's presentation includes certain non-GAAP financial measures and certain further adjustments to these measures which we believe provide useful information to our investors. In accordance with SEC rules, we have provided a reconciliation of these measures to their respective and most directly comparable GAAP measures. These reconciliations can be found in the tables included in today's earnings release as well as in our supplemental slides. Both documents are available on the Investor Relations section of our website.

On Slide 4, you'll see that certain comments we make on the call will be forward looking. These statements are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially from those expressed on the call. A discussion of risks and uncertainties is included in our registration statements on Form S-4 and Form 10, our quarterly report on Form 10-Q and other SEC filings.

I would like to remind our listeners that DXC Technology assumes no obligation to update the information presented on the call, except, of course, as required by law.

And now I would like to introduce DXC Technology's Chairman, President and CEO, Mike Lawrie. Mike?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Okay, Jonathan, thank you very much. As is my custom here, I've got 4 or 5 key points, which I'll cover and then develop in a little more detail, and then turn this over to Paul and then we'll have time for Q&A.

First point is our first quarter non-GAAP EPS was $1.59. EBIT, adjusted for restructuring integration and amortization of intangibles, was $679 million. Adjusted EBIT margin on that basis was 11.5%, and we generated $595 million of adjusted free cash flow in the first quarter.

Second point: revenue in the first quarter was $5.913 billion on a GAAP basis. And excluding the impact of purchase price accounting, revenue was down 4.2% year-over-year in constant currency and we had a book-to-bill of 1.1x

Excluding the impact of purchase price accounting, our digital revenue grew 13.4% year-over-year in constant currency. And on a similar basis, our industry IP and BPS revenue was down 3.2%, reflecting the completion of a large phase of our U.K. NHS contract in July of last year. And in the first quarter, our digital book-to-bill was 1.8x, reflecting our customers' accelerating shift to digital. And our industry IP and BPS book-to-bill was 0.7, reflecting the timing of contract awards.

The fourth point is, during the quarter, we completed key merger integration milestones. We're executing our synergy plan, and we're on track to meet our targets of $1 billion of year 1 cost savings as well as $1.5 billion of run rate cost savings exiting the year.

And then finally, for Fiscal 2018, we continue to target revenue of $24 billion to $24.5 billion in constant currency, and our target for non-GAAP EPS remains $6.50 to $7.00 with an adjusted free cash flow target of 100% or more of adjusted net income.

Now, let me just go into a little detail on each of those points. As I said, our first quarter non-GAAP EPS was $1.59, reflecting our cost synergy realization, a tax rate of 23% and an FX gain from the conversion of foreign legal entities into local currency.

First quarter EBIT, adjusted for restructuring, integration and amortization of intangibles, was $679 million. And adjusted EBIT margin on that basis was 11.5%, up 665 basis points year-over-year. And sequentially, margin was up 375 basis points. The improvement in our EBIT margin reflects cost actions that we took consistent with the synergy plans outlined at our Investor Day in March.

Now, let me just spend a moment detailing some of those actions. On Day 1, we harmonized our corporate policies, our 401(k) and benefit plans as well as severance policies across the company. We also implemented a consistent global expense and travel policy. We implemented workforce optimization plans and are rapidly consolidating redundant roles across all functions while increasing spans of control with fewer management layers.

In our delivery and support organizations, we have removed 4 management layers. And across the company, spans of control have improved 20%, and we reduced the number of VPs and directors by 40%, while at the same time, heavily reinvesting in our next-generation skills.

We further continued to drive delivery workforce improvements through standardization of processes, automation and operational data mining. And we've implemented a single integrated delivery model across all capabilities. This enables a more agile customer support model while driving savings through consolidated management roles and larger pools of teams with domain expertise. And we're aligning overhead costs to top quartile benchmarks and scaling leveraged support models for all the key functions.

In our supply chain, we're leveraging our new scale to drive greater efficiencies in our procurement spend. And we're also consolidating vendors and focusing on demand management to reduce volumes. And additionally, we're making significant reductions in professional services and travel expenses.

DXC is also rationalizing facilities spend by streamlining our locations and data center footprint, consolidating in-area sites and exiting subscale facilities. We rationalized 89 sites in the (technical difficulty) first quarter and closed 58 of them for a reduction of 1.2 million square feet.

Now collectively, these cost actions generated approximately $140 million in Q1 savings, which puts us on track for the Fiscal 2018 synergy targets that we discussed at our Investor Day in March. And as I said, our adjusted free cash flow for the quarter was $595 million or 129% of adjusted net income.

Now let me turn to revenue. Now, revenue in the first quarter was $5.913 billion on a GAAP basis. And in my comments to follow, all year-over-year and sequential comparisons exclude the impact of purchase price accounting.

The revenue was down 4.2% year-over-year in constant currency and was flat sequentially on a GAAP basis. Total bookings in the first quarter were $6.3 billion, representing a book-to-bill of 1.1x.

Now let me just turn briefly to the results of our 3 reporting segments: GBS, GIS and USPS. Global Business Services or GBS includes our consulting business, our enterprise cloud applications business, application services, analytics and industry IP and BPS solutions.

Global Infrastructure Service, or GIS, includes our cloud, workload platforms and infrastructure technology services business, in addition to our workplace and mobility and security solutions.

And U.S. Public Sector, or USPS, includes our work with the Navy, the Marine Corps, federal health care, national security, defense, state and local government and civilian agencies.

Now in the first quarter, GBS's revenue was $2.3 billion. GBS's revenue was down 3.8% year-over-year in constant currency and relatively flat sequentially on a GAAP basis. The year-over-year decline was driven by application services, with roughly half of that decline coming from the completion of 2 large government contracts in the U.K. And the other half was a result of small projects and other small nonstandard add-on work that were impacted by the integration and launch of DXC.

In the first quarter, we grew enterprise cloud apps, consulting and analytics, which partially offset the softness in the application services business.

GBS bookings of $2.4 billion grew 24% year-over-year, representing a book-to-bill of 1.1x as compared to 1x last year. The GBS segment margin was 12.4%. This was up 130 basis points year-over-year and up 25 points sequentially, reflecting, again, the impact of our cost takeout actions.

In the first quarter, GIS revenue was $3 billion. GIS revenue was down 4.7% year-over-year in constant currency and down 1.6% sequentially on a GAAP basis. This revenue decline was driven by continued runoff in the traditional data center businesses, but the decline on these services slowed to 5% versus 12% per year during Fiscal '14 through Fiscal '17. Also, bookings for cloud, workload, platforms and ITO were up year-over-year 22%, and the GIS bookings of $3.7 billion represented a book-to-bill of 1.2x compared with 1x last year.

And the GIS segment margin was 9.8%, up 810 basis points year-over-year and up 260 basis points sequentially, again, reflecting the cost actions we undertook both within the first quarter and actions leading into the merger. These actions include, as I said, optimizing our workforce, standardizing processes and utilizing operational data mining to drive automation.

In the first quarter, USPS revenue was $677 million. USPS revenue was down 3.5% year-over-year and up 6.8% sequentially. USPS bookings of $184 million represented a book-to-bill of 0.3 compared with 0.9 last year...

(technical difficulty)

Our USPS bookings reflect the typical lumpiness of contract award timing in the industry and also the pull forward of several large deals into the 5-month period preceding the merger.

Also within the national security segment, we have a contract worth several hundred million dollars. It was scheduled to close in the first quarter but will now most likely close in Q2. If you account for that, the book-to-bill would have been around 1 and the pipeline in USPS is up 11% year-over-year and 52% sequentially. The USPS segment margin was 11.4%, which was up 10 basis points year-over-year and up 150 basis points sequentially.

And DXC continued to expand its client base by adding 421 new logos in the first quarter, with almost 90% of these coming from outside the Americas and 25 of those deals were greater than $1 million in contract value.

I'll just continue with my third point around digital. Our digital and industry IP and BPS results, again, these are all year-over-year and sequential comparisons exclude the impact of purchase price accounting. And on that basis, our digital revenue was up 13.4% year-over-year in constant currency. And our digital book-to-bill was 1.8x in the quarter. Digital cuts across all 3 of DXC's reporting segments, so GBS, GIS and USPS and includes enterprise cloud apps, consulting, security, analytics and cloud.

Enterprise cloud apps and consulting revenue was up 6.3% year-over-year in constant currency. Bookings in this business were up 46% year-over-year, representing a book-to-bill of 1.4x. The enterprise cloud apps team is continuing to drive this momentum by launching 13 new quick starts. And as you might recall, these are standardized, simplified DXC offerings across SAP, Oracle, ServiceNow, Microsoft, Workday and Salesforce. Our alliance with PwC also continues to show positive momentum with a qualified pipeline now of over 1.3 billion. And we continue to gain share in the ServiceNow market, including a recent win with a major health care company, which was our largest ServiceNow win to date.

Cloud revenue was up 26.2% year-over-year in constant currency and bookings were up 140% year-over-year with a book-to-bill of 3.4x.

The drivers of the growth in bookings included a large strategic transformation renewal with a major consumer packaged goods company that included DXC's virtual private cloud services and, also, we had a major new logo win in Europe. And also, a long-time valued client, Molson Coors Brewing Company, signed a multi-million dollar cloud transformation agreement with DXC.

Analytics was up 34% year-over-year in constant currency with bookings up year-over-year 14% and a book-to-bill of 0.8x. Security revenue was roughly flat year-over-year in constant currency with a book-to-bill in the first quarter of 1.3x. We have growing momentum in the pipeline as customers anticipate the need to meet evolving regulatory requirements and deal with the recent ransomware attacks, such as WannaCry and Petya.

Industry IP and BPS includes our IT offerings in health care, insurance, travel and transportation and banking as well as our industry business process services business. Industry IP and BPS was down 3.2% year-over-year in constant currency, and our industry IP revenue was down 11.7% year-over-year in constant currency, reflecting the completion of a large phase of our NHS contract in July of last year. However, bookings were up 60% year-over-year with a book-to-bill of 0.9x. And our BPS revenue was up 9.5% year-over-year in constant currency with a book-to-bill of 0.3. Revenue growth was driven by the continued ramp-up of our large insurance contracts such as MetLife. And the book-to-bill in the quarter was lower due to a significant contract signing that shifted past quarter end.

Now as I discussed at Investor Day, we're focused on helping clients drive efficiencies in their traditional IT and allowing them to reinvest those savings into digital transformation, including our digital solutions and services. This model, which drives value for and from our base of 6,000 clients, continues to gain traction.

In regard to driving efficiencies in our clients' cost structures, we're redesigning the way we execute service delivery through a combination of lean, automation, analytics and robotics. These efforts allow us to replace manual tasks with automated scripts in ITO-run environments and replace agents with self-service tools and capabilities in Helpdesk. This allows us to accelerate digital outcomes for our clients.

Let me just take a moment to illustrate this with a recent win we had in cloud and infrastructure transformation with a leading insurance company. Our client was targeting a 20% reduction in spend as part of a larger cost transformation, and they also wanted to consolidate down from 20 application providers.

Now we won the mandate by bringing together a digital business team that straddled cloud, security, applications and innovation. We created a transformation road map that would modernize their infrastructure while enabling them to seamlessly integrate new services from numerous providers and support workflows across platforms. Through this work, we're transforming from a declining traditional ITO business to a more efficient and effective digital business that is a lot -- that will allow us to grow the account overall. And we anticipate similar opportunities to drive digital change across many of our clients.

In the quarter, we're also leading these digital transformations in close collaboration with our partners. In the quarter, we expanded our alliance with Amazon Web Services to offer enterprise clients integrated solution offers. We're training and certifying thousands of consultants and developers in these new solutions. We're working with Mphasis to accelerate app transformation and modernization for our clients, and this collaboration builds on complementary vertical expertise and strong portfolios in next-generation IT and automation capabilities.

We have a new initiative with AT&T to help clients improve efficiency, productivity and security for cloud-based networks across their enterprise. And as part of this initiative, DXC became the first services company to launch a third-party virtual network function based on AT&T FlexWare.

We also extended our current portfolio of offerings from Microsoft Azure with a hybrid cloud solution from our data centers based on the Microsoft Azure stack. This offering is complemented by a comprehensive set of managed services and backed by a significant expansion in our Azure training.

And to expand our automation capabilities, we're leveraging tools such as VMware DynamicOps, Red Hat, Ansible, Arago and IPsoft to automate both simple and complex traditional IT tasks. We're also partnering with companies like Blue Prism for call center and operator automation.

During the quarter, we continued to seek opportunities to grow our offerings and enhance our capabilities. We recently announced the acquisition of Tribridge. Combined with Eclipse, which we acquired last year as part of UXC, this acquisition makes DXC the largest independent integrator of Microsoft Dynamics globally. Tribridge is our first acquisition since the formation of DXC Technology, and our combined capabilities allow us to offer clients complete end-to-end solutions to build on DXC's strong partnership with Microsoft.

And we're also simultaneously committed to making key strategic investments to grow our revenue in subsequent years, post integration. As an example, DXC's investment in Virtual Clarity, a leading provider of IT as service transformation, gives us exclusive access to more than 200 professionals with significant skills in digital cloud transformation.

Now, turning to my fourth point before I wrap up here and turn it over to Paul. We achieved several key merger integration milestones in the first quarter. We completed the organizational design and talent selection process. We're now fully executing on the build, sell, deliver operating model we discussed at Investor Day. We've implemented the first phase of our synergy plan. We're on track to meet our targets of $1 billion of year 1 cost savings as well as a $1.5 billion run rate cost savings exiting Fiscal 2018.

Within our build organization, we continue to simplify and rationalize our offering portfolio, focusing on 9 offering families and moving from more than 500 separate offerings to now fewer than 300. And within the sell and deliver organizations, we implemented the new coverage model and successfully transitioned our key accounts with minimal disruption.

And as a services business, our people are a key pillar of our strategy. While we level set our workforce and solidify our operating model, it's critical that we have the right mix of people with the right skills to serve our clients and to drive innovation and to compete in a very dynamic workplace. We're investing to enhance and increase the skills, knowledge and capabilities of our global workforce. Over 2,000 go-to-market leaders have successfully completed our in-depth sales training and certification program covering all of our offering families. And through DXC University, we're fostering ongoing learning and education in essential digital skills, and we're continuing to hire new digital skills and bring them into the company as we continue to remix our workforce.

We're also creating a new digital platform to identify and engage new pools of talent in near real-time. At our Investor Day, I talked about the jump in the number of unincorporated talent now in the services workforce. To take advantage of this trend, we created the DXC dynamic talent cloud, a smart crowdsourcing platform that enables us to bring new people and skills to DXC as we need them. And we're leveraging this platform to fulfill nonstandard service requests and established tasks, such as testing.

And just to wrap this up, I think in reviewing the progress in the first quarter, DXC is off to a solid start on our comprehensive integration plan. We finalized and established our operating model. We executed on our synergy and capital allocation plans and invested in our people and offerings in line with the framework that we laid out at our Investor Day.

And as we said, or as I said, for Fiscal 2018, we're continuing to expect revenue to be in the $24 billion to $24.5 billion in constant currency, and we're targeting non-GAAP EPS of $6.50 to $7.00 and adjusted free cash flow to be greater than 100% of our adjusted net income.

So with that, I'll turn it over to Paul, and then I'll be back to handle any questions. Paul?

Paul Saleh - *DXC Technology Company - Executive VP & CFO*

Yes. Thank you, Mike, and greetings, everyone. Before I review our first quarter results, I'd like to take a moment to clarify the basis of our financial presentation.

First, the pro forma results for Q1 of last year conform with the methodology used in our registration statements on Form S-4 and Form 10, and they are presented as if the merger took effect on April 2 of last year. As a consequence of CSC and HPES having different fiscal year ends, the pro forma financials represent the combination of CSC on a fiscal year ending March 31 and HPES on a fiscal year-end January 31.

And on that basis, last year's first quarter results consist of CSC's quarter ending July 1 and HPES' quarter ending April 30, 2016.

Also, prior year pro forma non-GAAP results assume a flat quarterly tax rate of 27.5%. Fiscal '18 first quarter results reflect revenue adjustments for purchase price accounting, whereas the prior year pro forma does not.

Non-GAAP results exclude restructuring, integration and amortization of intangibles, consistent with CSC's non-GAAP methods from prior years. And finally, segment results now include Global Business Services, our Global Infrastructure Services and U.S. Public Sector.

Now let me cover some items that are included in our GAAP results this quarter. In the current quarter, we had restructuring costs of $190 million pretax or $0.50 per diluted share. These costs represent severance costs related to workforce optimization programs and expense associated with facilities and data center rationalization.

Also in the quarter, we had $124 million pretax, or $0.29 per diluted share, of integration and transaction costs. Those include integration planning and advisory fees associated with the merger and other acquisitions. The first quarter amortization of acquired intangibles was $120 million pretax, or $0.26 per diluted share.

Now excluding the impact of these special items, adjusted EBIT was $679 million and our non-GAAP EPS was $1.59, which compares with adjusted EBIT of $310 million and non-GAAP EPS of $0.61 in the prior year.

Now let's cover some of our first quarter results. Revenue in the quarter was $5.913 billion on a GAAP basis. Purchase price accounting reduced revenue in the quarter by $120 million, representing a write-down of deferred revenue. For the fiscal year, we expect a revenue reduction of $335 million from purchase price accounting.

Excluding PPA, revenue was down 4.2% year-over-year in constant currency and flat sequentially. EBIT in the quarter was $679 million, after adjusting for restructuring, integration and amortization of intangibles. Adjusted EBIT margin on that basis was 11.5%, up from 4.8% in the prior year and up 375 basis points sequentially.

Adjusted EBIT in the quarter included a $75 million FX gain from the conversion of a dollar-denominated foreign legal holding entity into local currency. Now, this gain contributed about 127 basis points to adjusted EBIT margin.

Improvement in our adjusted EBIT performance year-over-year reflects cost actions we've taken consistent with the synergy plan outlined at Investor Day. This includes 4 major types of actions: policy alignment, workforce optimization, supply chain efficiency and facilities rationalization.

In policy alignment, we've implemented tighter travel policies that reduced travel demands. Also, we harmonized health care, health insurance benefits and device management policies across the company. And collectively, these policy actions drove net savings of $10 million in the quarter, and that is compared with the run rate exiting our fourth quarter.

Workforce optimization drove major savings in the quarter, contributing about $60 million of net savings. We increased spans of control across the organization, particularly in deliver where span is approaching 25 to 28 on average. But we also reduced management layers from 11 to 7 in deliver and from 10 to 6 in our support functions. We're accelerating our Bionics program to automate manual tasks while improving service quality.

We've aligned our corporate functions to top quartile benchmarks, including a significant shift to nearshore and offshore low-cost locations. These efforts are consistent with our plan to optimize our labor footprint. Our low-cost labor mix was 52% at the end of the quarter.

We're also executing on supply chain plans to extract greater efficiencies from procurement spend. We implemented a tight gating process with more stringent thresholds, approval requirements and review criteria. Now this helps ensure compliance with procurement policies while maintaining a streamlined process to meet demand. We're able to leverage our new scale to drive additional rate reductions for both third-party labor and nonlabor expense, and we renegotiated agreements with our top strategic suppliers. Now collectively we realized over $50 million in net savings in the quarter.

In facilities, we're focused on consolidating in Metro locations, exiting sites with low utilization, exiting sites to support labor migration and rationalization of our data center footprint.

During the first quarter, we closed 58 sites and consolidated an additional 31 sites for a reduction of 1.2 million square feet. And this represents a 7% reduction in our real estate footprint and net savings of $25 million.

In summary, policy harmonization, workforce optimization, supply chain actions and facilities rationalization drove over $140 million net savings in the first quarter.

Non-GAAP diluted EPS from continuing operation in the first quarter was $1.59 compared with $0.61 in the prior year. In the quarter, our non-GAAP tax rate was 23%, reflecting our global mix of income and the discrete benefit of a change in deferred tax assets in some foreign jurisdictions. We still expect non-GAAP tax rate to be 25% to 30% for the full year, which implies a higher tax rate in the remaining quarters. Bookings in the quarter were $6.3 billion for a book-to-bill of 1.1x.

Now turning to our segment results. Global business services revenue was $2.3 billion in the quarter. Excluding the impact of purchase price accounting of $21 million, GBS revenue was down 3.8% year-over-year in constant currency and relatively flat sequentially.

In the first quarter, GBS segment profit was $282 million and profit margin was 12.4%, up 130 basis points from the prior year and up 25 basis points sequentially as we benefited from cost takeout actions in the business. GBS bookings were $2.4 billion in the quarter for a book-to-bill ratio of 1.1x.

Turning now to Global Infrastructure Services. Revenue was $3 billion in the quarter. Excluding the impact of purchase price accounting of $93 million, GIS revenue was down 4.7% year-over-year in constant currency and down 1.6% sequentially.

During the quarter, GIS profit was $290 million and profit margin was 9.8%, up 810 basis points from the prior year and up 260 basis points sequentially, reflecting ongoing cost actions to drive greater operating efficiencies as well as synergy realizations from the merger.

And bookings in GIS were $3.7 billion in the quarter for a book-to-bill of 1.2x, reflecting successful renewals and new work.

Turning now to our U.S. Public Sector business. Revenue was $677 million in the quarter. Excluding the impact of purchase price accounting of $5 million, USPS revenue was down 3.5% year-over-year and up 6.8% sequentially. Year-over-year, revenue decline was due to timing of revenue recognition when compared with Q1 of last year.

USPS segment profit was $77 million in the quarter and profit margin on that basis was 11.4%, up 10 basis points from the prior year and up 150 basis points sequentially. Our book-to-bill for USPS were $184 million in the quarter for a book-to-bill of 0.3x, reflecting the lumpiness of contract award timing in the public sector.

Turning to other financial highlights for the quarter. Adjusted free cash flow in the quarter was $595 million or 129% of adjusted net income. This reflects better working capital management with an increased focus on collections and improved vendor terms. Adjusted free cash flow excludes proceeds from the receivable securitization program.

Our CapEx was $255 million in the quarter or 4.3% of revenue, reflecting tight controls on capital spending and a continued shift to capital-light strategy.

Cash at the end of the quarter was $2.5 billion. Our total debt was $7.5 billion, and our net debt to capitalization was 24.9%.

During the quarter, we have returned $39 million of capital to our shareholders, $20 million in dividends and $19 million in share repurchase.

Now in closing, let me review our financial targets for Fiscal 2018. We continue to target revenue for the fiscal year to be $24 to $24.5 billion in constant currency. Our full year target for non-GAAP EPS remains $6.50 to $7.00. Our EPS target continues to assume a tax rate of 25% to 30% for the full year, which implies a higher tax rate in the remaining quarters. However, we're continuing to work on tax planning strategies to optimize our effective tax rate for the full year.

Our adjusted free cash flow target for Fiscal '18 remains 100% plus of adjusted net income.

And I'll now hand the call back to the operator for our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll now take our first question from Brian Essex with Morgan Stanley.

And with no response, we'll now take our next question from Arvind Ramnani with KeyBanc Capital Markets.

Arvind Anil Ramnani - *Pacific Crest Securities (KeyBanc Capital Markets) - Analyst*

Very impressive results. Can you help us understand puts and takes that you'll be able to comment at the upper end of your guidance range?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Well, as we said, Arvind, we successfully implemented the synergy plan that we talked about, and we got $140 million of net savings in the quarter. That was a huge contributor. We had slightly lower tax rate at 23% versus the 27% or 28%. And we had an FX gain with a conversion to local currency. So that, coupled with the fact that we saw a moderation in the revenue decline, particularly in our ITO business as I mentioned, drove the better EPS performance and also helped drive the margin expansion that we talked about.

Arvind Anil Ramnani - *Pacific Crest Securities (KeyBanc Capital Markets) - Analyst*

Great. And just a follow-up on that. You've had operational control of HPE services for about 5 months and kind of beyond just this quarter, what has been surprising to you, either positively or negatively?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Well, I think there's a lot of positives. There are a lot of great people with a lot of great skills in HPES, which has been a tremendous infusion to us, a tremendous installed base. I mean, the clients are very loyal clients and very much are looking for our services, not only our traditional services but also our new digital services. You saw that in our book-to-bills with our digital business and the growth in our digital business. So I think that has all been real positive. And frankly, the other positive is by combining these 2 companies, we have been able to drive significant cost opportunities, and you're seeing that show up in the results. So it's all about people. It's all about our clients. It's about the scale. And that's scale allows us to drive the efficiencies and leverage that scale to help our clients on their digital transformation journey. And then we've been -- we have a tremendous network of partners. I just mentioned a couple of things we've done with Amazon and Microsoft and others. But our partners give us a complete independent approach to our clients and bringing the best solutions to our clients. And I think that is appreciated and is one of the real benefits of the merger.

Arvind Anil Ramnani - *Pacific Crest Securities (KeyBanc Capital Markets) - Analyst*

Just one last one, if I could squeeze in. When I look at the IT services space, there are really only 2 independent companies, you and Accenture, that are well over $20 billion in revenue. And when I'm -- if I put on kind of the hat of software company CEO, I think you guys are a company that you really need to partner with and form some deep relationships. Do you feel that's a driver? Are you finding kind of your conversations with the software product companies a lot easier now that you have this kind of scale?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

I think the scale, Arvind, does make it more attractive to many of these partners. But I got to tell you that this is in our DNA. This is in our DNA. We want to utilize the enormous R&D investment that these companies make. We leverage that R&D. We integrate that R&D into offerings like our digital workplace offering or our analytics offerings or our hybrid cloud offerings. You name it. So this is what we're all about, is taking the best capability the industry has to offer, bringing that together to our partners and then delivering that to our clients in an end-to-end solution. And yes, I think the increased scale, Arvind, makes that a very attractive proposition for, not only our partners, but also for our own team as well as our clients.

Operator

We'll now take our next question from Tien-tsin Huang with JPMorgan.

Tien-tsin Huang - *JP Morgan Chase & Co - Analyst*

Just, I guess, on the book-to-bill, that was a pleasant surprise, the 1.1. I'm just curious if that's sustainable. If there was any kind of burst potentially in bookings coming out the gate as a combined co, if there's any callouts beyond the digital help on book-to-bill?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

No, I think it was sort of business as usual. I think the most important observation is that we put 2 pretty big companies together and launched it, and we didn't see the disruption. We didn't see the disruption in our service delivery, which is critical. And we saw the sales engine continue to go.

And this, again, is the backdrop of changing our coverage model, also changing our sales composition to -- compensation to focus much more on in-year revenue. So these were some big fundamental changes that we made. And if we look out over the balance of the year, we continue to see a very good pipeline of very large deals. We see a great set of new logos. So I think this very detailed, hands-on operational approach to integration allowed us to continue to operate the machine as we pull this all together.

Tien-tsin Huang - *JP Morgan Chase & Co - Analyst*

And just a quick follow-up. Just any change in thinking on the revenue dis-synergies given your comments there, Mike?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

No. I think we're still in the early innings here of this year, so I wouldn't make any changes to what we talked about at our Investor Day.

Operator

And we'll now take our next question from Darrin Peller with Barclays.

Darrin David Peller - *Barclays PLC - Analyst*

Nice job, guys. When considering the cadence of earnings for the quarter -- for the year per quarter, I'm pretty sure you guys said in the past, there'll be a sequential ramp in EPS and actually driven by the synergy timing as well as the year progressed. You started off higher than us on EPS, and I think synergies drove the beat. Can you just talk to the timing now? Is the $140 million of synergies a sign that you could exit the year, keep running at a year, end up more than $1 billion, maybe even exit higher than the one -- what you anticipated? And then just give us some color on the expected earnings cadence for the year.

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Listen, I'll let Paul respond to this. I'll give you my perspective. We did have a couple of benefits in the quarter. We talked about that. We had an FX gain and we had a slightly lower tax rate. So I think it's important not to get too far out in front here. This was a very solid quarter. We executed our synergy plan. The $140 million is good, so you multiply that out by 4 and you get a number and there's more synergies that we're going to get incrementally in the second quarter. That will be repeated 3x, and there'll be more synergies in the third quarter, so on and so forth. So I think it's -- I think it will be premature to talk about a change to the targets that we've outlined. I think the important point here is we are executing as we said we're going to execute, and this was a good first data point against that plan. And in terms of EPS, I think the EPS is going to largely track the way we laid it out at the Investor Day.

Darrin David Peller - *Barclays PLC - Analyst*

Okay. I mean, Paul, just the timing if you don't mind.

Paul Saleh - *DXC Technology Company - Executive VP & CFO*

I think it is -- I would expect the second quarter to maybe look at pretty much like this one, maybe a little bit less when you exclude the improvement in our synergies in the second quarter will offset some of the benefit we had in the first quarter from the FX. We had $75 million in our results. But net-net, you're going to continue to see every quarter an expansion in margins across all the businesses, and you are going to see, basically, our EPS pick up, particularly you'll see the ramp in the third and fourth quarter.

Darrin David Peller - *Barclays PLC - Analyst*

Okay. That's helpful. And just one follow-up on the revenue side now. I mean, the GBS and GIS revenue came in, I think, better than our expectations. The growth trends seem to be low to mid-single-digit negative, which is great versus what I think we were expecting for this quarter. On the -- the one question is on the industry IP, you called out, I think you said the book-to-bill was 0.7 and the growth, if I remember correctly, you said was negative, right? You may have mentioned timing. There was a lot of moving parts in the prepared remarks. Can you just give us some color? I mean, that was an area that's beyond just digital, which is obviously doing well. I guess, we were wanting to see strengthen, was again the industry IP part of the business. Can you talk about expectations there?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Yes. I -- the primary driver of the industry IP is our health care business and our insurance business. That's where we have the largest software installed base. And in our health care business, we did wrap around a significant completion of the NHS contract. That was the bulk of the decline. The reason I called out the book-to-bill is we saw a reasonably good book-to-bill in the quarter, which is very important as we move forward. We're seeing a lot of innovation around our IP capital assets. I mean, for example, we took, I think, another 1 or 2 trusts live in the U.K., and we are working on some new contracts with NHS to continue the momentum. That big NHS contract at some point in time was going to end. It did end, and now we're rebuilding through a smaller transaction. Likewise, in our insurance business, we've got a great portfolio of insurance assets, and we're continuing to drive that. Our Xchanging acquisition last year continues to deliver against the expectations that we set forth. So yes, I think we're planning to see that industry IP business grow as we go through the year. So that, coupled with our digital portfolio, is what we think will drive the growth. Our BPS, particularly our industry BPS, is showing good growth. I mean, 9.5%. So yes, we signed a lot of these deals last year. They're coming on stream now. We took another major insurance company live 4 weeks ago. That is now enabling some other opportunities in the pipeline. So I think this is again a good first step, it's a data point and we're largely tracking with what we outlined at the Investor Day.

Operator

And we'll now take our next question from Jim Schneider with Goldman Sachs.

James Edward Schneider - *Goldman Sachs Group Inc. - Analyst*

Maybe if you could talk about the $1 billion in year 1 synergies. I think at the Investor Day, you talked about workforce and supply chain being about $700 million of that. And Paul, thanks for sharing the color in the progress in the first quarter. As we think about the cadence for Q2, can you give us any kind of sense about what to expect there? Is it something that we should be expecting kind of to get to the $250 million range? Or any color there will be helpful.

Paul Saleh - *DXC Technology Company - Executive VP & CFO*

Yes, I think you're pretty close to the number. We'll see certainly somewhere in the $75 million, $80 million of additional actions. Many of them coming in again from the procurement combination of procurement and labor savings. But labor saving is not just workforce optimization. We're looking at converting some of our external labor to where it makes sense, particularly in certain skills sets and particularly in certain geography. At the same time, we're continuing to use automation as an opportunity to just really drive greater efficiencies in our labor force, and that is not just in high-cost markets. It does also is showing up in our low-cost markets. And with the other thing that's a great opportunity for us that we're just really starting to embark on is the pyramid, working -- just making sure that we've had the first phase of management layer elimination, but we have still to continue to attract younger talent in the right location and continue to develop the talent that we have and give them opportunity to expand their capabilities.

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

I think that's a good answer, Jim. I mean, it's not a small deal to remove 4 layers of management in 90 days. And what we have found, and this goes back to the first question that Arvind asked, we did find a fair amount of overlap. That was the working thesis behind the merger of the 2 companies that there were significant synergies there. And I think the key point is we are finding those synergies. We're executing fairly expeditiously against those while at the same time, while at the same time investing in the future. So we made -- we're making a big investment in automation, what we call bionics, that investment's being made. We're making a big investment in nearshore. So we're taking a look at building a low-cost delivery center in the United States that would support not only our commercial business, but our USPS business. We had a very strong graduate recruiting program this year, so we're bringing in a lot of kids. We're looking in internships and co-op programs, investing and training and reskilling of our people. So I don't want every -- I don't want anybody to think this is just about taking costs out. I mean, we took quite a few people out in the first quarter, but we also hired 6,000 people in the first quarter. 6,000. Okay? And we need to do that to continue to refresh the workforce. So this is -- there's a lot of activities here, Jim. And you can see there's a lot to execute against, but we feel pretty comfortable that we've got a handle on the plan, and we're going to continue to execute.

James Edward Schneider - *Goldman Sachs Group Inc. - Analyst*

That's helpful color. And then maybe going to the revenue side for a second. I think, Mike, you outlined -- well, first of all, at your Analyst Day, you talked about traditional, down 4 to 7 long-term; industry BPS, up 7 to 10; and digital, up 25 to 30 over the coming years. You talked about the -- some of the reasons for the industry BPS coming in a little bit below that with the NHS contract running off. But can you maybe talk about how you build the trajectory of the digital business going to that kind of mid-20s growth rate over time? Is that going to be a mix of acquisitions plus the new bookings you mentioned in the prepared remarks? Or how should we think about getting to that goal?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

I think it's all of the above, Jim. So when we talked about the revenue model, we talked about a dis-synergy in the normal price-downs, and frankly, we don't see anything that differs from what we talked about at Investor Day. And we talked about growing the digital platforms significantly. We look out at our pipelines. We look at the opportunities. We look at the growth in the industry. We think that is certainly within the range of what we talked at Investor Day. And I explained the industry IP stuff, but we're bullish on that as we look out over the next year or 2. Furthermore, I said that half of this growth would come from organic growth and another half of it would come through acquisitions. Well, in the first quarter, we made a very -- an important acquisition, Tribridge, which gives us now a very strong position in the growing Microsoft dynamics marketplace. So we'll see that begin to kick in as we go forward, and we continue to make investments around ServiceNow and that franchise. So it's a combination of all those factors. One quarter, you can't say, "Well, gee, this was 2% less and this was 3% more." It is the overall trend line, which we see in our pipelines. We see in the growth of our markets. We see through the visibility of our partner pipelines as well as our own pipelines. And the acceptance of some of our offerings. So we get more and more confident. When we take an offering, we take that in, we get it installed and then we can scale that. Likewise with our automation play. So we started to automate some of our call centers. We started in the United States. And now we know what we can drive. What kind of productivity can we drive. Well, then the next step is you take that to all the call centers on a global basis. So that's the methodical way we are approaching this, to minimize disruption to our client and to do this in a more of a planned orderly way.

Operator

And we'll now take our next question from Keith Bachman with BMO.

Keith Frances Bachman - *Bank of Montreal - Analyst*

I wanted return to the bookings again. They were, as I think in previous call were mentioned very strong. Just to clarify, Paul, there's no PPA adjustments in the bookings, was there?

Paul Saleh - *DXC Technology Company - Executive VP & CFO*

No.

Keith Frances Bachman - *Bank of Montreal - Analyst*

Okay. And so, Mike, as you look out -- as you think about the -- not only the book-to-bill but also the growth rate of bookings, would you anticipate that you can actually grow those bookings on a year-over-year basis throughout the year?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Yes, that's the objective. I mean, we got to...

Keith Frances Bachman - *Bank of Montreal - Analyst*

Okay. If that happens, your -- at the Analyst Day, you comment that even the following year, there might be some revenue weakness given -- putting -- still putting the 2 companies together. But if you're growing your bookings year-over-year, wouldn't the conclusion be that perhaps that revenue weakness will be less than you thought?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Well, I mean, you've got to be careful in the bookings, because the bookings include recompetes. Okay? And in a recompete you're usually booking it at a lower rate. So you have to be very careful about that. This is why we moved our sales force and the compensation of our sales force fundamentally to in-year revenue, because the in-year revenue over time -- no, I don't have the confidence yet to report that because we don't have any history on it yet, and I want to see how this plays out a couple of quarters. But we are really refocusing our sales force either into incremental revenue associated with the recompetes. And I took you through the example of the -- of a large insurance company where we did a recompete. We signed up the ITO in a lower rate. But had the opportunity to grow our business, primarily through the application side. That's what we're doing. That's how we're reorienting the sales force, but I got to tell you, it's still a little early. The other thing we're doing is we're focusing on more and more smaller deals. So we have 421, whatever the number was, new logos, 25 of those were a million or more, but that suggests that over 400 of them were less than a million. So the strategy is to bring in new clients. We have a great set of offerings, get those offerings installed and then begin to grow off of that base. That is a whole different model than just going around looking for big ITO outsourcing deals. And this is very consistent with how our clients are approaching digital transformation. They are not doing big bangs in digital transformation. What our advantage is we can come in and use our installed base, our ITO installed base and leverage that. In other words, help them free up money that they can reinvest in digital programs. And all we're asking for is for them to invest in our digital platforms as they continue down their digital transformation. And I'm probably saying more than you wanted, but the good news is we're starting to see that actually happen. I talked about what we did 3 or 4 of these in the first quarter. Now if we can scale that on a global basis, then yes, then it's time to talk about, gee, the book to bill's could lead to revenue growth.

Keith Frances Bachman - *Bank of Montreal - Analyst*

Okay. Fair enough. And it certainly seems like you're off to a good start. But Paul, just one last one, then I'll cede the floor. Is there any notion -- I asked about this at Analyst Day. You provided non-GAAP target hasn't moved $6.50 to $7. Do you feel like you're in a position where you could also give us a GAAP number at some point so we could compare the targets for FY '18?

Paul Saleh - *DXC Technology Company - Executive VP & CFO*

I think as the year progresses, we may be in a little bit of a better position to do that because as you can imagine, the PPA is still not complete. We have quite a bit of work to do, you'll see in our filing that we still have to review all of the leases, for example, to make sure that they are properly valued. So I think as things stabilize, I think we'll be able to just provide you with (inaudible)...

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

I just want to also just to take the time to complement Paul and the financial team. I got to tell you something, this -- we know the results are good and all that stuff, but I mean, there is a lot of work that goes into this. I mean, we had multiple financial systems that had all be consolidated. Purchase price accounting, capital leases, operating leases, this, that, going through currency and legal structures. I mean, these guys have worked their tail off to get to a point where we could close the quarter, report it and learn from it, so that we can streamline our operations going forward. But this was no small feat to get this integrated and launched as we did. So operator, one more call.

Operator

And we'll now take our last question from Ivan Holman with Morgan Stanley.

(technical difficulty)

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

Ivan, you got a bad mute button.

Operator

(Operator Instructions) And the caller has removed themselves from the queue. Would you like to take one more question?

Mike Lawrie - *DXC Technology Company - Chairman, President & CEO*

No, I think that's it. I just want to wrap up and just thank everyone for their time and interest in DXC. I also want to thank Neil. Neil's been with us several years, and he will be moving on and welcome Jonathan to the role of Head of IR. So again, Neil, thank you. And Jonathan, welcome. And to everyone on the call again, thank you for your interest and look forward to catching up with you as we move through the second quarter. Thank you.

Operator

And ladies and gentlemen, that concludes today's conference call. We thank you for your participation.
