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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the DXC Fiscal Year '20 Third Quarter Results Conference Call. Today's call is being recorded. At this time, I would like to hand things over to Mr. Shailesh Murali. Please go ahead, sir.

Shailesh Murali *DXC Technology Company - Head of M&A and Investor Relations*

Thank you, and good afternoon, everyone. I'm pleased that you're joining us for DXC Technology's Third Quarter Fiscal 2020 Earnings Call. Our speakers on today's call will be Mike Salvino, our President and Chief Executive Officer; and Paul Saleh, our Chief Financial Officer. This call is being webcast at dxc.com/investorrelations, and the webcast includes slides that will accompany the discussion today. After the call, we will post these slides on the Investor Relations section of our website.

Slide 2 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.

On Slide 3, you will 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 these risks and uncertainties is included in our annual report on Form 10-K 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 as required by law.

And now I'd like to introduce DXC Technology's President and CEO, Mike Salvino. Mike?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Thank you, Shailesh, and I appreciate everyone joining the call today. As I mentioned on my first earnings call, my style is one of focus and clarity. In our comments today concerning the quarter, we'll follow that direction.

Let me quickly outline the agenda for today's call. I will update you on the progress against the priorities discussed during our Q2 earnings call. These priorities of running the business and unlocking value represent the transformational journey that we're on at DXC. We call this our focused strategy. Paul will then take you through the financial details of our third quarter results and our business outlook for the fourth quarter and full fiscal year. I will then make some closing remarks concerning what's next on the transformational journey before we take questions.

Turning to our third quarter. I'm pleased with the initial progress we've made on the priorities of running the business and unlocking value. The reported financial results, in line with our plan. Simply put, we did what we said we are going to do, and we are executing nicely against our new focused strategy. Revenue was up 3% sequentially in constant currency. We also delivered on our profitability expectations, and our book-to-bill ratio of 1.06 was our best in 3 quarters. As I've discussed with you before, this transformation will not

be a quick fix, but I am confident that our new focused strategy will position DXC to compete in the IT services space.

Let me give you a little color now around the progress we are making with our customers, people, operational execution and unlocking value. As I continue to meet customers, I am most impressed with the types and services our customers have entrusted us with for years. The applications and infrastructure we are running are at the heart of our customers' businesses. I've used the phrase inside of DXC that we have the courage to deliver the critical for our customers. This is truly unique in the IT services space. Without the work that our people do every day for our customers, planes don't fly, hospitals don't operate, and Black Friday sales are not completed.

During our last call, I mentioned that we needed to leverage our ITO business and make investments to improve our delivery and regain trust with some of our customers. I have a fundamental belief that by running our customers' critical systems smoothly, we will earn the right to win additional business. This is one of the key tenets of our focused strategy, leveraging our ITO business to grow DXC.

We have been focusing on account management and delivery capabilities, and we're making good progress. My original assessment had 20 to 30 accounts in the challenged category, meaning we were not meeting service levels or customers were not pleased with our performance. We started doing in-depth reviews and saw some partial terminations and 2 accounts that terminated completely. During this quarter, we established a very focused program that includes 40 accounts to address these issues. These accounts represent about 1/4 of our revenue. Overall, this program is off to a good start with 7 accounts graduating out of this program. We expect the majority of these accounts to be turned around by the end of Q4 and the program to be completed in the first half of fiscal '21.

I've been receiving positive comments during my check-in calls. I've done 92 in total. This program has clearly created positive momentum with our customers. In fact, we have already been awarded over 500 million of business from several of these accounts in the form of renewals and new work. Some of this new work was previously put on hold, and some of the new work is in analytics, which is at the top of the enterprise technology stack. This is solid evidence that leveraging the ITO business and focusing on our customers, people and operational execution is the right strategy to grow DXC.

Turning now to our people. We have held town halls in every region this past quarter, and we have completed a global employee survey. We received over 140,000 comments representing that our people are engaged. They're telling us that they are seeing positive changes and are feeling optimistic. Our current focus areas for our people are learning opportunities, career prospects and compensation. During this quarter, a great example of our action in investment was implementing salary increases for our India delivery centers ahead of our typical salary review cycle.

Another area where we're making progress is attracting new talent. In Q3, we added roughly 50 leaders to DXC in the areas of account management, delivery and corporate functions. We also added 2 more senior leaders to our leadership team. Both Carla and Chris have impeccable resumes, broad experience and play broader -- played broader roles in their prior companies, but joined DXC to be a part of the transformation journey. Carla is our Chief Risk Officer and leads physical and virtual security, ethics and compliance and overall enterprise risk management. And Chris will be our CIO and will lead our IT transformation to deliver tools to our people to better serve our customers. I've also made a couple of key leadership changes. Vinod is now leading global delivery, and Steve is accountable for our business in UKIIMEA. All of these hires are integrating well with the existing team, and the total team is making an immediate and positive impact. Our book-to-bill of 1.06 for this quarter is evidence that we are working well as a team.

We're also seeing a positive shift in the market about DXC's brand perception. This is evidenced by DXC alumni rejoining us and others reaching out to join the transformation journey. I am thrilled that Ian Read, the retired Chairman and CEO of Pfizer, will be joining us as our new Chairman. Ian brings a wealth of experience, particularly in the area of leading large public companies through transformations. All of this gives me confidence that we can attract, integrate and retain top talent to execute on our focused strategy.

Another key component to running the business is operational execution. We are taking steps to improve delivery execution. Vinod and his team are examining our delivery footprint, utilization and talent to improve our quality, speed and cost of delivery. Ultimately, our goal is to consolidate and further scale our delivery operations. We are now also moving to a regionally focused operating model with a tighter management system designed to speed up decision-making and increase accountability. From an industry perspective, we are bringing together our automotive and banking capabilities with Luxoft under Dmitry's leadership to take advantage of the opportunities



in those 2 industries.

As I previously mentioned, we are leveraging our ITO business to begin to grow DXC. Let me give you a little bit more detail on the plan. We are using our unique industry capability of virtual clarity to assess the IT estates of our top 200 accounts. These assessments will allow us to have fact-based dialogue with our customers concerning the migration of their IT estate to the cloud. In these discussions, we talk about technical feasibility, risk, the value proposition and the ability of our customers to execute such a migration, along with their need for assistance. In the fourth quarter, we will complete these assessments for 30 of our top accounts, and we will be in the market engaging with our customers. This work will allow us to have productive and proactive discussions with our customers and give us hard numbers concerning how fast our ITO business, which has a large amount of mission-critical allocations and infrastructure in it, will move to the cloud.

Now let me turn my comments to the area of unlocking value. The clarity of our strategy to focus on the enterprise technology stack has given us an opportunity to engage with our customers and better align with their needs. We are introducing our customers to the breadth of our offering across the enterprise technology stack, and customers are reacting positively by communicating to us and industry players that they have an interest in trying our services. We are also executing well in pursuing strategic alternatives for 3 businesses and are on track to hit the time line we set for ourselves. We have retained several world-class advisers to help us with this effort, and our plan is to be in the market this month.

Let me comment briefly on the 3 businesses. In state and local health and human services, it's been business as usual. And we are in the final stage of adding one new state to our portfolio.

In the other 2 business, horizontal BPS and workplace mobility, results were mixed, but they were in line with our expectations. On the positive side, some customers have awarded us newer or have renewed existing contracts. However, there's been a few cases where customers are pushing out renewals, in-sourcing the work or have indicated their intent not to renew with us.

Now I'm going to hand the call over to Paul to take you through the third quarter results and our business outlook for the fourth and full year.

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

Well, thank you, Mike, and greetings to everyone. As usual, I'll start by covering some items that are excluded from our non-GAAP results this quarter.

In the current quarter, we had restructuring costs of \$74 million pretax or \$0.25 per diluted share. These costs were primarily related to workforce optimization and facilities rationalization. Also in the quarter, we had \$68 million pretax or \$0.20 per diluted share of integration and transaction and separation-related costs. Year-to-date, restructuring transaction, separation and integration costs amounted to \$474 million pretax or \$1.49 per diluted share.

In the third quarter, amortization of acquired intangibles was \$146 million pretax or \$0.44 per diluted share. Now in the quarter, we recorded an out-of-period tax adjustment of \$53 million related to the goodwill impairment we took in the second quarter. Now this noncash adjustment does not impact income from continuing operations, net income or earnings per share. However, in connection with this out-of-period adjustment, we determined that we have a material weakness in our internal control over financial reporting, and this is primarily relating to complex transactions and processes. This material weakness does not involve any restatement of prior issued financials. More information about our remediation plan is included in our Form 10-Q, which we expect to file after the close of business tomorrow.

Excluding all of these special items, our non-GAAP income from before taxes -- from continuing operations was \$468 million, and our non-GAAP EPS was \$1.25.

I'll now move on to our third quarter results in more detail. GAAP revenue in Q3 was \$5.02 billion. As always, all revenue comparisons I will discuss will be in constant currency. Our Q3 revenues represent a sequential increase of 3%. While we typically experience a pickup in

activities in Q3 compared with Q2, our revenue growth this quarter also reflects in part add-on and project work from customers who had previously put business with us on hold. Now these are encouraging signs that the investment we're making to turn around challenged accounts are starting to pay off.

Adjusted EBIT in the quarter was \$528 million. Adjusted EBIT margin was 10.5%, in line with the plan we shared with you on our last earnings call. Our EBIT margin was down 40 basis points sequentially. That reflects the moderation of our cost takeout activities as well as additional investment in the business, consistent with our stated priorities of customers, people and operational execution.

In the quarter, our non-GAAP tax rate was 29.9%, slightly better than our expectations of 32% to 33%.

Book-to-bill in the quarter was 1.06x. We were able to close a few deals that had split from Q1 and Q2 and convert new business opportunities across every layer of the enterprise technology stack. This book-to-bill reflects the collaboration among all the members of the senior leadership team.

Year-to-date, revenue was \$14.76 billion. Adjusted EBIT was \$1.7 billion. Margin was 11.6%, and bookings were \$13.3 billion for a book-to-bill of 0.9x.

Turning now to our segment results. Our global business services segment consists of the 3 upper layers of the enterprise technology stack. It also includes for now the state and local health and human services business and the horizontal BPS business, which are under strategic review.

GBS revenue was \$2.36 billion in the quarter, up 3% sequentially and up close to 10% year-over-year. Excluding Luxoft, GBS revenue was down 0.5% year-over-year primarily due to the completion of a few application transformation projects and the in-sourcing of a large BPS contract earlier this year.

In the third quarter, GBS segment profit was \$353 million, and profit margin was 15%. Sequentially, our margins were down 70 basis points, reflecting the investment we're making in digital talent as well as the slower pace of cost takeouts.

GBS book-to-bill in the quarter was 1.07x with every offering posting a book-to-bill in excess of 1x. In particular, we saw strength in our data, analytics and engineering services business.

Year-to-date, GBS revenue was \$6.8 billion. Segment profit was \$1.1 billion. Margin was 15.8%, and bookings were \$6.8 billion for a book-to-bill of 1x.

Now let me turn to our GIS segment. The GIS business consists of the ITO, cloud and security layers of the enterprise technology stack. GIS also includes for now workplace and mobility business, which is under strategic review.

GIS revenue was \$2.66 billion in the quarter, up 3.1% sequentially. Year-over-year, revenue was down 10.6% primarily due to the roll-off and in-sourcing of work in select accounts.

GIS segment profit in the third quarter was \$232 million, and profit margin was 8.7%. Sequentially, our profit margin was down 80 basis points, reflecting the slowdown in our delivery cost, takeout actions and the investment we're making in turning around challenged accounts. GIS book-to-bill in the quarter was 1.06x, reflecting the conversion of pipeline opportunities that were previously delayed as well as the award of add-on and project work from challenged accounts.

Year-to-date, GIS revenue was \$8 billion. Segment profit was \$815 million. Margin was 10.2%, and bookings were \$6.5 billion for a book-to-bill of 0.8x.

Now let me briefly comment on the performance of the layers within the enterprise technology stack. ITO revenue was up 2.4% sequentially, but down 16.1% year-over-year. The year-over-year decline is primarily due to roll-off of previously terminated work on



select accounts and price concessions made earlier in the year to help customers with their digital transformation efforts. Book-to-bill was 0.9x.

Cloud and security revenue was up 1.9% sequentially and 9.9% year-over-year. Book-to-bill was 1.5x, which is the best book-to-bill we've had since Q3 of last year.

Moving up the stack, application and industry IP was up 3% sequentially and up 0.4% year-over-year. Book-to-bill for this layer of the stack was 1.1x. This is the first time in 4 quarters that our application business, excluding our enterprise cloud applications, grew sequentially.

Data, analytics, engineering services business, revenue there was up 3.5% sequentially and up year-over-year by twofold. Excluding Luxoft, data, analytics and engineering services grew 0.9% on a year-over-year basis. Book-to-bill was 1.5x with solid performance across the board.

Lastly, advisory revenue was up nearly 5% sequentially, but down 8.5% year-over-year against a strong prior year performance. Book-to-bill was 1.1x.

Turning now to the 3 businesses under strategic review. Those businesses were collectively up 3.9% sequentially, but down 7.2% year-over-year. The year-over-year decline was driven primarily by the shift from traditional to digital in the workplace and mobility business. We're moving at pace. We are tracking the time line for the strategic reviews for all 3 businesses. We plan to be in the market in the coming weeks and are still confident that we will be able to realize \$5 billion of net proceeds from this effort as previously stated.

Turning to our financial highlights. Additional free -- adjusted free cash flow in the third quarter was \$397 million, 124% of adjusted net income, reflecting improved working capital management and the expanded use of our receivables facility by \$110 million. Year-to-date adjusted free cash flow is \$1.21 billion or 106% of adjusted net income. For the full year, our target free cash flow as a percentage of adjusted net income remains unchanged at 80% or more.

Free cash flow in the fourth quarter will reflect 2 large cash outflows, one to cover our annual 401(k) match, and the second for a contract settlement payment that we expect to recover in fiscal '21 from insurance coverage. Free cash flow also reflects more conservative working capital assumptions for the fourth quarter.

CapEx in the quarter was \$310 million or 6.2% of revenue. And on a year-to-date basis, CapEx was \$1.01 billion or 6.8% of revenue.

During the quarter, we returned \$140 million of capital to shareholders in the form of \$54 million in dividends and \$86 million in share repurchases. Year-to-date, we've paid \$161 million in dividends and repurchased \$736 million in shares for a total of \$897 million.

Cash at the end of the quarter was \$2.6 billion. Our total debt was \$8.9 billion, including capitalized leases. Net debt to total capital ratio was 35.2%.

Following our second quarter earnings call, all 3 agencies -- rating agencies issued updated credit report on DXC. Fitch and S&P reaffirmed our ratings but revised their outlook to negative. Moody's indicated that DXC's rating and outlook were unaffected as the pursuit of strategic alternatives was credit negative. Now we remain committed to a balanced capital allocation, including reinvestment in the business, making strategic tuck-in acquisitions and returning capital to shareholders while protecting our investment-grade credit profile.

In closing, we continue to target revenue in the range of \$19.5 billion to \$19.8 billion. Sequentially, we expect revenue to be slightly down primarily due to softness in the U.K. as we no longer expect the typical seasonal uptick in revenue from certain key accounts. We expect profit margins to be lower sequentially reflecting the full quarter impact of the investments we're making. These investments include salary increases, particularly in our delivery centers, new talent acquisition including the addition of senior leaders, ongoing investment to turn around challenged accounts, additional resources deployed to assess the ITO estate of our top 200 accounts, and finally,



additional investments not previously contemplated to shore up our support functions, particularly in HR, finance, risk management and IT.

For the full year, we're targeting non-GAAP EPS to remain in the range of \$5.25 to \$5.75 per share, although we are trending towards the lower end of that range.

I'll turn now the call back to Mike for his closing remarks.

Michael J. Salvino DXC Technology Company - CEO, President & Director

Thanks, Paul. Our third quarter results are a decent first step on our transformation journey. We've done a good job of executing against our new focused strategy. As I said in our last earnings call, we have significant scope and scale of services, a reduced cost structure, and customers need our services to support their IT transformation needs. Although our transformation will not be a quick fix, I am confident that our focused strategy will position DXC in the future because we have proven this quarter, we can win in the market, and we are building a very strong team to execute.

In Q4, our priorities are as follows. With customers, our plan is to turn around the majority of the challenged accounts by the end of this quarter, and we also expect to complete the virtual clarity IT estate plan with the first 30 accounts and be in the market engaging with our customers.

On the people front, we plan to continue to address the feedback of our global employee survey, implement our employee value proposition and continue attracting high talent to DXC.

In the area of operational execution, we will complete the rollout of our operating model in support of our regional structure. We also plan to streamline our offering portfolio to better align with the enterprise technology stack, and we will be conducting detailed regional business reviews, focused at the account level to develop our plan and investments for fiscal 2021.

Finally, we expect to make progress on unlocking value as we move at pace along our stated time line for the 3 businesses.

Thank you again for joining the call, and we will now open the line up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Jason Kupferberg, Bank of America.

Jason Alan Kupferberg BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst

Really nice progress out of the gate here, so congrats on that. I just wanted to ask, just going to combine a couple of quick ones here into one question, if you will. But first off, do you think the book-to-bill of back to 1.0-plus is sustainable? And are you still comfortable with the fiscal '22 targets you had given us last quarter? And then just last, any thoughts on when we potentially see the first of the strategic review announcements?

Michael J. Salvino DXC Technology Company - CEO, President & Director

So Jason, look, thanks for your comments. First of all, on the strategic alternatives, look, we're moving at pace. We said that the alternatives would be looked upon and we'd execute them across the next 12 months, and that's what we're going to continue to do.

As it relates to 2022 and the sustainability of the book-to-bill, look, I've been very encouraged about the progress we've made over the last 3 months. The receptivity of our transformation programs by customers, people and the market have been very good.

When I think about 2021, right, that will be a transitional year for us. And we're going to continue to invest in our customers, people and operational execution. And what I plan to do is discuss that 2021 plan on our next earnings call, and then I also plan to provide any



additional updates on our expectations for 2022 at that time. So I won't be, and Paul won't be, commenting any further on that other than the outlook that we gave on 2020.

Jason Alan Kupferberg *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Just on the book-to-bill?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Look, on book-to-bill, we made a good start, right? I mean what I expect is that we'll continue to make good progress in Q4, but we're going to be in and around. I think that 1.0 may be a little bit slightly lower, but I mean the bottom line is we have a motion in the market that is winning.

Operator

Next up is Darrin Peller, Wolfe Research.

Darrin David Peller *Wolfe Research, LLC - MD & Senior Analyst*

Nice job, guys, and good bookings. Let me just start off. I mean I appreciate the color on the 40 clients that, Mike, you just talked about. It seems like a meaningful portion of the headwinds in the ITO piece. I assume that's the case. Maybe just touch on how clients are reacting to your refocused emphasis on ITO now. And I guess I'd like to hear how your clients are reacting to that. But also how the internal organizational culture feels about the one DXC, reemphasized focus on kind of one company, investing in all parts of it. Do you feel that there's been a reenergized of the employee base?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Okay. Look. Thanks for that. First of all, on the comment, the 40 clients are not just within that what I call the green layer or the ITO layer. It's also in the orange, in the apps layer. So it's those 2 layers. And when I talked about an in-depth review, I mean I took a very stringent line on what went into those clients. And it wasn't, like I said, just service levels because that's the easiest thing, right? You hear in the marketplace, the watermelon effect on the inside and then red on the -- or green on outside, red on the inside. What that means is you got to listen to the voice of the customer.

So when I said I made 92 or I'm up to 92 calls now, I'm talking to these customers to make sure that our performance is where it needs to be. And if it wasn't where it needed to be, I put them into the program. I mean it was as simple as that, all right?

And moving out of the program, the only way you get out of the program is if I here get a note or have a call that says the client is happy. And we've seen that performance over a month. So when I said 7 have gotten out, you would have expected sort of that framework as it relates to the progression.

The second part of your call was the one DXC. Look, our people are definitely engaged, all right? And not only did they like the town halls and the openness and transparency that we're talking about in terms of the transformation, but they really responded well to the global employee survey, not only from taking it, but they wanted to see the results. And what I would say is that whole energy bleeds into the market. Because our people sit side by side with our customers, and when our people are happy, right, our customers hear that. And then that tends to get out in the market.

So the reason I highlighted what I call DXC alumni rejoining is that's a new movement, all right? Meaning people want to come back and join the place. And then it goes without saying, right, I'm honored, along with I'm very impressed with the talent that we've been able to attract. So I would tell you that the receptivity has been very good.

Operator

Next up, we'll hear from Lisa Ellis, MoffettNathanson.



Lisa Ann Dejong Ellis *MoffettNathanson LLC - Partner*

Off to a good start here. I got one for Mike maybe and one for Paul. Mike, can you just elaborate a little bit on any changes you're making to the sales and go-to-market model to support the sort of updated strategy for DXC?

And then, Paul, just one for you. I mean I think restructuring and the separation costs are running about 1/3 or so of adjusted free cash flow, and then that's kind of an important driver of the longer-term outlook. Do you see that as you look into 2021, 2022 coming down? Or are they going to be kind of a big piece of your free cash flow for the foreseeable future?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

So Lisa, I'll go first. In terms of changes on the sales model, what I would say is you'll hear this word a lot, is focus. So when I went into the detail about the virtual clarity IT estate plan, I'll tell you, I was getting a little tired of people saying that our ITO business was just going to run to the cloud. So the reason I started to do analysis around what that business entails and the critical nature of that, most of the stuff that's gone to the cloud so far has been the easier stuff, right, and it's gone to the public cloud.

The estate that we have now being a more critical nature, that will take a little bit of time. And when it goes, it will usually go to a private cloud. So the reason I went into such detail on the estates, Lisa, is we are literally handing, all right, that road map to our sales force. And myself and the leadership team is getting involved in those conversations with those accounts. Because when I did check in with the customers, they were asking us to be more curious. So as part of sort of the new mindset here, we're showing up. And we're going to not only show up with a point of view, but we're going to show up with a detailed plan of what can happen on their estate.

So that's the main change I've made so far, is I want to see these detailed plans, all right, for the existing accounts. And then we have a new account, right, that we're competing with. I also want to see that detailed plan because we can do a high level analysis before we walk into the conversation with a new client. So that's the main thing I would highlight for you.

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

Yes, Lisa, on the restructuring, it's been just really this quarter. For example, we had a -- some restructuring more related to some of the complex countries. As I look to the near term and particularly through fiscal '21, as Mike mentioned, this is going to be a transitional year for us. Importantly, there, the restructuring is going to be a little bit also more targeted as the stranded costs coming out of the 3 businesses that we're going to be reviewing all the options from a strategic perspective. And then as we had indicated previously, our fiscal -- by fiscal '22, we start to expect restructuring to moderate, and we'll start to think a little bit more about providing a little bit more granularity in terms of our expectations on restructuring in the coming quarters.

Operator

Rod Bourgeois from DeepDive Equity Research has the next question.

Rod Bourgeois *DeepDive Equity Research - Head of Research and Consulting*

Okay, guys. Nice initial step in the December quarter, it looks like. So it seems that you've made some positive progress on some of the turnaround in the December quarter. And you're still though juggling multiple turnaround initiatives, and you're working to sell these 3 assets. And it seems that those multiple efforts that are still in process could create some near-term disruption to -- particularly to revenues. So what I'd like to ask, what is your experience so far with the business disruption that might be occurring? And I'm assuming fiscal '21 is starting really before your turnaround work can really drive full payoff while you still have potential disruption to deal with. So essentially, as we approach the fiscal '21 period, I'm trying to weigh potential for some turnaround progress against risks of revenue disruption and would like to hear what your experience is so far and how you're thinking about that.

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Okay, Rod, I'll take that. The -- first of all, thanks for the question. The -- when I think about the business, right, obviously, it's one business. But if you look at the strategic alternatives, state and local health and human services, business as usual. In fact, the one state we're adding, very happy about that.

The horizontal BPS and workplace and mobility businesses have held up in line, right, with what we thought. We thought we'd win some



stuff, and we thought that some stuff would go away. So revenue disruption to the strategic alternative, we're not seeing. So we'll put that to one side.

The rest of the business in terms of revenue disruption, look, you know this business is a balancing act of decisions that have been made in the past in terms of term contracts that will now flow into 2021 and also new -- bringing on new business. That's why such the focus on the delivery because that new business has got to come online, right, so that we can balance out.

So the way I look at 2021 will be still that transitional year, right? We will be dealing with some of the stuff in the past, all right? But I'm hoping with these IT estate plans that we're doing, I'm hoping with unlocking some of the work from the challenged accounts, right, that we will have a motion in 2021 that will obviously be positive. So I look at 2021 as that transitional year, Rod, where we are still going to deal with some of the stuff, but also invest in our customers, people and operational execution.

So look, I mean the bottom line is I'm seeing progress across the board in our client meetings. And the thing I guess I would highlight, right, is the fact that when our clients talk to us, it is not just about the work that we have. They're very curious about the rest of the stack, and this is where I'm looking forward to getting to the top of the stack in the blue. I mentioned about bringing automotive and banking together with Luxoft. We have got to make sure that we're combining the capabilities that we have to compete in the market. And Luxoft has a really, really nice agile workforce that we should be able to deliver on the top of the stack very nicely. So anyhow, Rod, that's the way I think about it.

Operator

Our next question today comes from Bryan Bergin, Cowen.

Jared Marshall Levine *Cowen and Company, LLC, Research Division - Research Associate*

It's actually Jared Levine on for Bryan. So Mike, where do you stand with the makeup of your direct hires? Obviously, a lot of announcements are short periods in September. Do you still have a lot to do at the senior ranks to really put your plan into action?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Look, right now, my focus is to continue to implement what I call our regional operating model. And the reason I highlighted in my comments that the new hires are integrating well with the folks that are here is because we did have a talented team. This isn't about just all bringing new hires into the place. Where I've seen places that I really want to take a step up, that's typically when I've gone for a new hire.

Carla is a perfect example of that, all right, in the sense that for a risk standpoint, I want a lower level of detail on that. So we were able to attract a really talented person.

IT is another one, right? I mean as you can imagine with EDS to HPE along with CSC, the back end of our systems, right, we need to continue to do more with, all right? And when I think about controls and so forth, that's why we went after and got Chris. I mean Chris knows how to deal with complex environments, being at GE.

So very pleased with the hires. But I also don't want to disparage the existing team because the existing team was incredibly talented. The thing that I want to highlight for people is they've come together well. We don't have a series of haves and have-nots here. And like I said, the results in Q3 proved together that we could come together as a team very quickly and start making impact. So that would be my comment there.

Operator

Next from Citi, we'll hear from Ashwin Shirvaikar.

Ashwin Vasant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

It's a good first step here. Appreciate it. My question is on the stronger bookings performance. How much of that was because of delayed bookings from prior quarters? I know that's been a -- the specter of delayed bookings has occurred in both June and September quarter.



And are there delayed contracts still outstanding? And in that context, if you can talk also about how the pipeline is building and whether the delayed contracts coming in is more a function of whenever it's year-end. Was it the improved process you put in? What's causing these contracts to now come in?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Okay. So let me -- I'll start with the bottom, and then let me go back to the individual details. So in terms of what happened, it wasn't year-end type thing, all right? And it also wasn't something where we did something miraculous, right? Because when I talked to you guys on November 11 in my first call, I mean the things I've put in place are just getting into place. But I will tell you, the focus on making sure that we dealt with these clients, we were front and center, right? We came up and showed up with a new attitude, along with we cared, along with what I call the groundswell from our people saying, "Hey, there's something new going on here." That unlocks stuff, all right? And I'll let Paul get to the detailed numbers on what was put on hold and so forth.

The only other comment I would make is with the challenged accounts, there's still more work to be had, all right? And it's not work to be had that was just put on hold. It's also us sitting with those clients and finally being curious with them. And I made my comments around the operational execution, is the fact that what we're out in the marketplace talking about is the enterprise technology stack, which means we're not just in the ITO business, but we're also not in this thing that we used to call digital, right? We have a very focused approach about what we're selling: ITO, cloud, apps and then analytics and insight. So that's the motion that we're putting out in the market. And I would tell you, decent first step.

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

Yes, Ashwin, to answer your first question, \$315 million, around \$315 million from deals that had slipped in the first half of the year. There's still another \$500 million yet that are up for grabs either in the fourth quarter or into the fiscal '21. And then out of the -- this is all in TCV, right? And then the other thing Mike mentioned already, \$500 million of TCV from contracts that had been put on hold, two separate things.

Ashwin Vasant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Understood. And Mike, if I can ask you just philosophically, to the extent you see some upside in earnings and cash flow relative to initial expectations, are you more likely to be on the side of reinvesting that upside or passing it on to investors?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

I'm going to -- the bottom line is Paul already said it. We're going to keep the capital balanced, right, in terms of our capital allocation. We're paying attention to the rating agencies. And obviously, I totally understand, my job is shareholder value. So we're going to keep that balanced.

Operator

Our next question will come from Bryan Keane, Deutsche Bank.

Bryan Connell Keane *Deutsche Bank AG, Research Division - Research Analyst*

Mike, just wanted to clarify. On fiscal year '22, the revenue range of \$15 billion-plus and EBIT margin non-GAAP, I think it was 12% plus, and \$7 in earnings plus. Does that all still hold? Or should we now put that to the side and kind of wait until fiscal year '21 and see how things progress?

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Bryan, again, thanks for the question. And like I said, I'm not going to comment outside of 2020. My plan right now is to go and do the detailed account reviews for 2021. I plan to discuss 2021 on our next call. And on our next call, I'll provide any updates around those expectations for 2022.

Operator

And that is all the time we have for questions today. I'd like to hand things back to Shailesh Murali for any additional or closing remarks.



Shailesh Murali *DXC Technology Company - Head of M&A and Investor Relations*

Thank you, everyone, for joining us this afternoon. We appreciate it.

Michael J. Salvino *DXC Technology Company - CEO, President & Director*

Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference. We would like to thank you all for your participation today. You may now disconnect.

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