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Q2 2021 DXC Technology Co Earnings Call

EVENT DATE/TIME: NOVEMBER 05, 2020 / 9:45PM GMT

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PRESENTATION

Operator

Good day, and welcome to the DXC Technology's Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Shailesh Murali. Please go ahead, sir.

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

Thank you, and good afternoon, everyone. I am pleased that you are joining us for DXC Technology's Second Quarter Fiscal 2021 Earnings Call. Our speakers on today's call will be Mike Salvino, our President and Chief Executive Officer; and Neil Manna, our Senior Vice President and Corporate Controller and Interim 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, 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 and the webcast slides.

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 would like to introduce DXC Technology's President and CEO, Mike Salvino. Mike?

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

Thanks, Shailesh. And I appreciate everyone joining the call today, and I hope you and your families are doing well.

I'm going to start today's call by giving you an update on our strong Q2 performance. I will then highlight the progress we are making on our transformation journey.

Our strong Q2 performance was driven by executing against our 3 key areas of our transformation journey, which are: focus on customers; optimize cost; and seize the market. Next, I will discuss the good progress we have made on our strategic alternatives initiative, and then I'll hand the call over to Neil to share our Q2 financial results and guidance for Q3. Finally, I will make some closing remarks before opening the call up for questions.

We delivered a strong Q2, and I'm very pleased with how we are executing against our plans to stabilize revenue quarter-on-quarter, improve margins sequentially and achieve a book-to-bill of 1.0. For Q2, our revenues were $4.55 billion, exceeding the top end of our guidance by $100 million.

The quarter-on-quarter revenue stabilization trend is expected to continue in Q3 on a like-for-like basis. Now when I say like-for-like, I mean, excluding the U.S. State and Local Health and Human Services business.

Adjusted EBIT margin came in at 6.2%, also higher than the top end of our guidance, highlighting the effectiveness of our cost optimization program. Like revenue, we expect margins to continue to expand in Q3 on a like-for-like basis.

And our book-to-bill for the quarter was 1.1, underscoring the success in bringing the new DXC, which focuses on customers and our people to the market. We expect this trend of achieving a book-to-bill of 1.0 to continue in Q3.

I'm excited about the level of stability we are achieving by executing on our transformation journey. Our customer relationships are strengthening. We are taking out cost without disruption. And we continue to win in the market.

Now let me update you on the progress we are making with the 3 key areas of our transformation journey, starting with customers. Our focus on customers continues to pay off and is the primary reason we are stabilizing revenues sequentially. Simply put, when we deliver for our customers and build trusted relationships, they renew existing work and turn to us for new work.

Now let me give you a couple of examples. We have a long-standing relationship with BP. Like us, BP is going through their own transformation journey under a new CEO to reinvent BP and reimagine energy. We continue to help BP run their technology services, driving greater automation and flexibility into their operations. And now we are supporting their move to the cloud, from assessment to migration and then data center exit.

Denmark's Ministry of Finance is another recent win with a long-standing customer. We were selected to modernize their IT platform, which will enable employees and retirees to receive their paychecks and pensions on time.

These 2 examples, along with others, give us confidence that we can continue to stabilize revenue quarter-on-quarter.

The second key area of our transformation journey is optimize costs. We are on track to achieve our goal of $550 million in cost savings this year, which is the main driver of our Q2 adjusted EBIT margin of 6.2%. We expect margins to continue to expand in Q3. On a like-for-like basis, we plan to deliver roughly 200 basis points of margin improvement from Q2 to Q3. Or looking at it on an as-reported basis, we expect adjusted EBIT margins to remain relatively flat between Q2 and Q3, even with the sale of the U.S. State and Local Health and Human Services business, which contributed roughly $95 million to our adjusted EBIT in the quarter. I'm very pleased at how we are optimizing costs while we are delivering for our customers without disruption.

Seize the market is the third key area of our transformation journey. In this area, we are focused on cross-selling to our existing accounts and winning work with new customers. But the 1.1 book-to-bill number that we delivered this quarter is further evidence that our plan is working. 50% of our Q2 bookings were renewals, and 50% were new work, either from existing or new customers.

Since I had given you a couple of examples of cross-selling to existing long-standing accounts, now let me give you a couple of examples of where we won work from new customers. In the security area, we recently signed as a new customer, Beam Suntory, known for its well-established brands such as Jim Beam and Maker's Mark. We also welcomed Australia's Department of Foreign Affairs and Trade. We will provide SAP and PeopleSoft services over the next 3 years across 9 in-country locations and 121 posts worldwide. We are encouraged by our consistent success in this area. And based on our qualified pipeline, we expect to achieve a book-to-bill of 1.0 or greater in Q3.

Now I would like to discuss the good progress we have made on our strategic alternatives initiative. Shortly after I started with DXC, we defined this initiative consisting of 3 businesses under review and later added a fourth. The 4 businesses are the U.S. State and Local Health and Human Services business, the healthcare provider software business, Workplace and Mobility and horizontal BPS.

As we committed, we sold our U.S. State and Local Health and Human Services business to Veritas Capital for $5 billion on October 1.

This was a major milestone in our transformation journey, and I want to thank the women and men who worked incredibly hard on this transaction. We used the net proceeds of this transaction to pay down $3.5 billion of debt. We feel comfortable that we now have a strong balance sheet and the financial flexibility to continue the execution of our transformation journey.

Neil will talk more about our capital structure and liquidity in a few minutes.

We also remain on track to close the sale of our healthcare provider software business to Dedalus by the end of the fiscal year. Again, we will use the net proceeds from this transaction to pay down debt by about $450 million, further strengthening our balance sheet. We've decided to retain both the Workplace and Mobility and horizontal BPS businesses. This decision completes the strategic alternatives initiative. We're retaining these 2 businesses as a result of our strong balance sheet and our analysis that we can create more value by applying our transformation journey to these businesses as compared with the interest we received from potential buyers.

During the strategic alternatives initiatives, these 2 businesses were ring-fenced and have been operating with an element of uncertainty. We are now looking forward to operating these businesses with clarity and being able to apply our transformation journey to improve their financial contributions to DXC.

Regarding Workplace, we are the market leader with nearly 2x the managed devices of our nearest competitor. But the business fits nicely into our cross-selling efforts, especially as a result of the demand created by COVID-19, where our customers now need to support their employees working remotely. Given my prior experience in the BPS industry, I'm looking forward to working with our BPS team to create additional value and competing again in a market that I've known for years.

Now I would like to comment on our leadership team. The organizational changes we announced in September shows that we have worked hard to bring top talent and develop a strong senior leadership team. This team is driving the momentum in our business and helping us deliver strong financial results. The caliber of this leadership team is evidence that DXC can attract top industry talent.

Now as you know, we are conducting a detailed search for our next CFO. We are in the final stages, and I'm looking forward to concluding this search in the near term. I want to thank Neil for stepping into the interim CFO role. I have appreciated his leadership, and he's been a true partner over this transition period.

Now let me turn the call over to Neil.

Neil A. Manna ***DXC Technology Company - Interim CFO, Senior VP, Corporate Controller & Principal Accounting Officer***

Thank you, Mike, and greetings, everyone. I am also very pleased with the solid progress we continue to make on our transformation journey. We are executing well and delivering for our customers.

Financially, our second quarter featured quarter-on-quarter revenue stability and sequential margin expansion. We exceeded the top end of our guidance on both revenue and adjusted EBIT margins. We strengthened our balance sheet through the execution of our strategic alternatives initiative. We continue to commit -- to be committed to an investment-grade credit profile. We are also winning in the marketplace as evidenced by our book-to-bill ratio of 1.1.

I will now turn to our detailed second quarter financial results and start by covering the items that are excluded from our non-GAAP results. In the second quarter, we had restructuring costs of $265 million on a pretax basis or $0.83 per diluted share. These costs relate primarily to the cost optimization program we discussed previously. Looking forward to Q3, we expect our restructuring cost to be between $125 million and $150 million for the quarter.

Also, in the quarter, we had $101 million on a pretax basis or $0.29 per diluted share of transaction-, separation- and integration-related costs primarily driven by external spend associated with the assets under strategic review. In Q3, we expect these costs to increase primarily as a result of transaction and separation charges associated with the sale of our U.S. State and Local Health and Human Services business.

In the second quarter, amortization of acquired intangibles was $152 million on a pretax basis or $0.46 per diluted share. Also, in the quarter, we had a tax-related adjustment that had contributed $0.01 per diluted share. Excluding the impact of these special items, non-GAAP income before taxes from continuing operations was $212 million for the quarter and non-GAAP diluted EPS was $0.64. Our non-GAAP diluted EPS this quarter was impacted by a lower-than-expected tax rate of 24%. Assuming a tax rate in line with our August guidance of 35%, our non-GAAP diluted EPS for the quarter would have been $0.55.

I will now go through our second quarter results in more detail. As always, all revenue comparisons I will discuss will be in constant currency.

GAAP revenue in the quarter was $4.5 billion. Revenue benefited from the weakening of the U.S. dollar against major currencies. Currency in the quarter was an incremental tailwind of about $136 million sequentially and $78 million year-over-year. On a constant currency basis, revenue declined sequentially by 1.9%. Our revenue for the quarter was better than the guidance we provided you during our last earnings call, reflecting the resiliency of our business and our continued focus on customers, people and operational execution.

Adjusted EBIT in the quarter was $283 million. Our adjusted EBIT margin was 6.2%, reflecting benefits from the continued execution of our cost optimization program. I am pleased to say that we are on track to achieve our in-cost savings target of $550 million and our run rate cost savings target of $700 million.

Our non-GAAP diluted EPS of $0.64 in the quarter came in higher than the top end of our guidance we gave you in August. Non-GAAP diluted EPS benefited from the lower-than-expected tax rate of 24% that I spoke about previously.

In the second quarter, bookings were $4.92 billion for a book-to-bill of 1.1.

Turning now to our segment results. I will start with the GBS segment, which includes the top 2 layers of our enterprise technology stack, analytics and engineering and our applications business. The GBS segment also includes the horizontal BPS asset that we are retaining. For now, the GBS segment also includes the U.S. State and Local Health and Human Services and the healthcare provider software businesses.

GBS revenue was $2.24 billion in the second quarter, up 5% sequentially, reflecting the strength of our Luxoft business. Year-over-year, GBS revenue was down 3.4%, which was driven by prior terminations and price-downs, along with customer settlements that we actioned in the quarter. In the second quarter, GBS segment profit was $317 million, and profit margin was 14.1%, representing a 420 basis points improvement over the first quarter. GBS bookings for the quarter were $2.45 billion for a book-to-bill of 1.1.

Turning to our GIS segment. Our GIS segment consists of ITO and cloud and security layers of our enterprise technology stack. It also includes our Workplace and Mobility business, which we are retaining. GIS segment revenue was $2.31 billion in the second quarter, down 4% sequentially and 11.6% year-over-year. The decline was primarily driven by prior terminations and price-downs, along with customer settlements that we actioned in the quarter. GIS segment profit in the second quarter was $36 million, and profit margin was 1.6%, a 60 basis points improvement over the previous quarter. GIS bookings for the quarter was $2.47 billion for a book-to-bill of 1.1.

Now let me comment on the performance of our enterprise technology stack. I would like to start by focusing you on the 4 layers: ITO; cloud and security; applications; and analytics and engineering, where we have spent the majority of our time executing our transformation journey. Quarter-on-quarter, you will notice the numbers across the 4 layers, along with the totals in the circles, all are moving in the right direction with a healthy book-to-bill. This quarter-on-quarter movement demonstrates the revenue stability trend that we talked about earlier.

Now let me comment on each of the layers specifically. ITO revenue was down 4.7% sequentially and down 14% year-over-year driven by the terminations, price-downs and the customer settlements we discussed previously. Book-to-bill was 1.3 in the quarter, reflecting 170% growth in bookings year-over-year. We are encouraged by the progress we are making in the ITO layer as evidenced by Q2 over Q1 trends in sequential revenue decline, bookings growth and the strength of our qualified pipeline.

Cloud and security revenue was up 2.8% sequentially and down 3.4% year-over-year. Book-to-bill was 1.0 in the quarter.

Moving up the stack, the applications layer was down 2.6% sequentially and 9.4% year-over-year. The sequential decline is primarily driven by the incremental terminations and price-downs that were discussed last quarter. Book-to-bill for this layer of the stack was 0.9 in the quarter.

In the analytics and engineering layer of the stack, revenue was up 4.0% sequentially driven by the performance of the Luxoft business. Year-over-year, revenue was down 0.5%. Book-to-bill in the quarter was 1.4.

Let me now comment on the rest of our portfolio. I will start with the Workplace and Mobility and horizontal BPS businesses that we are now retaining. The sequential decline of 5.4% was primarily driven by uncertainty associated with the outcome of the strategic alternatives initiative. Despite strong demand, customers put certain project-related work and new business awards on hold as they awaited clarity on whether or not we were going to retain the business. Book-to-bill ratio for these offerings was 0.7 in the quarter. Our pipeline remains strong, and we are excited about the opportunities in the marketplace.

Turning now to the businesses under strategic review. In its last quarter under DXC's ownership, the U.S. State and Local Health and Human Services business was up 3.6% sequentially and up 16% year-over-year. Book-to-bill ratio for the business was 1.6 in the quarter. The healthcare provider software business grew by 5.7% sequentially and 9.5% year-over-year. Book-to-bill was 1.0.

Turning to other financial highlights. Our adjusted free cash flow for the quarter came in at $237 million. Our adjusted free cash flow benefited from working capital management and lower CapEx versus Q1. In Q3, we expect adjusted free cash flow to be impacted by 2 large onetime outflows, both in conjunction with the sale of our U.S. Local Health and Human Services business. The first is the repurchase of $272 million of securitized receivables, and the second is a onetime purchase of a software license that conveyed with the divested business.

Our capital expenditures, including the payments on capital leases, was $355 million in the quarter or 7.8% of revenue. Cash at the end of the quarter was $3.1 billion. At the end of the second quarter, our total debt, including capitalized leases, was $9.7 billion, for a net debt-to-total capitalization ratio of 45.7%. During the second quarter, we paid down $2.5 billion of debt. This included the repayment of $2 billion of revolver draw and another $500 million consisting of term loans and commercial paper.

Let me now give you an update on our capital structure following the close of the sale of our U.S. State and Local Health and Human Services business to Veritas Capital. As you know, the transaction closed on October 1, and we received gross proceeds of $5 billion. $3.5 billion of these proceeds were used to pay down debt. In addition to this $3.5 billion as part of the close, we also used about $330 million to repurchase the receivables securitization facility and purchase a software license that I mentioned earlier. The remaining proceeds have been earmarked for taxes and third-party fees related to advisory and separation activities.

Our revolving credit facility has now been paid back in full. We have access to the entire $4 billion of credit line to be drawn at our discretion. Following repayment of $3.5 billion of debt and repurchase of $272 million of securitized receivables and excluding the cash earmarked for estimated taxes and transaction and separation expenses, our adjusted debt and cash balances are $6.2 billion and $3.1 billion, respectively.

In closing, we expect Q3 revenues to stabilize sequentially on a like-for-like basis. As discussed previously, like-for-like means excluding the U.S. State and Local Health and Human Services business. We are targeting third quarter revenues of $4.15 billion to $4.2 billion. Adjusted EBIT margins in the third quarter should be broadly in line with the second quarter on an as-reported basis. On a like-for-like basis, we expect Q3 margins to expand roughly 200 basis points. We are targeting adjusted EBIT margins of 6% to 6.5% in the third quarter, reflecting quarter-on-quarter stabilization of revenues and additional contributions from our cost optimization initiatives. We expect our non-GAAP diluted EPS in the third quarter to be $0.50 to $0.55 based upon an effective tax rate of about 30%.

We continue to guide on a quarterly basis as we are managing a number of variables. We are executing on our transformation journey, and we are now applying that journey to the 2 businesses that we are now retaining. We are still a few months away from closing the sale of our healthcare provider software business. Also, we are unclear about the potential impact of the next wave of COVID. Hence, we are guiding you to the numbers that we have the best visibility on currently.

With that, I will now turn the call to Mike for his closing remarks.

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

Thanks, Neil, and let me share 4 key takeaways on our progress we are making at DXC. First, we are bringing the new DXC to the market, and we have demonstrated solid momentum in executing on our transformation journey. This is translating into quarter-on-quarter revenue stability, sequential margin expansion and a book-to-bill number of 1.0.

Second, we now have a strong balance sheet due to the sale of the U.S. State and Local Health and Human Services business and using the net proceeds to pay down $3.5 billion in debt. We also expect to complete the sale of the healthcare provider software business by the end of the fiscal year and again, use the proceeds to pay down debt, further strengthening our balance sheet.

Third, we believe we can create more value by keeping the Workplace and horizontal BPS businesses. We're excited about our ability to apply the transformation journey to these 2 businesses in order to improve the financial contributions they are making to DXC.

Fourth, we have built a strong leadership team that is executing on our transformation journey, bringing the new DXC to our customers and our people.

In closing, I'm very pleased about the progress and the level of stability we have achieved. Our balance sheet is stronger. We are enhancing our customer relationships. We are taking out costs without disruption. And we are improving our position in the market and winning more. We expect all this positive momentum to continue in Q3.

And with that, operator, please open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question in queue comes from Rod with DeepDive Equity Research.

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

Mike, so troubled accounts was the main topic for DXC over the last few quarters. I did notice that you didn't talk about troubled accounts in your update today. So I would like to ask what's your status with these troubled accounts or at least the accounts that were previously considered troubled. And to what extent are you concerned about DXC's relationships at its large clients at this point?

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

Okay. So thanks, Rod. The -- look, when I reflect back on my first year at DXC, I would say my 2 biggest achievements are around strengthening our balance sheet and our customers. When I think about the 40 troubled accounts, in my mind, we've moved past that, right? So I communicated that 38 out of the 40 were fixed. And in my mind, right now, we're in the enhancing our customer relationship phase. And it's not just with 40, it's with our top 200 accounts that we're focused on. And when I say focused on, we're focused on obviously delivering to them without disruption. Second is we're focused on proactively reaching out to them so that we can listen to their needs. And we're seeing a lot of needs in the ITO space right now. People want the technology to just work, all right, along with the transformation narrative. But we're seeing quite a bit of demand of just, "Hey, can you just make sure the technology works?"

And then the last thing is cross-selling to them. So we're having a lot of discussions with them. And part of the thing, Rod, that we're seeing now is people are starting to talk about the new DXC. And we think that's great because that's why I mentioned that I was pleased about the momentum of us improving our brand in the market and winning more.

So look, the momentum on the customer side, Rod, is good. I think we're making good progress, and we're making the right calls in the customer area. But we've definitely moved beyond troubled accounts.

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

All right. Great. And then just a follow-up. I'm looking at the cloud layer of the stack. Your growth in cloud did improve from the prior quarter. But cloud is clearly one of the big growth trends in this industry. And relative to that trend, your cloud growth is somewhat lackluster here. So can you give us some color on your cloud business? I know a growth turnaround there doesn't happen overnight, but I would like to ask about your outlook for DXC's cloud business and its strategy there.

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

Okay. So Rod, the -- like I just talked about in terms of customers, right, that's where my focus has been. Most of it has been in fixing the ITO layer, which is where the business has traditionally had the most revenue runoff. But as we are stabilizing that, which you can see in these numbers, when we look through both GBS and GIS, and we looked at the stack, my expectation is as we build the deeper relationship with the customers, that we're going to get better at selling up the stack.

So when I look at the thing as a whole, what Neil mentioned is when you look at ITO, cloud and security, applications and analytics and engineering, you add all up -- all those together, that is where we've spent the majority of our time on our transformation journey. No question.

And last quarter, the quarter-on-quarter growth was negative 7%. Now it's negative 1.8%. And 2 out of those 4 have a positive growth trend. So obviously, I'm focused on cloud, but I'm also focused on analytics and engineering -- analytics and engineering and applications as well.

But going back to your cloud question, that layer, like you said, went from 11% to roughly 2.8%. It's got a strong book-to-bill. I like that momentum. I think that momentum will continue as we get into Q3. And like I've always said, our strategy is an "and" strategy. It's not one or the other. The ITO business is real, and clients are asking for help there. And we're not saying it's one or the other. We have to do that and do the cloud. So I was actually pleasantly surprised with the cloud growth now when it was negative last quarter.

Operator

Our next question in queue comes from Rayna with Evercore.

Rayna Kumar ***Evercore ISI Institutional Equities, Research Division - MD***

It's really good to see the strong book-to-bill and then that potentially going into 3Q as well. Can you talk a little bit about the sustainability of 1x or greater book-to-bill going forward? And I'll ask my follow-up question upfront. If you can talk a little bit about the strength in your pipeline and the time line of converting that into revenue.

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

So Rayna, thanks for the question. In terms of the book-to-bill, we're obviously very focused on the next quarter. I like what Neil laid out in terms of our guidance. We're still managing quite a few things here, right, with -- we still got one of the assets that we have to complete. We're bringing the other 2 businesses in. We're executing against our transformation journey. And COVID-19 still looms out there in terms of the next wave.

But we're very bullish about a book-to-bill for 1.0 or greater in Q3. I also mentioned that we do see a solid pipeline. And that solid pipeline, as you can see, is across the stack, right, because that's why we put down the book-to-bill numbers for this quarter and so that it was going to continue in Q3.

Operator

Our next question in queue comes from Ashwin with Citibank.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

I guess my question is to ask perhaps for an update in terms of the delayering and the simplifying the organization that you've spoken about in the past, Mike. And once that's done, what's next in terms of sort of looking at margin improvement? Is there sort of a revenue mix push? Is there a pivot to maybe higher-value services? Can you talk a little bit about the trajectory that we should expect?

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

Ashwin, thanks. Always good to hear from you. So look, when -- the update on the delayering is we definitely said we're on pace to achieve our $550 million for this fiscal year. We did better than expected in Q2. We took out roughly $60 million in costs. We expect that level to continue in Q3.

And then when it's over, this is part of the transformation journey in what I call the playbook. So what we'll do is we will then pivot and we're starting to build some of that capability now. We'll pull -- we will continue, right, our optimization on the pyramiding, the offshoring and the contractor conversion. So that's one. The second is the use of technology, all right, meaning us applying technology to these environments is key, all right?

And one of the things that we've done is we've taken the best of platform DXC and Bionix. And now we call it Platform X, and we are piloting that right now.

And then the third thing is we will continue to look at consolidating our real estate footprint and data centers. So Ashwin, there's more levers to pull on. I think we're taking a very prudent approach. I know you heard me say that we've been taking out cost and not disrupting the business probably 2 or 3x because that's important, okay? Because what we're not going to do is hurt our customers nor people by doing this, all right? So we're taking a very focused approach.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Got it. Got it. Okay. And then the other question, as we look at bookings and trying to get a beat on spend or behavior, enterprise spending behavior, anything with regards to the pace of decision-making, of contract-sizing? The contract is already signed. Should we expect normal ramps, things like that, as we look out? What are clients telling you?

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

Okay. So here are the 5 things that I'm seeing in the market, all right? And that's what this is -- these 5 things are pushing our book-to-bill of 1.0 or greater. The first thing is that CIOs are making decisions. And when you look at our pipeline, it's up 11% quarter-on-quarter, okay? The second thing is everybody is talking about transformation. So that was going back to an earlier question about the cloud, a lot of discussions about the cloud.

The third is people want to automate, all right, because in this COVID-19 area, right, they basically want to see greater automation so that they have got more flexibility with their workforce.

Now points 4 and 5 are the key things to the DXC story. The fourth thing is you can't do those first 3 unless the environment works, okay? So when you've got this many people still working remotely and we're dealing with the next wave of COVID and so forth, people are talking to me. CIOs, CEOs are talking to me about, "Hey, upgrade it. Make it work as efficiently as possible." And then, Ashwin, the last thing, the fifth point is when you're dealing with these environments, one of the biggest thing operationally you need to deal with is downtime. And we've seen an unprecedented amount now of our ability to get downtime to upgrade these environments.

So that's what's fueling a lot of our pipeline. That's what's fueling a lot of the deals. So we feel good about the position that we're in, in the IT services space.

Operator

Our next question comes from Lisa with MoffettNathanson.

Lisa Ann Dejong Ellis ***MoffettNathanson LLC - Partner***

And nice revenue stabilization here, great to see that. Mike, no rest for the weary. Now that you've completed the strategic review of DXC's portfolio, how are you thinking about M&A going forward? Meaning, are there some high-growth areas you're eyeing potentially for tuck-in acquisitions? And/or would you consider another big-scale merger at this point?

And then maybe I'll ask my follow-up just upfront, which is just around restructuring and transaction-related costs, which have been pretty persistent and a bit of a drag on cash flow. I'm just wondering if you have sort of line of sight at this point into now that you've got a lot of the restructuring done and the transactions underway of when we might see those go down.

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

Okay. So Lisa, thanks. And I always check in on your 7 points about how you're tracking our progress. So thank you for that, all right? So I can recite them.

The -- on the -- look, on the M&A front, when I talk about us getting to a certain level of stability, we are now getting to a point where I can run this business, okay? And I don't want to put any small piece on that because that's what we've been trying to get to, where things are starting to quiet down a bit, and now we can drive this business and start competing in this space.

So I'm 100% focused on DXC. I think we've got the right strategy. We're showing people, whether it's your 7 points or the ones that I talk about, which are strengthening the balance sheet, right, stabilizing that revenue, expanding the margins and winning in the market. That's what we're focused on. So I don't see any major transactions in our future. Now that doesn't mean that I'm not going to continue to look at the portfolio because we're always studying that.

Now in terms of your second question...

Neil A. Manna ***DXC Technology Company - Interim CFO, Senior VP, Corporate Controller & Principal Accounting Officer***

Restructuring.

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

Okay. My favorite topic, restructuring and transaction costs. Okay. So look, having just completed this, they should be coming down, right? We will definitely be -- can give you more details around that as we are now finalizing what I call the strategic alternatives initiative. But that's the direction, Lisa, they were headed, okay?

Lisa Ann Dejong Ellis ***MoffettNathanson LLC - Partner***

Terrific. And congrats again. Nice job. I'm very excited to see that revenue number this quarter.

Operator

Our next question comes from James with Morgan Stanley.

Jonathan Lee ***Morgan Stanley, Research Division - Research Associate***

This is Jonathan on for James. To expand on Lisa's point around M&A, can you talk more broadly about capital allocation now that you've paid down some of the debt with the Health and Human Services proceeds?

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

Okay. So basically, look, our capital allocation, I think I've been incredibly consistent that my #1 priority, as COVID hit and so forth, is to maintain an investment-grade credit profile. We're constantly reevaluating our capital allocation, but we're still, like I said, dealing with a number of moving parts.

So just to go back through them in terms of our strategic alternative initiative, we still need to close the healthcare provider software business. Second is I now want to significantly apply our transformation journey onto the 2 businesses that we're going to retain. And again, that's no small piece, right? I mean we've been letting those businesses run as is as they have gone through this strategic alternative. So it will be good for us to get after those businesses.

And then in terms of the COVID, that's basically where we're at. So we'll continue to look at it. But right now, I think we're taking a very prudent approach to our money, to our guidance as we're managing through all this.

So let's take -- go ahead.

Jonathan Lee ***Morgan Stanley, Research Division - Research Associate***

Sorry. And on the Workplace and Mobility asset and the horizontal BPS asset, can you talk through some of the actions you're looking to take around those? Is there any reinvestment that's expected to take place? And if so, is that contemplating your margin guidance?

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

Yes. So the bottom line is what we're going to do with those businesses. So I don't want anybody to misunderstand. We're bringing those businesses back in, but we are definitely going to run them differently. And the 3 things we're focused on is, one, strengthening the management team. To give you a specific example in Workplace, we've already hired a new leader, Mike McDaniel. It's somebody that I've worked with in my past for a number of years. And Mike will do a great job driving that business.

Second is we're looking to change the value propositions, so if I use Workplace again. Workplace now is not just about the distribution of devices and supporting them. Today, the focus of that business is around employee experience. Employees want the ability to connect better with their colleagues and also their companies. And that's where we're headed with our value proposition.

And then third is deeper relationships with some of our partners. We're in discussions right now, again, on Workplace with one of the industry-leading IT providers to sort out how we can even better and closer work together to capture that opportunity.

So Jonathan, that's our focus with those businesses at a high level. But remember, the transformation journey is "Let's go after and get those customers nailed down. Let's make sure we're optimizing our cost, all right, but we also want to make sure we're cross-selling." So yes, there are investments we're making, but it's not just with those 2 businesses, it's across the board.

Operator

Our last question in queue comes from Jason with Bank of America.

Cassie Chan ***BofA Merrill Lynch, Research Division - Research Analyst***

This is Cassie on for Jason. I just wanted to ask about -- I know you guys have been talking about like the prior terminations, price-downs, runoffs and those that have affected F 2Q. I just wanted to know like are those expected to gradually subside throughout the end of the fiscal year? Or sort of how long are those impacts still going to last?

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

So thanks for your question. So look, we've been talking about those runoffs for a while now. We are pretty much through them, and that's why we continue to talk about the revenue stabilization because what I -- the year-on-year compare is a tough one. And what I'm trying to show you all is we've gone from green shoots to real hard evidence that the revenue is stabilizing. So we're through those, and that's also why I have talked about our customer relationships, that I don't see those customer relationships being in the troubled area anymore. In fact, we're enhancing them.

So look, with that, I want to thank everybody for joining the call tonight. I think we're making strong progress on our transformation journey and bringing the new DXC to our customers and our people. We're confident that the momentum we've created in Q2 will continue in Q3.

And with that, I want to wish you and your families all the best. And operator, please close the call.

Operator

Thank you, ladies and gentlemen. This concludes today's presentation. You may now disconnect.