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MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

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PRESENTATION

Stuart Davis - *Perspecta Inc. - Head of IR*

Good morning. I am Stuart Davis, Head of Investor Relations for Perspecta. To those of you that are here in the room, thank you. To those of you joining by webcast, welcome to today's Investor Day which is the debut of Perspecta.

As I'm sure most of you know, Perspecta is really the combination of the spin-out of the US public sector business out of DXC Technology combined with both Vencore and KeyPoint Government Solutions. So let me begin with two reminders that I'm sure you all know.

So, first of all, any statements that we're going to make today that don't exclusively and directly relate to historical facts, these are forward-looking statements and these represent our views and beliefs and expectations as of today and we can't guarantee that that's actually going to come to pass. We're not going to undertake any obligation to update any of these statements or any reporting on supplemental related events that may come to pass other than required by law.

Secondly, we are going to be using some non-GAAP financial metrics today, and those are not meant to be considered in isolation or to supplant anything that's coming through under generally accepted accounting principles. We just believe that these are useful measures, supplemental information that you can use to understand the financial health of the Company, our ability to service debt and other factors.

Now the definitions of these non-GAAP factors and the reconciliation to the most applicable GAAP measures are going to be found on the DXC website, the Investor Relations portion, where you will also be able to find the slides that we are using today.

Okay, with that out of the way, let me set some context what to expect today. First of all, DXC is going to be reporting out on its fourth-quarter and full financial year results on Thursday, May 24. So as a result, we're not going to be going through what the FY18 pro forma Perspecta performance is. Try saying that three times fast. On a related matter -- we have the Form 10 that is obviously out there and we'll be able to speak to that.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

On a related matter, the purpose of this is really to introduce Perspecta and talk about how it differentiates itself in the market. This is not the time that we're going to give you all the information that you need to provide -- to create detailed quarterly financial models out to 2022. We will be able to do that, provide more information to you in the coming weeks, certainly after the DXC announcement.

With that we've got the agenda that's listed here. We've got three speakers. Proud to have Mike Lawrie, who is going to be our Chairman; Mac Curtis, who is going to be our CEO; and John Kavanaugh, who is going to be our CFO, talking about the rationale for creating Perspecta, what our strategy is, what our priorities are, what our financial performance is and what our financial outlook is. So with that, let me turn it over to Mike.

Mike Lawrie - *Perspecta Inc. - Chairman, CEO of DXC Technology*

Stuart, thank you. And again, thank you for taking the time this morning to be with us and your interest in Perspecta. This presentation is all about trying to help understand what really differentiates Perspecta versus other platforms that are out there. I'd like to make a couple of key points and then Mac and John will go through them in even a little more detail.

But Perspecta has a very strong value proposition versus any other company/platform that's out there in the federal government space. The federal government space is a very good market. We expect this market to be good going forward and it has been good the last several years.

The second key point is Perspecta will have a very strong financial position out of the gate and will have the wherewithal to do what it needs to do from a capital allocation standpoint, as well as just continue to perform in a way that generates value for the investors.

And then the final point I'd like to make is we've put together a very strong management team led by Mac and John. And also a very strong Board that gives us a lot of experience not only in the governmental sector but from other walks of life. So we'll have a very diverse and very skillful Board to help us launch Perspecta and run it for the foreseeable future.

So let me just delve into a couple points here. Stuart said Perspecta is a combination of three things: DXC's USPS business, which is about a \$2.8 billion business; coupled with Vencore, which had revenues of about \$1.2 billion; and KeyPoint, around \$200 million.

One of the key differentiators of this Company is its very strong intellectual property portfolio. Mac will get into this in a little more detail, but when we dug into this and understood what was behind this from an intellectual property standpoint, it is quite impressive.

KeyPoint has a proprietary platform around security clearances. Vencore has many of the old patents and intellectual property that originally came from Bell Labs. And all of this intellectual property we think will be a very key differentiator of the platform going forward.

Very strong business backlog as we go into the first year of business operations. Also a very good mix of contracts. As you know, in this business having fixed-price contracts is very good. You can manage those, you can improve productivity.

And as we introduce more and more automation into many of these projects, that is an opportunity to maintain margins and continue to drive profitability. And a great number of contracts spread across a wide swath, many segments of the federal government business.

Now just a minute or two on the unique value proposition. When we did CSRA a couple years ago, when we combined CSCs at that time, federal government business with SRA, that was largely a merger of two IT services firms that we put together to drive synergies. And that was one of the primary value drivers of that transaction with the synergies.

This transaction is different and does, I think, provide a great deal of differentiation. Vencore has a franchise position in the intelligence community with many of its cyber capabilities, intellectual property, as well as people. As I said, KeyPoint has a proprietary platform and is the largest provider of security clearances for the US government. And USPS has a very strong position in IT services.

MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So what we are really doing here is creating a vertical stack that includes mission work as well as IT services. And we think that combination of people, skills, platform, as well as intellectual property, creates a very different footprint in the US federal government space. So that's what really I think differentiates Perspecta versus any other platform that is out there.

My second point is -- a very strong financial position right out of the get go, very strong margin profile, revenue profile as I talked about the contracts and the backlog we have going into the creation of Perspecta. And, as you can see, where it ranks with the other players in the US federal government business.

So it clearly has the scale to do what it needs to do as it begins to operate. And Mac and John will share with you the financial model that underpins the business going forward as well as the capital allocation model so you have a pretty clear idea of what the Company will be able to generate and what it will be able to return as we launch the business.

And then my third point was a very strong management team led by Mac and John. I will be on the Board; Paul Saleh will be on the Board and on the audit committee. A couple people here, like Sanju, was with us at CSRA. He was the cofounder of MicroStrategy, so he brings a tremendous technology background and vent to this. Biggs Porter, former CFO, will lead our audit committee.

And then we have several people who have a wealth of experience in the US federal government business, which is very, very important given the unique characteristics of contracting and managing that business. And then Ramzi, who is the CEO of Veritas, will also join us on the Board.

So very strong management team we've been able to assemble, as well as a very strong Board, so that we are providing the necessary oversight as you begin the new life here of Perspecta. And that's really important because a new company needs that very steady hand on the tiller as you begin to launch and head out into the wide open business community of the US federal government.

So those were the key messages I wanted to leave you with. We will be back later for any questions and answers, but in the meantime I'd like to now turn it over to Mac. Mac, welcome.

Mac Curtis - Perspecta Inc. - Board Member & CEO

Thank you, Mike. Well, good morning, everybody. It's good to be here this morning. I'm going to spend about the next 35 minutes talking about the Perspecta overview strategy. But I really want to focus on the unique proposition that we have here, what's differentiated about Perspecta versus a lot of the other firms in the sector.

Talk about the vertical integration that Mike talked about; revenue synergy, because that's a real focus for this business; and really how we are going to position this business to drive growth. And then I'm going to turn it over to John and he'll talk about the financial model in the out years.

So let me just set the stage here with regards to where we are in the government services industry. We've got a two-year budget agreement, which is great. That engenders a number of different things. It allows the customers to start to make plans and make decisions on programs. More importantly, it also gives us the opportunity to look at new start contracts and I'll give you a couple of examples in the intelligence community. So that's important.

When we think about Perspecta you think about the mandate for mission enablement. For us the fact that the intelligence budget is growing by roughly \$5 billion on the mission side. The IT budget is also growing. We haven't seen the kind of growth in DOD in probably the last 15 years and you can see some of the numbers on the bottom.

For the next 10 slides or so I'm really going to focus on the power of Perspecta and talk to you about why this platform is different. We've got this deep mission experience, we've got a long-term relationship with the customers. I think part of the secret sauce is really this IP patent portfolio, the set of offerings that we have that are really differentiated.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

And the good news about that is as the budget is growing in some of these areas we are in the right spot when you think about cyber security, you think about advanced networking, data analytics and mobility. And we'll go into more detail. I'm going to give you some specifics of what we are doing, what we've done in the past as individual companies and what we are going to be doing in the future.

This is a people business. We'll talk more about the talent in the organization, 14,000 strong and a great management team. Mike alluded to the scale. We are a top five, top six in a large space. And when we do this it's really about being positioned for growth. This is a revenue synergy, this is a growth platform. So we'll go through that in some detail.

So just to give you a little bit of background on where these companies have come from, you may not know of Perspecta. But when you look at the heritage of these companies, the DNA, when you think about managed services, EDS basically built the managed services model in the government sector.

So you look at where it's come from -- EDS, Hewlett-Packard, great business, 50-year legacy. They've had some of these customers for over 40 years and you can see some of the things we do. This is an outcome based business. So you look at 2.5 billion intrusion detection for the largest private network in the world, it's pretty amazing. So EDS, Hewlett-Packard, obviously iconic brands in our space.

The Vencore piece, again, a combination of a number of different companies. We put it together three years ago. And I think that's an important footnote because we know how to do this. This is a larger scale, but yet we know what right looks like. And so, we've got the right plans in place to be able to integrate this business.

But I think the point here is that when you look at where Vencore -- it goes all the way back to GE Aerospace. That's the organization in Valley Forge that developed and designed the first national space system. We are still involved in overhead assets, we're still involved in space launch kinds of things.

It is a high-end systems engineering organization that's very strong in agile software development, risk tools and risk modeling and you can see some of the numbers there. And as Mike said, clearly a franchise position in the intelligence community.

And then KeyPoint, again, KeyPoint -- it's a great firm market leader. Been doing background investigations. They've got their platforms, their proprietary platforms that helps get the background investigations done. And this is an interesting company and we are glad to have it in this portfolio because here's what's going to happen.

Right now in the government sector you've got a 700,000 case backlog, investigations that have got to be dealt with. Now I can tell you, being the market leader in KeyPoint, certain things are going to happen. You kind of have the trifecta, you've got the Hill, you've got the DOD and you've got the administration that know they've got to fix this problem.

What's going to happen going forward as you start to think about this is a notion of continuous evaluation, continuous monitoring. And as we see that happens we are in a perfect place to help them. Because what you have to have dealing with open source data, you have to have the big data analytics skill set, you have to have the ability to understand behavior patterns and, on the other side, you also have to have the computing power.

So Vencore has got the data analytics and you look at -- USPS certainly has the computing power. You put that together, we are in a great position to take the background investigation business wherever it goes. So a great position for that. So, that's why the KeyPoint piece makes sense.

And again, I think the key point is -- the point here is that -- the takeaway is these are great companies, a lot of legacy, good experience, good disciplined companies when we perform on contracts. So that's certainly a rich pedigree and the mission [center].

This is an important chart because it starts to show how we are differentiated from others in this sector. I think a takeaway here is look at the long relationship we've had with some of these customers. I think that's the first point.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Those you can see in the intelligence community, those are three separate agencies we've been with for 30 years. When you look at all the way back to EDS, the Department of Defense, NASA for 46 years and so that's very strong.

The second piece is there's minimal overlap when you put these three businesses together, minimal overlap. I think the other point that Mike made, and it's critical to this defining uniqueness of Perspecta, as you said, CSC and us are two great companies and you put them together, very similar services.

That is not the case with Perspecta. It is services that sit on top of each other, capabilities that sit on top of each other from a vertical integration that allow us to leverage past performance, IP innovation platform into existing customers and to future customers. I think that's really a key point here.

The other thing I want to make sure that you see is when you look at this Company, on the right side about the \$2.8 billion of funding that comes for USPS, that's really out of the CIO and the IT shop. And that's supporting missions like the Department of Education. And what we are doing there is making sure we get the right student aid to the right student, the right school at the right time. So that is the Department of Education mission but it's based on an IT platform.

On the other side roughly \$1.4 billion comes from KeyPoint and Vencore. That is mission funding; that is different funding than what you see in the IT stream. So what we like about this is the total addressable market we see as being bigger because there's not a lot of fidelity into what the mission dollars are, so we like that idea.

Now independently both companies have been able to leverage past performance and innovation into new customer sets. So when you look at the cyber command customer, that's going to be a new Forestar command, stood up about three years ago. We went after that bid and we were a dark horse. You had the bigs, you had Northrop Grumman, you had Lockheed Martin. We put our team together and went after it.

And the reason why we won that deal is because they wanted to know what's the reality of the reach back to Vencore labs and their IP patent portfolio. And we basically -- we showed them. And so today we are taking some of that applied research with malware, malware detection and leveraging it into cyber command.

On the other side when you think about from a USPS perspective, they basically leverage their skill set developed from NGEN and also from a HUD, Housing and Urban Development cloud migration, the leverage to win a STRATCOM deal out in Omaha. So independently the company's are leveraging their skill set, which you should do.

But now when you start to look at it together, when you look at this minimal customer overlap, the ability to take our mission creds, our mission IP and then the IT side of the house from the digital transformation journey into these customers is really powerful. And that's exciting. We see that and that's very exciting.

So how does this work? We've talked about the IP and the patent portfolio and applied research. I want to start on the left. We acquired Applied Communication Sciences in 2013 and this is a legacy business that goes back to Bell Labs in New Jersey, Basking Ridge, New Jersey and Red Bank, New Jersey. So let me give you some of the specifics associated with what will be Perspecta Labs.

200-plus researchers, about 175 PhDs, a patent portfolio -- it's actually 275, half of which were developed under government funding, the other half comes from what we've done with our own research. I think what's critical is it's \$80 million a year of applied research funding from DARPA, IARPA, CERDEC and the DOD labs. And so, it's just a centrifuge. Every year it happens.

And the beauty of this part of the business is that we are 12 to 24 months ahead of dealing with the most complex problems the government needs to solve because that is DARPA's mission; that is clearly their mission. So we are helping solve those problems ahead of when some of them are going to be seen, and that's a great, great opportunity.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Now applied research by definition, at least in this community, you have to have a proof of concept. So this is not nascent research, exploratory research; this is well-defined. You have to show that it will work. And we have the rights to that intellectual property, we have the rights to be able to use that technology wherever we see fit in the public sector.

And so, that's really important when we look at dealing with innovation and contracts, how do we make things better, cheaper, faster. And I'm going to give you some specific examples as we go forward.

In addition to that, we've got a great relationship with academia. And some of these projects are a little further out. And the one I'm going to talk to you in just a second is really dealing with -- it's Columbia, Princeton and Carnegie Mellon, led by us. And the task is called the [Radix] Program.

That's about a \$5 million contract for us to evaluate and build the algorithms that will predict the next attack on the power grid. And so, that's the kind of research that we are doing, pretty heavy stuff. And we're excited about how we can leverage that into a \$4 million business. So that's the left side.

In the center we have 10 offerings that we focus on and the ones in dark blue is where we're really focused on because that's where the government needs to focus. So we get from Bell Labs and their focus is in cyber security, as I said, data analytics, advanced networking, mobility and those kinds of things, even a little bit of quantum computing.

So these are the offerings that we've got and there is -- not that the systems engineering is not important, but we are focused in these areas. We are focused in cyber, analytics, cloud computing, etc., because that's where the government requirements are.

When you look at the right side, this is a partner network that we've developed over decades in the public sector. So our relationship with Amazon, with Microsoft, with Red Hat, very strong relationships. We're partnering with them. We do some R&D for solutions and I think it's all critical.

I think the takeaway on this slide is this: when we look at our competition in the public sector, some have the partnership on the right and some have the relationships on the left.

We don't see anybody in the government services sector that has got the deep amount of applied research in the critical areas the government is looking for solutions, as well coupled with the relationship in the partner network. We just don't see it out there. That is one of the unique propositions of this business. And that's really what's going to drive the growth in Perspecta.

So moving on, I want to give you just an example. I won't dwell on this slide too much, but it's all about discipline, it's all about how do you take -- how do you decide which R&D, which IP, which patent portfolio to use? And we've got this engine and this discipline that supports it.

So, on the left-hand side you have leverageable IP whether it be in communications, whether it be mobility and that leverageable IP kind of comes into this portfolio of innovation organization. It's really about leveraging the technology. And we also, from core programs we do get certain IP skills. When you think about the legacy Vencore risk management tools that basically evaluate the next generation space system.

So it goes into the middle and it is really a competitive differentiator and I'm going to give you some specifics. So that's the way we think about leveraging this capability and it's a daily thing; we talk about it all the time -- how we are going to leverage it.

So on the right side we start to talk about focusing on cyber, as an example. What you see above, those are real skill sets, those are real past performance that we've got in certain contracts. And to give you an example, when you look at the one on the bottom, the edge cyber direct protection, in USPS Bloomberg, the big gov article came out in November that cited DXC public sector is the number one provider of services and solutions in the public sector at \$100 million above everybody else.

So when you start to lash the two together, again, it's about the offerings and it's about the IP -- how do you put those together to enable a solution that supports the government -- the customer's mission.

MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So on the bottom, I'll just give you an example in the cyber space. One of the things that we do as a Company is we are heavily involved in the mission planning software for the Tomahawk weapon system. We've been doing it for a very long time. Meeting with the customer, one of the concerns you would expect, a weapon system like that is how do we avoid the cyber attack, cyber intrusion.

So we took this zero-day software developed for DARPA several years ago. We spent some [IRAD] dollars in it to take it to a Microsoft platform. Had a meeting with this particular NAVAIR customer and now we are testing it in a certified super net lab that we've got about how do you protect the Tomahawk weapon system from a cyber attack.

And what's leverageable there is our other weapons systems. So this is just leading edge and what we do, we take it to our customers, we take the PhDs from Vencore labs, now Perspecta labs, to see the customers who talk about those challenges and talk about those issues. So it is different.

So, looking at -- again, focusing more as we talk about the third point, [aligned] with the government. You look at the left and the colorful chart there, these are critical challenges: modernization of the IT infrastructure, cloud migration. You think about cyber security, it's everywhere. It's everywhere and every customer we see, they are concerned about cyber security, the digital transformation, data analytics and certainly protecting against evolving threats.

So that's the way we focus and you can see the color correspondence here. I'm not going to go through every one of these, but what I will tell you is these are contracts we are operating today and these are all outcome-based. When you think about what we do with regards to the largest private Internet in the world, the engine contract, it's 2.5 billion intrusion attempts on an annual basis.

The one I will tell you about just to pick off two of these, is when you think about our depth and relationship across government cyber security, we've got a contract -- we actually run what's called a threat operation center dealing with malware software, etc., for a customer. So we are responsible for helping the government protect the .MIL, malware detection, offensive, etc.

On the other side we've got the systems engineering contract to also be responsible for protecting .GOV and a contract with homeland security. So, in addition to that, we won the cyber command contract and the first task order to help protect the DOD again from cyber threats. So that's a pretty good spread and the way we've been successful is always driving innovation in that customer -- always driving innovation, the intellectual property and the patent portfolio.

The one in the middle on the bottom, that's part of our healthcare business. So you think about the power of analytics, when you think about helping the government avoid \$8.8 billion of false claims and that's in the independent businesses. We are just excited when you put these two together what can happen from the mission side to the IT side, from the IT side to the mission side with the power of the pyramid.

So again, it's all about people and it's a 14,000 person workforce. You can kind of see the split here. We think about the integration, putting this together, building the culture, what we are all about, what are the core values. One of the things that's exciting about this really is when you think about the USPS business, it's a bit of a corporate orphan.

And I don't mean that in a pejorative sense. It's about 7,000 employees, but they were part of EDS, then they became part of HP which was \$120 billion in HPE and DXC. I think what's exciting about this is you are putting -- taking these 7,000 people from USPS and putting them together with 7,000 other people that are focused on the public sector mission.

And I will tell you, that is one of the things that drives people that want to be in this business is it about the mission bug, it is about doing good for the customer, whether it's national security, or delivering student financial aid, or helping basically provide new claims for Medicare and Medicaid. It is a mission centric business.

And so, that's really exciting and, as we go around talking to the employees, they are real excited about that. It's almost like we feel they have come home. There is a home of 14,000 people focused on public sector mission that happens to be a public company which is also exciting.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So I think that's a key point there. I'm not going to go through a lot of the numbers up there, but you have to invest in the workforce and you have to focus on agile software, something we do very well, and you have to get the certifications. We've got thousands of hours on our learning management system.

We want people to invest in themselves to put them in a position so they can get promoted. So this is about recruiting, this is about retention. And we spent a lot of time and a lot of effort on making sure we do that the right way.

The other thing I'll mention is the management team. All of the level below me, they are in the saddle, they are on board. John may talk about it, we built a great, great finance team around John. So the management team is in place; we are just counting the days until we get to June 1 so we can get after it and that's what's exciting. So it's a good management team.

Slide 5 I just want to talk about because Mike put this up there. Look, the margins are driven by the favorable contract mix. And you've got 52% is firm fixed price. Most of that, almost all of that comes from USPS business. And they are well steeped, well disciplined in delivering complex management services. And so, that really drives the margin as we go forward.

And again, although it may look like you are in the middle, we are a top 5, top 6. So, when we think about scale, and there's always been a discussion about scale, we have to compete every day. You've got to satisfy the customer every day. There's not a bid we can't go after in the public sector. So we are in the right spot, we've got the right talent, excited to put this thing together and go forward as a combined Perspecta. So we are in a good spot.

So, before I transition to position for growth, we've kind of talked about the top-five and, again, migrating now to building momentum and talking about driving to profitable growth. You can see the strong backlog as we put the Company together, the book-to-bill. The 0.8x, that's an opportunity for us.

The key point on the bottom of this slide is that each company has been focusing on the market and how do we take business away. In some cases it's a new start; in some cases it's taking market share from somebody else. And this is just several examples that we put there where the companies have gone after the competitors and put the right solutions together and been able to take market share.

And there's one interesting point here I might add. We are starting to see more new starts and you'll see that when you have a two-year budget bill. I can tell you the Chromia deal, they are three contracts, all new starts in a classified customer and the good news is Perspecta, we've won three of the four and that's \$350 million worth of new business. So we are excited about that.

So again, we talk about revenue synergy, we talk about, okay, how is this positioned, how are we going to grow and deliver. When we look at that, this is the three-year pipeline as you look at it. And again, we are not even Perspecta yet, but we see that being a great opportunity.

And we think about it this way. We think about leveraging the innovation, we think about leveraging the IP, the customer satisfaction, certainly in protecting existing business. It's a great opportunity for us when you can increase the mission set with regards to additional technology. All contract growth and, again, driving the P win up when you put the two companies together, when you use that power of the pyramid from top to bottom.

And certainly there's the third pipeline, and what that really is, it's opportunities that neither company had on their pipeline chart, because we didn't have enough of X or enough of Y. When you start to look at it in the collective we see that as a great opportunity, a great opportunity for us for driving the revenue growth.

So again, how does that work to be specific? We are a bunch of engineers, we think specifics. At the bottom we talk about increasing the win rate from a revenue synergy perspective. This is a program that both companies had on their chart and you can see specifically it's systems architecture design, development and O&M, kind of the managed services. This is perfect for us. And so we say, okay, probably win goes up from 25%, 30% to maybe 50%.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So that's the way we think about it. At the top when you look at this third pipeline or expanded opportunities, we look at a deal like this that is looking at dealing with cyber threats all over the world in different environments and protecting those environments.

At the end of the day it's a platform that's running across the world from a singular IT platform. So that's perfect for us when we start to think about it. So that is one we are looking at and saying, hey, this is a great opportunity for Perspecta.

So again, this is the practical. We talk about it at a high level. These are things that are practical, how we are thinking about moving the business forward to make sure we are driving growth and shareholder value.

This is a chart I want to spend just a minute on and this is kind of the go-to-market, this is how we think about taking Perspecta forward to drive growth. Clearly on the left you've got market dynamics, customer requirements, all those things that kind of drive the business. We've talked about where the market is, we've talked about where the customer focus is on cyber, data analytics, mobility and advanced networking, all these things that we are well steeped in.

So the second piece is I've talked about the IP and the patent portfolio. So we look at the requirements, then we say, okay, how do we lay this out? What is it we bring to the party that differentiates us from the competition? And you see the IP and patent portfolio is part and parcel of those 10 offerings we've defined focused on the blue.

Okay, next point is this is how we're going to the market. It's simple, it's clean, it's direct. Look at Intel, defense, surveillance state and local, health, the risk decision group, which is KeyPoint plus a couple other contracts, and then the Perspecta labs. So that's the way we go to the market and that's a base -- we look at the business that way.

And at the bottom clearly we have to have a leverage delivery that uses like things together so we get cost efficiencies in the managed services realm. So that's the way we think about the business.

Now I'm going to give you a couple of examples where we will leverage the IP and the solutions and the offering and then where we have. So this is not a pipe dream. This is things that we've done and we think about the total Perspecta, \$4 billion, it's really exciting.

So this is one where we see a great opportunity here and it's inside the intelligence community. The green is where it started and this is civilian, state and local. The contract we had with Housing and Urban Development took them from client server to a very robust cloud platform, kind of a hybrid cloud actually.

So, you've got the skill set, you've got the pedigree to be able to do this. We've got an intelligence customer, classified customer, where we are dealing with petabytes of unstructured data. And frankly, if we don't do this right bad things happen. And this customer frankly is focused on analytics; they are not focused on the computing environment.

So one of the opportunities we see day two is to start to take that customer through a digital transformation journey to help them have a more predictable computing cost and the power that they need dealing with petabytes of data. Because their mission is not going away. They've got \$100 million a year in budget and it's a great opportunity for us to leverage that IT piece and the computing piece into a mission customer. So that's one that we are certainly excited about.

The next one is -- this is one that basically we are doing today. CSFC was developed for a classified customer. And what it basically does is it is automated encryption for hardware and software devices. And so, what happens is you basically get away from the type I encryption where you have a lot of problems.

So in order to be able to leverage this you have to be certified as a developer and certified as an integrator with this customer, which we are. And so, we've leveraged this, and this is development of Vencore labs. So not only did we do that for that customer, right now we're leveraging it into the DISA organization. And we see a lot of opportunity to leverage this as a differentiator in our customer set and other parts of DOD.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

When you start to think about mobile communications, you start to think about automated encryption from secret to top-secret, this is what this does. It takes man out of the loop when you start to think about automated encryption. So that's really exciting. And I apologize; we get a little amped up about talking about these things because it does make a difference.

From the applied research perspective, this is another one that was developed at the labs. It's distributed access for dynamic configuration. Think about it this way. It's an automated tool that configures the cloud and networks. It does it quicker and the other thing it does is it avoids mistakes made by human configuration which basically opens up the network. And 50% to 80% of the vulnerabilities, frankly, in the network are man-made.

So this is a tool again that was developed at Vencore labs and one that clearly has applicability in the intelligence community. So this is one that we have done. We adopted this tool, we leveraged this tool into two contracts in a classified customer and they are responsible for communication, they are responsible -- this is not a lab that we are talking about -- the intelligence community. This customer has got communications responsibility and very important.

So leverage it in two separate proposals where we bring this to the party and these are both two new star programs. One was \$100 million, one was \$240 million and we were awarded both contracts. So this does make a difference as we go forward.

Now, I'm not going to dwell on these others. They are things that we've done, but this is the way we think about it. This is this discipline when we look at how are we going to grow this business? How are we going to leverage the contract set we've got? How are we going to improve? Probably a win. How are we going to basically prosecute the third pipeline?

So again, this is an important part of the slide, an important part of how we think about Perspecta going forward. And again, it's all about supporting the client mission objectives and business outcomes.

And again, everything we do have a desired outcome. Are you saving me money? Are you reducing fraud? Are you protecting me against the tax on the network? Are we getting the backlog down and the background clearances? So we think about the business that way. It's very focused on mission excellence and delivering for the customer.

So in the end we talk about the power of Perspecta. We've talked about -- we think about the revenue synergy model. The first is it is about deep mission expertise and long-term relationships. We are trusted by our customers, we are trusted by our customers. We have been with them for a very long time.

And second, I think what is really unique is this power of the pyramid, this innovation engine we've got. It turns over every year. It's \$80 million, \$85 million a year of applied research dealing with the next problem and the next problem and the next problem.

The third is we feel good about where we are. The budgets are growing, we've got the cyber security, mobility, advanced networking, all these things that the government needs are really differentiators for us as we go forward.

A good talent base, people are excited about Perspecta, they really are. We do the outreach, the recruiting. People are really excited about it. It's new, it's fresh. We'll build the right culture, we'll do the right thing, we'll have the right core values to build a Company we're proud of.

I think the fourth piece is -- fifth piece is certainly meaningful scale and compelling financial profile. We've showed that a little bit and we'll go into more detail.

And so, the net-net of this is this will be a position -- once we get it integrated it's going to be positioned for growth. And we're excited about it, about how we go forward, and when we do that this is what we'll do. We are going to accelerate the growth and the market share looking at taking market share, looking at how we -- we'll have more than our fair share of new starts.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Defend the margins, we'll talk about that from a pipeline perspective. Maintain strong cash collections. And we've got a great capital allocation methodology that will give us the EPS that's showing growth. So that's where we are and now I'm going to turn it over to John Kavanaugh to start talking about the financial highlights and outlook. John?

John Kavanaugh - Perspecta Inc. - CFO

Okay, thank you, Mac. Good morning. I am John Kavanaugh and I'm privileged to be the Chief Financial Officer of Perspecta. What I'd like to cover with you this morning today are our key drivers for value creation, our top- and bottom-line performance drivers. I will discuss our capital allocation strategy and our financial targets for fiscal year 2019 and fiscal year 2020 through 2022 time period.

First off our drivers of value creation. We will create value through accelerating revenue growth, driving sustainable margins, generating strong free cash flow, we'll maintain a very solid balance sheet and a strong liquidity position. And we will employ an accretive approach to capital allocation.

Looking at revenue growth, we are projecting 3% to 5% compound annual growth rate from the fiscal 2020 through fiscal year 2022 time frame. We will drive that through leveraging our core customer capabilities, utilizing, as we've talked about, our deep intellectual property and our extensive patent portfolio in cyber security, analytics and networking. And we're going to capitalize on the government's focus on digital transformation in areas like agile software development and migration to the cloud.

We will drive sustainable margins. We are projecting industry-leading 16% to 17% adjusted EBITDA. That's really driven from our favorable contract mix of 52% fixed-price content. What does that mean? That fixed-price content gives us operating leverage, allows us to drive efficiencies, which we do drop to the bottom line. Also, the mission critical nature of our cost plus work allows us to command higher margins and fees.

Additionally, we will be driving ongoing cost transformation actions directed toward workforce optimization, we'll be implementing automation, bionics, process improvements throughout the portfolio.

We will generate strong free cash flow. As you see, we are projecting 90% to 100% plus of adjusted net income. There's really three key attributes here: our high EBITDA generation, minimal working capital requirements, and favorable tax attributes that we have contained in the portfolio. We will maintain a very solid balance sheet and strong liquidity position.

We are targeting net leverage 3 to 3.5 times near-term. And we will drive less than 3 times longer-term. We've structured the transaction to have a very prudent maturity schedule with no near-term refinancing requirements. We've got a \$600 million revolver which we will maintain.

We will employ a value creative allocation of our capital. We will reinvest in the business to fuel and accelerate growth. We will delever the balance sheet to the target leverage. And we will return capital to shareholders in the form of a sustained dividend and we'll be opportunistic as it pertains to share buybacks. And finally, we will be very selective and strategic as it pertains to tuck-in acquisitions that will be directed towards enhancing our already formidable capabilities.

Now, looking at growth, again, our immediate near-term focus will be seamless integration and execution. Our fiscal 2019 revenue projection is flat to 2% growth as we focus on integrating the three companies, building momentum and laying a very strong foundation for growth. After building this foundation we expect growth to accelerate to 3% to 5% compound annual growth rate.

As Mac mentioned, we've got a very robust strong qualified pipeline, \$67 billion, of which \$10 billion to \$15 billion comes through the third new pipeline of combining the companies. And again, we will be capitalizing on the government's increased focus on digital transformation by expanding our pipeline into the fastest-growing segments, such as cyber, analytics and cloud.

In terms of sustainable margins, again, we are projecting industry-leading adjusted EBITDA of 16% to 17% again driven by our favorable contract mix with fixed price allowing us to have that operating leverage to drop to the bottom line.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

We've got a very proven seasoned management team with significant fixed-price experience. These are people that think, act and operate with that type of mentality. We will employ a very disciplined and rigorous focus on cost management that plays into my wheelhouse. We will be maniacal about our cost stacks, attention to detail and driving the business. And again, as you know, we have a very solid track record relative to program delivery and execution.

I'd also like to point out our asset intensity is relatively higher than our peers. What that means to us, that strengthens our incumbency, makes us much more sticky with our customers. And it creates competitive differentiation and barriers to entry for our competitors. As you can see, even after adjusting for depreciation due to the higher capital intensity, we're 300 to 500 basis points higher than our peers.

Additionally, we will drive ongoing delivery cost savings, specifically we've identified and are already executing on multiple levers with a commitment to drop \$20 million of savings in fiscal year 2019. Now our primary areas of focus are going to be workforce optimization, we'll streamline our delivery teams, we'll look to maximize our utilization, and we'll continue to look to shift work to low-cost delivery centers within the states.

We're then going to be implementing automation, bionics and process improvements throughout the portfolio. And we will leverage our new scale throughout our entire supply chain.

In terms of realizing the cost synergies, we have committed, as you know, \$43 million in run rate savings in fiscal year 2019, which will result in \$17 million net benefit to adjusted EBITDA. For each of the synergy areas that you see here, we have developed very detailed plans to realize and capture these savings.

Primary areas that we are going to focus on here are consolidation of activities, we'll be eliminating redundancies and functions, facilities rationalization, and we will be harmonizing various policies to drive best-in-class outcomes.

As I had stated, we will generate strong free cash flow. How will we achieve that? Again, sustaining high EBITDA generation. We have minimal [workroom] capital requirements. We will have a tremendous disciplined approach to both receivables and payables management. We are targeting right now a one- to two-day improvement in our days sales outstanding.

And again, we will have favorable tax attributes both from the Tax Reform Act and we will capitalize on some carry-forward net operating losses from Vencore. So net of CapEx we expect to generate free cash flow 90% to 100% plus of adjusted net income.

It's our management intention and commitment to maintain a very strong liquidity position. Right now at the time of closing we estimate having \$160 million of cash on hand and we have a \$600 million revolver which will have \$550 million undrawn at the time of close.

Again, we have structured the transaction with very favorable capital contents; again, a very prudent maturity ladder with no near-term refinancing requirements; flexible pre-payable debt; and we have a variety of capital sources at our disposal. We expect to reach our target net leverage again of 3 to 3.5 near-term and we will drive 3 times or less in the long-term.

We will employ a value creating approach to capital allocation. We expect to generate in excess of \$1.5 billion of operating cash flow over the next three years. We're going to use that to reinvest in the business; it is a priority of ours to drive growth. As you've heard from Mac, we'll be investing back into talent acquisition and retention, and certainly enhancing our capabilities and our offerings, all about driving growth.

We will delever the balance sheet to achieve our target leverage and we will return capital to shareholders with a sustainable dividend and, again, being opportunistic as it pertains to share buybacks. We will be very selective and strategic on tuck-in acquisitions that will be directed toward continuing to enhance our capabilities.

So in closing let me share with you our financial targets for fiscal year 2019 and fiscal year 2020 to 2022 time period. As I mentioned before, over the next 12 months we'll be focused on ensuring a successful integration, building momentum and laying a very sound foundation for growth.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So our financial projections are as follows. For revenue for fiscal year 2019, \$4.15 billion to \$4.25 billion, which represents flat to 2% growth. For fiscal years 2020 to fiscal year 2022, 3% to 5% compound annual growth rate. For adjusted EBITDA, for fiscal year 2019, 16% to 17% margin; and for fiscal years 2020 through 2022, we will drive a sustained 16% to 17% margin.

Free cash flow for fiscal year 2019, 90% plus of adjusted net income and for fiscal years 2020 through 2021, 90% to 100% plus of adjusted net income. And then our adjusted diluted earnings per share fiscal 2019 projection is \$1.80 to \$1.95, and for fiscal year 2020 through 2022 it will drive an 8% to 12% compound annual growth rate.

So again, I'm very excited to be a part of this great Company. I think we've got a very compelling financial profile. And I very much look forward to engaging with you all as we're moving forward. So now let me turn it back over to Mac for some final closing remarks before the Q&A.

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

Thank you, John. Well listen, just to summarize I think what we want to do this morning is really focus -- get you focused on what's different about this business. We've talked about this vertical integration, we've talked about the revenue synergy. This IP innovation leverage -- the model works. We've done it in Vencore, now we've got a \$4 billion Company we can spread this across. And it makes a difference for the customer -- it just makes a difference for the customer.

We've got this firm fixed price portfolio that -- the managed services piece that has got the discipline. The USPS has done this for years, they've been very successful at it. And so we're mission centric in everything we do. Long-term customer relationships that we've had and we are well planned for day one to get this going and we're looking forward to getting the integration done and really driving growth and executing on the key growth strategies.

So with that, John, we'll open it up for questions. Stuart, you got something you need to -- tee this thing up?

QUESTIONS AND ANSWERS

Stuart Davis - *Perspecta Inc. - Head of IR*

So we've got about a half-hour set aside for questions. We wanted to leave some time after that to mingle with the management team in a kind of more informal setting, get to know them a little bit better, but obviously want to hit any questions.

So, we've got two of the team that are running around with microphones, so we'd obviously like to do that. And the closer you get to here, the more likely I'll be able to see you. So we'll start out -- who's got a question? We've got a question right here.

Rod Bourgeois - *DeepDive Equity Research - Analyst*

Hi there. Rod Bourgeois with DeepDive Equity Research. You've got an impressive margin structure owing to the fixed-price contract mix that's very high. Do you expect your mix over time to help your margin or sort of remain neutral to it? In other words, is there a positive mix shift embedded in the business or could mix actually move away from you if there aren't sufficient fixed-price deals? What's the outlook on that?

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

Let me start on that and I'll turn it over to John. I think when we look at the pipeline, the \$67 billion pipeline which goes out three years and we do the triage on that, there's more than ample opportunity in the pipeline to be able to maintain those margins -- when you think about the fixed-price nature of some of the contracts, the large contracts that are coming up.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

That's in our wheelhouse. We do that really, really well and we're not afraid of going after those. It's a competency in the business. So the short answer is we see our ability to sustain those margins because the pipeline supports it and the opportunities support it. And the ability as you go along over the years with a fixed-price contract to innovate and take cost out of it is something we do very well. John?

John Kavanaugh - *Perspecta Inc. - CFO*

I would just echo off of that, first of all part of our DNA is continued, as I mentioned in my briefing, ongoing cost actions directed toward productivity improvements and continuing to make sure that we are paying attention to detail by having best-in-class areas of cost control. We've looked at the pipeline it supports the fixed-price content. It's the nature of the work we do. So again, we are projecting right now sustained margins of 16% to 17%.

Stuart Davis - *Perspecta Inc. - Head of IR*

While we are over there we'll maybe move over to Lucy.

Unidentified Analyst

Good morning. Wanted to understand your business development approach in the sense of is it top-down, is it by vertical? And also whether -- how selective are you at bidding, bid and proposal?

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

So I think the way we structure the organization, just conceptually -- and actually the way we want it, is you see the market facing segment -- intel, defense, healthcare [facilities], state and local. And the way we built the business is to, look, it's kind of a shared services model and it's the most cost-effective way that we do it.

So, we've got centralized business development, but each one of those lines of business, if you will, has got the appropriate business development leadership that are experienced in the case of the civilian market that are just winners and know how to win in homeland security, Department of Justice, etc. And similarly in intel and similarly in defense.

So we've got this team of business leaders along with business development looking at the individual pipeline. Each of those businesses are responsible to grow. That's the way we do it. So we have got a great proposal operation. I think we've got -- the way we built the G&A structure. We probably put more into the business development sales and marketing than certainly any other, which is important.

So, we are very active in bidding. As I said, Lucy, there's not an opportunity out there. You had mentioned earlier, JEDI. Of course we are going after JEDI and see how that all -- the acquisition strategy lays out. But there's not a deal out there we can't go after. We certainly have the horsepower from the solutions that are game changers for some of these customers. Does that answer your question?

Unidentified Analyst

Yes. And the follow-up question, as you mentioned, there's opportunity on the USPS book to bill of below 1. Can you talk a little bit more about what sort of opportunities?



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Mac Curtis - Perspecta Inc. - Board Member & CEO

Yes. Well, that also -- and that was in the Form 10. That was nine months ending, right. And so, I think the real challenge there was not that they didn't have the pipeline to do it, that some of the big deals slid to the right. So you have nine months is what the calculation was based on. You had some of the big deals slid to the right and you don't win everything.

There was a loss in there that was pretty sizable. But yeah, I'm not worried about that. I think when you put the two together, we know how to win, they know how to win. So we want to know how to win. And really -- it really was timing from some of the awards that really drove that below 1.

Stuart Davis - Perspecta Inc. - Head of IR

And just to be clear, the loss that he's referring to was going after new business, not a lot of recompetes.

Mac Curtis - Perspecta Inc. - Board Member & CEO

That's correct.

Stuart Davis - Perspecta Inc. - Head of IR

Maybe over here.

Brian Goldstein - Governors Lane - Analyst

I am Brian Goldstein from Governors Lane. So you guys are talking about the revenue synergy opportunity, which sounds a lot like a type of cross-selling. So, the person who's making the decision to make a purchase from Vencore, is that the same person who would make a decision to buy from the legacy DXC? And who are you taking share from to the extent you win these enterprise IT deals from existing Vencore customers?

Mac Curtis - Perspecta Inc. - Board Member & CEO

Well, I think to answer the last question first is it's a competitive environment and you have seen the competitors, it's the top 10 that you see up there. The takeaway chart that we showed up there, it's kind of a myriad. It was -- one of the contracts that was won in the intelligence community was from CSRA. It's a \$100 million plus contract. The one from the Marine Corps was from (technical difficulty) [SCIC].

So, we are fighting against those in those markets -- when you look at some of the takeaway. And again, I think as we talked about, there we're also seeing some pretty significant new starts. And I'm not sure I understood the front end of the question. John, did you --?

John Kavanaugh - Perspecta Inc. - CFO

And if I can just add on to that, as we showed \$10 million opportunities from this third pipeline, right, bringing these companies together, that either company on its own would have been able to pursue, as Perspecta we will go after that, we will go after that very aggressively and I think we will be very successful in going after it.

Brian Goldstein - Governors Lane - Analyst

Sorry, the first part of the question was the decision-maker who decides to buy product from Vencore, is that the same person who would make the decision to buy the IT outsourcing services?



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Mac Curtis - Perspecta Inc. - Board Member & CEO

Yes so, I think it will be -- first of all the answer to the business development question I think you're asking is it is all about the business development team when you start looking at these. Revenue synergies is a positive thing. It's additive to on-contract growth opportunities. It's additive to increasing the probability of a win. And it's certainly clear when you think about the \$10 billion to \$15 billion we've identified so far as opportunities that neither company had in their pipeline.

So, I think the revenue synergy is really -- it's really about a positive thing about growing the business because you have more opportunities you can chase based on the IP portfolio, the scale of the company. As far as the decision of making who we buy from, I'm still not quite sure, I'm sorry, of the question.

Mike Lawrie - Perspecta Inc. - Chairman, CEO of DXC Technology

It's often different buyers so that is (multiple speakers) mission work is different and it's additive to these IT services. In many cases the actual decision makers on the mission side are different decision-makers than on the IT side. That's why we are so excited about this being more accretive over time from a revenue standpoint, because when you have the same buyers, so when we put CSC and SRA together, they're largely the same buyers.

So, you put them together and you've got someone sitting there saying, well, I think I think I give you enough business now. Or I'm looking to leverage the relationship I have through lower prices or this or that. There's every known reason why people come up with when you have the same buyer. But that's what's different about this. The mission buyer and decision maker is often different than the IT services buyer.

Mac Curtis - Perspecta Inc. - Board Member & CEO

Thank you, Mike. I didn't quite understand the question.

Stuart Davis - Perspecta Inc. - Head of IR

(Multiple speakers) that Mac had up there. You had the OCI community and you had the mission community and those are different folks and then we can sell to both. We've got another question over here.

Jeff Gates - Gates Capital Management - Analyst

Yes, Jeff Gates from Gates Capital Management. You have a Navy Internet contract which is up I believe July of next year. And I'm just kind of wondering the scope of that, the fixed versus variable cost, the asset intensity. Who you might be competing against for that, and what will be the downside case for the Company if you lost it?

Mac Curtis - Perspecta Inc. - Board Member & CEO

Yes, it is the NGEN contract. This contract goes back -- the companies had it for almost 18 years. It's the largest private network in the world, just to give you some of the metrics. 700,000 users on this network; 300,000 seats, if you will, laptops and other things; 45,000 independent devices. You saw the intrusion detection, it's in 2,500 locations.

So it is that infrastructure that communicates -- that the Navy uses to communicate worldwide. It has been very asset intensive. What they are looking at from the re-compete is -- in Industry Day this is all out there. They basically said, look, we are going to split up into two. One is going to



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

be end-user hardware, which would be the consistent acquisition of laptops and other hardware. And the other will be what they call [SMITs], which is the services and the mission support.

So what they said at Industry Day is the end-user hardware will be more low-priced technically acceptable. The SMITs will be best value, which means they're going to do what's best for the sailors and the Marines as you go forward. So that's the way they've kind of lined it out.

Now a lot of this is still under construction, so to speak, from the PEO, the program executive office out in San Diego. What has happened is the current contract is supposed to end in September of this year. We are in the process of negotiating a sole-source extension for 20 months, which will go from September to September and then you've got another eight months.

So before all this is said and done you're talking about May of 2021 kind of at the earliest if they stay on track. So that's kind of the way it's looking. Again, some of the specifics are still being developed by the customer for both of those.

So it's an important contract, it's a big contract. There is going to be competition. But look, we've been doing this a long time for this customer. And we're not sitting on our laurels. We've got innovation engines we are looking at to make sure we continue to maintain this contract going forward. We've had it for 18 years, so --.

Mike Lawrie - Perspecta Inc. - Chairman, CEO of DXC Technology

Obviously the network part of this is critical, so we've also partnered exclusively with AT&T on the re-compete. So, by doing that exclusively that positions us slightly differently for that re-compete. So that was done about four or five months ago, Paul, if I remember correctly, we did that with AT&T. So we'll be going together exclusively with AT&T on the re-compete whenever --

Paul Saleh - Perspecta Inc. - Board Member, CFO of DXC Technology

Whenever it happens.

Mike Lawrie - Perspecta Inc. - Chairman, CEO of DXC Technology

-- it materializes.

Rayna Kumar - Evercore ISI - Analyst

Rayna Kumar from Evercore ISI. What percentage of your total revenue do you anticipate coming from some of the faster growing areas of IT services such as cyber security and digital? And secondly, could you discuss your investment priorities for the next two years?

Mac Curtis - Perspecta Inc. - Board Member & CEO

So, I think the opportunity, certainly when you think about cyber security and you think about analytics, across the government is huge. Now they buy kind of in stovepipes. But what they look at is in each of these contracts there may be requirements for cyber security, there may be requirements for data analytics and that's a real strong suit for us.

Because what that does in the overall contract, we can show where we've done this before, you've seen some of the numbers where we've got specific outcome performance. That is what the customers want. They want predictable behavior in their contracts, cost plus, fixed price -- it doesn't really matter.

MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So we are really excited about the cyber security and, as I said, there were a couple of new starts in a classified customer that was really cyber-related. It was real cyber-related and we had the good fortune to win both of those. We see the analytics in the healthcare being huge. When you start to think about Medicare Medicaid, you've seen some of the fraud cases, but advancing that analytic -- that algorithm development is absolutely critical.

I think the other area where we see a lot of opportunity across the customer set is in the advanced networking. When you start looking at what our Perspecta labs does so well, which is looking at aberrant behavior in networks, that also sits at the base of cyber security attacks.

So we really see those as opportunities when you start looking at IT modernization to drive the innovation to that customer set. And it really becomes -- well, we have seen it. It becomes a differentiator for us and the customers look at us a little differently. And so that's the focus that we really see.

We see the pipeline growing. We have \$67 million, we haven't even closed yet. We're starting to see those opportunities, so we'll see more of an opportunity growing. And we're really excited about this third pipeline, increasing the probability of a win. You dig in and say so what is the real capture strategy for this new contract and what can we bring that helps drive the mission to do better, cheaper, faster.

John Kavanaugh - *Perspecta Inc. - CFO*

If I can on relative to the priorities that I laid out or what our capital allocation -- we will reinvest in the business to fuel and accelerate this growth. We will direct it towards those next gen capabilities and technologies and obviously investment in people.

We will also obviously over the next year to two delever the balance sheet to target leverage areas that I have identified. And again, we are going to pay out a dividend, it will be a sustained dividend. We will look to be opportunistic as if it became pertain to share buybacks.

And again, the way we've laid out the capital structure with a lot of flexibility, we will be highly selective and strategic to tuck-in acquisitions that will be directed toward, again, enhancing the already formidable capabilities. That's a little look at what we are looking to do.

Jon Raviv - *Citigroup - Analyst*

It is Jon Raviv from Citigroup. Just on next gen, can you give us a sense for how much -- what your expectations are as it grows to 3% to 5% growth rate over the next couple years?

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

I think with NGEN, since it's going to the re-compete, one of the things that's happening is as they do split -- I can't disclose what we are going to do on both because it's pretty competitively sensitive. But I think what we do see on --.

Mike Lawrie - *Perspecta Inc. - Chairman, CEO of DXC Technology*

Did you say next gen or NGEN? I'm sorry, I didn't hear.

Jon Raviv - *Citigroup - Analyst*

Sorry, I meant NGEN.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Mac Curtis - Perspecta Inc. - Board Member & CEO

I assumed that what he meant. So, I think what we are seeing is the way -- again, the Navy is still architecting what the contract looks like. But one of the things that will happen as it goes forward is it appears they are going to add additional work to the SMITs contract. So you split the hardware, you put the system -- these services and engineering in there. They are talking -- they have to have one additional network and some additional data centers.

So we think in the main we are looking at that contract probably getting larger when you think about the growth. Now it's critical that we win that, but we also have another \$60 million, \$70 million of opportunities that we are going to go after to basically grow the business. NGEN is an important part of the business but it's not the only part of the business.

So we see that opportunity to invest heavily in business development. We have got the right business leaders, the right business development organization to start to drive that growth. And you look at -- we're thinking focused on basically 25%-30% win rate. There is a certain volume you have to bid. The pipeline supports that to be able to drive that kind of growth. So we are comfortable with where we are with respect to pipeline, qualification, win rates, etc.

Jon Raviv - Citigroup - Analyst

So the 3% to 5% seems like it -- thinks about various outcomes on that contract.

Mac Curtis - Perspecta Inc. - Board Member & CEO

Absolutely, it is a re-compete.

Jon Raviv - Citigroup - Analyst

Yes, understood.

Mac Curtis - Perspecta Inc. - Board Member & CEO

It's a re-compete. So yes, we don't plan to lose it for sure, but it's valued at what re-competes are, somewhere between 90% and 95%. But we also see a lot of upside in that pipeline driving that growth 3% to 5%. What you have to bid, what you have to win to make sure you are driving at the upper end of that 3% to 5%.

Jon Raviv - Citigroup - Analyst

And how should we think about the high verse low end of that 3% to 5%? Is that more of a when the market picks up then you guys can do better? Or is it somewhat digitally -- relying on some digital outcomes? Because there are some peers in the market who are growing less than that, some growing more than that, so how did you come to that number?

Mac Curtis - Perspecta Inc. - Board Member & CEO

Well, I think what we looked at is we looked at the pipeline, we looked at getting the heavy lifting and the integration done. We looked at the volume we have to bid. And we know there's additional -- when we get into the integration, understand more of the opportunities that we can bid together. We feel pretty comfortable with that and looking at a reasonable win rate -- kind of a conservative win rate actually -- and the re-competes to be able to drive that kind of growth.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

But it's all -- when we think about the re-compete portfolio, it's all in the forecast to drive that. And it's not a ridiculous number that we've got to bid on an annual basis to drive that kind of growth -- at a 20%-ish win rate. So, I think we've been conservative. We feel comfortable about where we are in the next two to three years with the pipeline. And we are actually looking for more pipeline as we put the businesses together.

John Kavanaugh - *Perspecta Inc. - CFO*

If I could just add on; we have put together of course our waterfalls looking at, again, the firm follow-on re-compete new business. We feel we have got pretty good predictability and line of sight. I think we've factored both responsibly and prudently over the three-year timeframe. And we've got obviously a pipeline that supports that type of growth.

Curtis Watkins - *Wick Funds - Analyst*

[Curtis Watkins] from [Wick Funds]. The Form 10 references that there were some material weaknesses at Vencore and I know it's taken longer to get the spin complete. So, as you guys get through integration just wanted to make sure from an accounting perspective how you guys are handling that.

And then the second question is just with the fixed-price contracts at, just for reference, the CSRA, there was a low-cost facility in Louisiana that helped deliver the margins in a low-cost fashion to drive the margin and operating leverage. Where is the competitive differentiation or what can you point to for where you guys have some low-cost outsourcing facilities that we can look at to get comfort on the fixed-price and margin opportunity?

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

So, I'll take the low-cost and you take the material weakness. Is that fair, John?

John Kavanaugh - *Perspecta Inc. - CFO*

That's fair.

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

That's fair. You're the boss.

John Kavanaugh - *Perspecta Inc. - CFO*

The first part of the question, in the Vencore business it has been remediated. At the time they replaced the controller, very strong controller. Now we brought into Perspecta a fantastic controller who was formally with CSRA will be our Chief Accounting Officer and Controller. Additionally, at the time at Vencore they worked with Ernst & Young and brought in technical accounting expertise, so we feel good that that's been remediated.

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

So, on the low-cost facilities -- so, one of the things we've done is we've certainly architected -- we've got a leveraged delivery organization now. And that's not in the Washington area. That's in remote locations such as El Paso; Boise, Idaho. We've got Auburn Hills, Michigan. We've got down in Clarksville.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

So we've got some of those places. That doesn't mean we are not going to look at another one. But I think we've got them laid out and what their roles and responsibilities are to do like things over and over again where you get that cost savings and take cost out of the fixed-price contracts. So, we'll certainly look at what makes sense as we go forward. But we've got four or five places now.

As you know, the trick to that is to make sure the work you want to have done, that it can be done in those locations. And I think we are excited about that. And one of the other things I'll tell you is we are talking about the management team, John Dancy, who was the CSRA CIO is now going to be the Perspecta CIO. And we all saw what he did, his leadership and the digital transformation of what was CSRA. And also he was the architect on Bossier City.

So, look, we've got all the tools we need and we are going to be thoughtful and [planful] about how we do that. But it's not like we are behind the power curve now, because we've got the leverage delivery model that has worked. And we've got those facilities where we are -- we can continue to migrate the kind of work we need to do to make sure that we sustain those margins.

Gabe Kim - *Wellington Management - Analyst*

Gabe Kim with Wellington Management. So I apologize for the question in advance, but the [John Snowden], that whole snafu -- so, can you remind me if KeyPoint was doing any of that? And the reason I'm asking is I just want to better understand how the -- in the case where somebody gets through what is the liability back to the Company?

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

It's a question is going back to I guess the kind of dissolution of USIS, if that's the question, years ago it kind of fell apart. There's a lot written about that. I'm certainly not an expert on it, but I think it's safe to say and it's out there that they didn't do their job and I think it's clear.

So I think what the government has done since then, lessons learned, is it's in a process adaptation to make sure it is quality, not focused just on quantity. I think that is certainly the first thing.

The second thing is to answer your question is when you do these background investigations, what is happening in the market, it's really the suitability of someone's ability to have background clearance. So we do that work and what happens is the government reviews that work, they are the ones that authorize the clearance.

So, there's no specific liability associated with that. There's a pattern, there's a process, so it's pretty tightly controlled. The tolerances for doing that work associated with the process are pretty tight and that's the way it works. So again, the clearances are provided by that particular agency.

Mike Lawrie - *Perspecta Inc. - Chairman, CEO of DXC Technology*

This is more of an editorial. But the way that a lot of these background checks are being done has changed post Snowden. So the government went back and took a pretty hard look at what went wrong. And what they determined was that there were certain personal characteristics and values that were looking at, retrospect, red flags. And at that point in time the process didn't nearly as much major on some of the personal behavioral characteristics.

And the platform that's used with KeyPoint and other platforms out there now have shifted to look much more holistically at the individual, not just gee, is this person susceptible to bribery, can they be leveraged, what have they done. But much more what have they as a person done life to date? And what are those personal characteristics? And in any way are those personal characteristics potentially red flags about how they could not behave in the future?

That is a major shift and more intensive, more intrusive. Does take longer, that's why you see the enormous backlog in investigative --.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Mac Curtis - Perspecta Inc. - Board Member & CEO

And to follow on to Mike's point, I alluded to it earlier. Historically what happens is now you have clearance and every five years they come and give you an update. And so, what they're looking at now -- and I think they would say in certain circles that it wasn't the process that developed the Snowden, it was what Mike said.

So right now what they do is a five-year update and that's about 40% of the backlog. So what happens going forward, it gets to my point about the receptivity on the Hill, the administration and the government about continuous evaluation, continuous monitoring. Because it is about change in behavior, aberrant behavior with regards to the norm.

And it has to do with debt, it has to do just (inaudible). So, when you think about the need for analytics that can assess and determine different behavior in different people, that's what we are talking about here. So this is not -- you have to have that skill set for machine learning, artificial intelligence to understand those behavior patterns and where things change and continuous evaluation. So this is all part of this process.

So when you've got a [TSSCI] clearance, you do give up some First Amendment rights, it's just the deal. And so, I think this is all part of where the government is trying to figure out how to go. We are right there with them with the technology, the computing power the algorithms.

So we're excited about this prospect of KeyPoint now being part of Perspecta because it also offers us, so, what else can we do with that, what else can we do with that workforce that is cleared to do background investigations. Well what about fraud determination and healthcare? So there's a lot of things that we have done in that business.

Eric Hess, who ran KeyPoint, is going to be running what we call the risk decision group. And in addition to that work, we've also put some other high end analytic opportunities in there because this is what he knows how to do. So we want to help build the business around it and not just leave it as a background investigation organization. There are other things we can do with the technology innovation driven. So we are really excited about the opportunity this business will bring. It's going to be exciting.

Ed Caso - Wells Fargo Securities - Analyst

Ed Caso, Wells Fargo. Just to follow up on that conference I was at recently and they had four government executives who run this whole process who don't like each other. So first question is with this move to continuous, which I think will eventually happen, is there a new contract required? And also, now that we are going from NBIB and shifting work back to the Defense Department, is there another contract required and what would the timing be on that?

Mac Curtis - Perspecta Inc. - Board Member & CEO

So that's a good question, Ed. What Ed is referring to the National Defense Authorization Act, what they basically said is that DOT will -- starting sometime in 2020 will have to lay out the plans to subsume their own background investigations, which frankly is about 80% of the backlog.

So, how that's going to happen, when that's going to happen, everybody is still kind of figuring out what that means. Because my experience with the folks in DOD, they are not interested in hearing the same process for the same problems, that's one.

Secondly, the contract, the OPM contract was just rewarded last year. It goes through 2022. And I don't see anything really happening to that because you still have to get the background investigations done. And in parallel they are looking at, okay, so how is that going to happen?

I don't think, Ed, there have been any dialogue, any diatribe about doing anything other than existing contracts. There are really no plans on how it's going to migrate into DOD other than this vaguely worded paragraph in [summer] of 2020, have to start planning for it. Continuous evaluation led by the intelligence community, and continuous monitoring. It's all kind of out there, but it's going to take a while to sort all that out.



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

Meanwhile, the backlog is growing. So I don't think there's any contractual dialogue that's really happened other than to continue what we are doing. As you know, the (inaudible) contract there was awarded last year, there are four awardees, there is no ceiling value.

So, we'll see how that pairs out. But look, we are doing everything we need to do, working with those on the Hill and the administration, and we are right in the middle of the pack -- or leading the pack with regards to what's going to happen. So I think it is too early to tell what will happen there.

Ed Caso - *Wells Fargo Securities - Analyst*

So my other question is more general. I'm convinced you don't have a demand problem; I'm convinced you have a supply challenge. And you are in two of the hottest areas going, intel and IT, both that require cleared and younger people.

What are you doing -- I'm seeing your competitors ramping up their marketing and advertising, radio advertising and so forth. But I haven't heard you guys on the radio yet. Is there going to be enough dollars in your 16% to 17% margin to recruit the necessary talent?

Mac Curtis - *Perspecta Inc. - Board Member & CEO*

It's a good question. Well we're not going to spend our money on Vencore. We are going to wait until June 1 from Perspecta. And we do advertise a lot. So, there is a -- recruiting is critical. I will tell you what we've done, frankly, is we have built the GA structure. We have invested significant additional dollars to make sure that we can fill the billets we've got in the G&A pool.

I think [analytics] company, Ed, we monitor everything. And so, the last year we've been looking at better ways to do outreach, recruiting and retention, that's really what it's all about. We've got 20% vets, 22% of millennials, we focus on that. Not all the hires we've got are local. There are a number in the intelligence community in the district of Maryland and Virginia area.

So, we've really focused on that outreach and how to get people on board and then I think we do really well at retention. In a normalized way our attrition rate was 14%. That's well below the industry average and we focused on things that will help us do the on-boarding.

And whether it is employee referral programs or whatever it may be, one size does not fit all. But what I didn't tell you, some of the things we've tried at Vencore, we are looking at our new starts are up 36% year-over-year based on some of the things we're doing with outreach and recruiting.

We will save our dollars for [WTOP] until we become Perspecta. But yes, and look, people are interested about Perspecta. So I think we've got a leg up. We will build a Company with good social responsibility, good core values. I think we've shown that at Vencore. It's a good model to repeat when we put Perspecta together.

We've got 7,000 employees from USPS that can't wait to get to a public sector home. So, we are going to invest a lot more in the recruiting to make sure of the number of recruiters and to fill the billet that we've got.

Krishna Sinha - *Vertical Research Partners - Analyst*

Krishna Sinha from Vertical Research Partners. Three sort of related questions. Of your top 10 contracts, what percentage of your revenue does that comprise? And then of those top 10 how many are fixed-price and what percentage of them are coming up for re-compete with in the next two years?



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

John Kavanaugh - Perspecta Inc. - CFO

So, let me lay it out for you. Our top 25 contracts represent about 65% of our revenue. Our top 10 are somewhere in the order of 50% of our revenue. What was your other question?

Krishna Sinha - Vertical Research Partners - Analyst

How many of them are fixed-price -- top 10?

John Kavanaugh - Perspecta Inc. - CFO

Probably 70% of those are fixed-price. Again, we've got 52% -- when you take a look at the pie, right, 52% fixed-price, 27% time and material, 21% cost plus.

Mac Curtis - Perspecta Inc. - Board Member & CEO

I think one of the points on that, when you think about the fixed-price, some of the larger ones, they are fixed-price. But they are also kind of fixed price doing systems engineering services stuff. So, it's not a whole lot of application development where there's a lot of risk. There's just not that -- in that kind of mix I think is the first question -- or answers part of the first question.

Krishna Sinha - Vertical Research Partners - Analyst

And then, yeah, just how many of those contracts in the top 10 are up for re-compete in the next two years?

Mac Curtis - Perspecta Inc. - Board Member & CEO

Right now for 2019 there is one that's about 2.5% of the revenue that is up for re-compete now. The rest of those that are inside for 2019 are pretty small, probably 1% or less. We've got the Amgen coming up in a couple years. I think those are the majority of the major re-competes. So it is a pretty good spread.

And when you think about the business, you've got 32% of our business comes from the Department Of defense. You have got 25% that is in civilian, state and local. You've got almost 20% in the intelligence community, 14%-15% in healthcare. And then you've got 8% in the risk decision group. So, it's a really good mix when you think about it. Does that answer your question?

Unidentified Analyst

The Vencore business I believe dropped off a bit in 2017. Can you talk about what happened there and why you think it's going to rebound in 2018?

Mac Curtis - Perspecta Inc. - Board Member & CEO

Yes, it's a good question. What happened -- actually it was in 2016, we did have one customer, it doesn't happen often in the intelligence community, decided to split up a classified contract where we were doing -- as the prime we were doing really three or four different things. They split it up into three contracts and then basically in that particular -- which is kind of interesting -- they reduced the effort by about 25% to 30%.

So, out of four contracts -- excuse me, three contracts, we won two back. And now what they realize is they cut the resources a little too strident and now it's kind of growing again. We had to replace like \$64 million in revenue as a result of them splitting up that contract. And then we had



MAY 14, 2018 / 1:30PM, DXC.N - Perspecta Investor Day

another \$11 million or \$12 million of business that the work and the intelligence community just kind of went away. So that's really what happened in 2017.

Stuart Davis - Perspecta Inc. - Head of IR

We are running near the end of our allotted time. Are there any more questions, maybe one or two still out there?

Unidentified Analyst

Thank you. Can you just talk to any potential negative revenue synergies from the combination; i.e., there's a conflict where one is designing a program and one is executing?

Mac Curtis - Perspecta Inc. - Board Member & CEO

Yes, I think the question was conflict of interest. So when you think about this business with 400 contracts across -- you saw the customer set; it's just about everybody you can imagine. We had two contracts that were -- that would have had -- could've had some conflict of interest.

So, one of them in one customer set, there was a mitigation plan we put together and that went away. And the other -- well, we're still kind of working with the customer and they are de minimis in revenue. So, we've kind of worked our way through that and it is just a testimony to the fact that there's very little overlap in the customer set.

Stuart Davis - Perspecta Inc. - Head of IR

Any last question? Going once, going twice. I think then we will call it to a close. As I mentioned earlier, the management team will be around to mingle and get to know them better. As you walk out when you leave, you will see books with -- booklets with the slide deck on them. And with that let's go ahead and break up and hopefully interact some more.

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