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DXC.N - Q4 2018 DXC Technology Co Earnings Call

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OVERVIEW:

Co. reported 4Q18 GAAP revenue of \$6.294b and non-GAAP diluted EPS from continuing operations of \$2.28. Expects FY19 revenue to be \$21.5-22.0b and non-GAAP EPS to be \$7.75-8.15.



MAY 24, 2018 / 9:00PM, DXC.N - Q4 2018 DXC Technology Co Earnings Call

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PRESENTATION

Operator

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

Jonathan Ford

Thank you, and good afternoon, everyone. I'm pleased you're joining us for DXC Technology's Fourth Quarter and Year-end Fiscal 2018 Earnings Call. Our speakers on today's call will be Mike Lawrie, our Chairman, President and Chief Executive Officer; and Paul Saleh, our Chief Financial Officer. The call is being webcast at dxc.com/investorrelations, and we posted slides to our website, which will accompany the discussion today.

Slide 2 explains the discussion will include comparisons of our results for the fourth quarter and full year fiscal 2018 to our pro forma combined company results for the fourth quarter and full year fiscal 2017. The pro forma results are based on the historical quarterly statements of operations of each of CSC and the legacy Enterprise Services business of HPE or HPES, giving effect to the mergers that could have been consummated on April 2, 2016. As a consequence of CSC and HPES having different fiscal year-end dates, the pro forma combined company results include the results of operations of CSC for the 3 and 12 months ending March 31, 2017, and of HPES for the 3 and 12 months ending January 31, 2017.

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

On Slide 4, you'll see that certain comments we make on the call will be forward looking. These statements are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially from those expressed on the call. A discussion of risks and uncertainties is included in our quarterly reports on Form 10-Q, our annual report on Form 10-K that we'll file in the next few days and other SEC filings. I'd like to remind our listeners that DXC Technology assumes no obligation to update the information presented on the call except as required by law.

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



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John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

Okay. Thank you. Welcome, everyone. Thanks for taking the time with us this afternoon. As is my practice, I've got 4, 5 key points, which I'll go over briefly and then get into a little more detail before I turn it over to Paul. And then we'll have plenty of time for any questions that you may have.

So the first point here is our fourth quarter non-GAAP EPS was \$2.28. For fiscal 2018, our non-GAAP EPS was \$7.94. Adjusted EBIT was \$1,017,000,000 in the quarter, and adjusted EBIT margin was 16.2%.

For fiscal 2018, adjusted EBIT was \$3.499 billion, and adjusted EBIT margin was 14.2%. We generated \$557 million of adjusted free cash flow in the fourth quarter, and for fiscal 2018, adjusted free cash flow was \$2.427 billion.

Our revenue in the fourth quarter was \$6.294 billion on a GAAP basis, and revenue grew 4.3% year-over-year and was up 1.7% sequentially. In constant currency, revenue was down 1.3% year-over-year, was roughly flat sequentially. And for fiscal 2018, revenue was \$24.556 billion. The book to bill in the fourth quarter was 0.9, and for the full year, it was 1x.

In the fourth quarter, our digital revenue grew 21.6% year-over-year and 8.5% sequentially. For fiscal 2018, digital revenue grew 17%. And in the fourth quarter, our industry IP and BPS revenue was up 7.9% year-over-year and was up 5.7% sequentially. For fiscal 2018, our industry IP and BPS revenue was roughly flat. In the fourth quarter, our digital book to bill was 1x, and our industry IP and BPS book to bill was 0.7.

Throughout fiscal 2018, we achieved a key merger integration milestones and exceeded our synergy targets, delivering \$1.1 billion of year 1 cost savings as well as \$1.6 billion of run rate cost savings exiting the year. Also, the separation of our U.S. Public Sector business, in combination with Vencore Holding Corporation and KeyPoint Government Solutions, will close at the end of this month, forming Perspecta. And for fiscal 2019, we are targeting revenue of \$21.5 billion to \$22 billion, which excludes the USPS business. And our non-GAAP EPS target is \$7.75 to \$8.15, and our adjusted free cash flow target is 90% or more of adjusted net income.

So let me just delve into a little more detail on each of those. As I said, our fourth quarter non-GAAP EPS was \$2.28, and the effective tax rate was 29.4%. For fiscal 2018, non-GAAP EPS was \$7.94, and the effective tax rate for the full year was 28.3%. Fourth quarter EBIT, adjusted for restructuring, integration, amortization of intangibles, was \$1.017 billion, and adjusted EBIT margin on that basis was 16.2%, which was up 600 basis points year-over-year and up 127 basis points sequentially.

For fiscal 2018, adjusted EBIT was \$3.499 billion, and the adjusted EBIT margin was 14.2%, an improvement of 460 basis points. This margin improvement reflects execution of the synergy plans we outlined at our Investor Day last March, including workforce optimization, supply chain efficiencies, policy harmonization and facilities rationalization. Our delivery teams continued to drive increased productivity while improving service levels for our clients. We've scaled our bionics automation program to more than 50,000 employees on our delivery centers. These improvements address capabilities such as service desk, incident management, server provisioning to eliminate labor, reduce disruptions and accelerate resolutions.

For example, we deployed runbook automation to diagnose the most common application falls and develop scripted resolutions, which then trigger predetermined corrective actions. In centers where this has been implemented, roughly 70% of instances are auto diagnosed and resolved. During fiscal 2018, our bionics program reduced our delivery labor expense by more than 3%.

In supply chain, we've scaled our labor improvement actions to extract greater efficiencies from third-party spend, including reduction of hardware and maintenance expense. Through our relationship with Turbonomics, we were able to optimize workloads and cloud environments to increase utilization of virtual machines and reduce the infrastructure cost. We're also enhancing our delivery capabilities to handle more data center maintenance work internally, which reduces third-party expense as well as dependence on equipment manufacturers. We're further lowering maintenance expense through deployment of consistent architectural standards and client solutions, which improves predictability and reduces overall support costs.

Collectively, we delivered \$1.1 billion of year 1 synergy realization versus our target of \$1 billion. And adjusted free cash flow for the quarter, as I said, was \$557 million or 84% of adjusted net income, and for fiscal 2018, adjusted free cash flow was \$2.427 billion or 105% of adjusted net income.



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Now let me turn to revenue. Our revenue in the fourth quarter was \$6.294 billion on a GAAP basis. Revenue grew 4.3% year-over-year and was up 1.7% sequentially. In constant currency, revenue was down 1.3% year-over-year and was roughly flat sequentially. Book to bill in the fourth quarter was 0.9x. For fiscal 2018, revenue was \$24.556 billion on a GAAP basis, and in constant currency, revenue was \$24.2 billion, in line with the target of \$24 billion to \$24.5 billion. Book to bill for the year was 1x.

Now in the fourth quarter, GBS revenue was \$2.361 billion. GBS revenue grew 3.3% year-over-year and grew 2% sequentially. And this, I think, reflects the continued shift from traditional application services to enterprise and cloud applications. We're working with our clients to standardize and rationalize their application portfolios, which typically involves a shift from legacy custom applications to packaged Enterprise Applications such as Workday, SAP, Oracle and Microsoft Dynamics. Through the consolidation of application providers, these workload transformations often result in greater revenue for DXC while lowering the overall costs for our clients. GBS book to bill in the quarter was 0.9x, and for fiscal 2018, GBS revenue was \$9.254 billion and a book to bill of 1.1x. In the quarter, GBS segment margin was 19.9% compared with 12.4% in the prior year. And for fiscal 2018, GBS margin was 16.9%, which was up 480 basis points from the prior year.

In the fourth quarter, GIS revenue was \$3.223 billion. GIS revenue grew 3.3% (sic) [3.6%] year-over-year and 2.5% sequentially. GIS revenue reflects growth in cloud and platform services as well as mobility and workplace. Workplace and mobility grew 7.8% year-over-year and was up 67% year-over-year in bookings. This includes a new logo win with a major automotive manufacturer.

Working with Microsoft, Citrix and ServiceNow, DXC will deliver workplace and mobility services for the entire company across more than 125,000 users and 1,400 locations. Overall, GIS bookings were \$2.9 billion, which were up 11% year-over-year and represented a book to bill of 0.9x. For fiscal 2018, GIS revenue was \$12,479,000,000, and the book to bill was also 0.9x.

In the quarter, GIS segment margin was 14.8% compared with 11.4% in the prior year, reflecting productivity improvements and the automation of processes. For fiscal 2018, GIS margin was 13.6%, which was up 340 basis points from the prior year.

Now in the fourth quarter, USPS revenue was \$710 million. UPS (sic) [USPS] revenue was up 11.1% year-over-year and was down 2.2% sequentially. USPS bookings of \$522 million represent a book to bill of 0.7x. For fiscal 2018, USPS revenue -- USPS revenue was \$2.83 billion with a book to bill of 0.7x. The USPS segment margin in the quarter was 17%, and this was up 710 basis points year-over-year and 180 basis points sequentially. And for fiscal 2018, USPS margin was 14.8%, which was up 390 basis points from the prior year.

I'll talk more in a moment about the separation of USPS business and the combination with Vencore and KeyPoint. And during its first year of operation, DXC expanded its client base by adding more than 90 new logo deals greater than 1 million in total contract value.

Now let me turn to digital. Our digital revenue was up 21.6% year-over-year and was up 8.5% sequentially. Digital book to bill was 1x in the quarter, and as we've discussed, digital cuts across all 3 of DXC's reporting segments in GBS, GIS and USPS and includes enterprise cloud apps and consulting cloud infrastructure, analytics and security. And for fiscal 2018, digital revenue grew 17%.

Enterprise cloud apps and consulting revenue was up 38% year-over-year and up 8.5% sequentially. Book to bill in the quarter was 1.2x. This growth reflects continued traction with our clients, including a recent app transformation deal with a major communications provider. By consolidating its portfolio under a single service provider, we're reducing their operational costs, driving consistent and improved service levels and reducing overall risk through more stable business operations. We're also deploying application development as a service, which gives the client access to a highly flexible resource pool while providing predictable pricing for project work.

Cloud revenue was up 29% year-over-year and was up 12.6% sequentially. Bookings were up 50% year-over-year with a book to bill of 0.9x. Drivers of the revenue in bookings growth in cloud include a major deal with a large health care company. DXC partnered with the client to create an everything-as-a-service solution across hardware, software, facilities and services, incorporating offerings for Microsoft Azure, Dell EMC, HPE HP and AT&T. This transformational allows the client to reduce its operating budget while also avoiding significant capital expense. In selecting DXC, the client highlighted our experience in clinical health care technology infrastructure, our unique health care cloud on Azure solution and strong existing application support.



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Analytics revenue was down 3.8% year-over-year but was up 9% sequentially. We continue to gain traction across our client base as we drive adoption of artificial intelligence. For example, we're working with automotive manufacturers to accelerate autonomous driving R&D, and we detect possible money laundering crimes for financial institutions. Book to bill in the quarter was 0.7x.

Security revenue was down 1.3% year-over-year and was up 1.4% sequentially. We continue to invest in expanding our security consulting capabilities as well as our standard global security delivery platform. Book to bill in the quarter was 1x.

Industry IP and BPS includes our IP offerings in health care, insurance, travel and transportation and banking as well as our industry BPS business. Industry IP and BPS revenue grew 7.9% year-over-year and was up 5.7% sequentially. Book to bill was 0.7x in the quarter. For fiscal 2018, industry IP and BPS revenue was roughly flat.

Industry IP revenue grew 7.3% year-over-year and was up 5.9% sequentially. Industry IP growth was primarily driven by strong revenue performance in our health care sector, including growth in our state Medicaid accounts. Book to bill in the quarter was 0.4, reflecting the lumpiness of contract awards in this segment.

BPS revenue was up 8.5% year-over-year and up 5.5% sequentially. Book to bill in the quarter was 1.1x. Revenue growth reflects the continued ramp-up of our large BPS contracts with insurance companies. We also continue to modernize our portfolio with a focus on robotics for shared services, including the launch of Bionix as an offering. Bionix provides an industrialized operating model leveraging analytics and artificial intelligence, lean process design and leading automation capabilities to create comprehensive, high-performance approaches to services delivery. DXC launched Bionix in response to client demand for greater IP performance and the need to digitally transform traditional IP environments and processes.

In the quarter, we continue to expand our offerings and partnered solutions, including the launch of DXC Open Health Connect, a digital health platform that allows health care providers to improve quality of care and patient outcome by providing data when and where it is needed across the health care ecosystem. We co-created Open Health Connect with a large academic and research hospital system in New York and have also worked with several of our strategic partners, including Microsoft and ServiceNow.

In response to our clients' need for an accelerated process to evaluate and transform their application state, we created the DXC modernization studio. The studio features 48 client experience datasets with data from 500,000 enterprise applications. DXC leverages the studio to provide clients with an assessment and recommendation in as little as 2 weeks, a process that used to take up to 6 months. And we're investing in our people, and we're investing in our business consistent with the plan we outlined in Investor Day.

We recently announced the acquisition of Sable37 and eBECs, which will be combined with DXC's Eclipse practice to significantly expand our Microsoft Dynamics 365 cloud capabilities globally. This represents a key part of our strategy to lead the Microsoft partner marketplace and accelerate digital transformation journeys for our clients.

We also continue to invest in our people. This year, DXC employees completed more than 1.5 million hours of training with a heavy focus on digital certifications in AWS, Microsoft Azure and Dynamics, ServiceNow and Agile development. We also expanded our sales training and certification program beyond our go-to-market teams, and more than 17,000 employees have completed the training and passed the certification exam. And we continue to expand the DXC Dynamic Talent Cloud, our crowdsourcing platform that enables us to bring new people skills to DXC in a more flexible way. We're working with partners such as Upwork, Qualitrix, HackerEarth and LinkedIn to scale the platform, and we now have more than 7,000 subscribers engaged. Once again, DXC was ranked in the top 20 on Corporate Responsibility Magazine's ranking of the 100 best corporate citizens. This ranking recognizes DXC's performance across 7 categories: environmental impact, climate change, employee relations, human rights, governance, finance, philanthropy and community support.

On the fourth point that I wanted to just get into a little more detail before I turn it over to Paul, we continued to achieve key merger integration milestones during the fourth quarter and really successfully completed the overall year 1 integration road map for DXC. We delivered \$1.1 billion in year 1 cost savings versus the target of \$1 billion and \$1.6 billion of run rate cost savings exiting fiscal 2018 versus the target of \$1.5 billion.



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The separation of U.S. Public Sector business in combination with Vencore and KeyPoint to form Perspecta will close at the end of the month. Integration activities for Perspecta have gone well, and the company is set to begin operating as a stand-alone company. The operating model is in place, and the leadership has begun to execute as an integrated team. And importantly, the response to the launch of Perspecta has been consistently favorable from key stakeholders. Perspecta held its Investor Day earlier this month and will begin trading on the New York Stock Exchange on June 1. The Perspecta management team will continue meeting with investors, employees and partners over the coming weeks to discuss the new company, and we at DXC plan to hold a separate Investor Day this fall.

And now finally, during our first year, DXC did track a bit ahead of plan on revenue. Now when we set our revenue target of \$24 billion to \$24.5 billion, we expected 2 to 3 points of revenue dis-synergy during the year. We continue to see this playing out, but so far, we have seen less impact than what we had expected.

Profit during the first year was also better than expected as we were able to accelerate many of the cost takeout synergies, including reduced management layers and global deployment of our automation program, Bionix. And we also benefited from lease reclassification, tax reform and a onetime FX gain.

Turning to next year. For fiscal 2019, we expect revenue to be \$21.5 billion to \$22 billion, which excludes the USPS business. There are several positive things contributing to that target as well as a couple of mitigating factors. We continue to accelerate the growth in our digital and industry IP offerings, and our BPS business is also demonstrating strong momentum. We do expect some additional revenue dis-synergies next year as well as the ongoing headwinds in traditional services that we had previously discussed. Also, the revenue from our HPE contract associated with the merger will normalize this year at a bit lower rate, and we continue to gauge the potential impact of Brexit in our U.K. business. We're targeting non-GAAP EPS of \$7.75 to \$8.15 and adjusted free cash flow to be 90% or more of adjusted net income.

And with that, I'll turn it over to Paul, and then we'll come back to answer any questions.

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

All right. Thank you, Mike, and greetings, everyone. Before I review the fourth quarter and full year for DXC, I would like to make a -- take a moment to clarify the basis of our financial presentation. First, all the references to the (inaudible) statements of operations from the prior year include the results of operations of CSC for the 3 and 12 months ended March 31, 2017, and for HPES for the 3 and 12 months ended January 31, 2017.

Second, the fiscal '17 pro forma statements of operations, those have been now revised to reflect purchase price accounting and lease adjustments as if the merger had occurred on April 2, 2016. In addition, we have continued to assume a flat tax rate of 27.5% in the prior year pro forma non-GAAP results.

And lastly, our non-GAAP results exclude special items such as restructuring, integration, separation and amortization of intangibles consistent with CSC's non-GAAP method from prior years. And with that, I will (inaudible) that are included -- that are excluded from our non-GAAP result this quarter.

Now in the current quarter, we had restructuring costs of \$208 million pretax or \$0.50 per diluted share. These costs represent severance related to workforce optimization programs and expense associated with facilities and data center rationalization.

Also in the quarter, we had \$124 million pretax or \$0.33 per diluted share of integration-, separation- and transaction-related costs. Amortization of acquired intangibles was \$153 million pretax or \$0.37 per diluted share in the quarter. Also in the quarter, our annual remeasurement of pension assets and liabilities resulted in a gain of \$203 million. So adjusted EBIT, excluding the impact of these special items, was \$1.017 billion for the quarter, and non-GAAP EPS was \$2.28.

For the full year, restructuring integration, separation and transaction costs amounted to \$1.2 billion pretax or \$3.06 per diluted share, which is below the \$1.3 billion spend envelope we laid out for fiscal '18. Amortization of acquired intangibles was \$591 million pretax or \$1.37 per diluted share for the full year. Adjusted EBIT for the full year was \$3.499 billion, and non-GAAP EPS was \$7.94.



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Turning now to our fourth quarter and full year results in more detail. Revenue in the quarter was \$6.294 billion on a GAAP basis. Revenue was up 4.3% year-over-year and 1.7% sequentially. In constant currency, revenue was down 1.3% year-over-year and roughly flat sequentially.

For the full year, revenue was \$24.556 billion on a GAAP basis. In constant currency, revenue was \$24.2 billion, in line with our fiscal 2018 target of \$24 billion to \$24.5 billion.

EBIT in the quarter was \$1.017 billion after adjusting for special items. Adjusted EBIT margin on that basis was 16.2% compared with 10.2% in the prior year and 15% in the last quarter. For the fiscal year 2018, adjusted EBIT was \$3.499 billion and adjusted EBIT margin was 14.2%, up 460 basis points versus the prior year. The improvement in profitability reflects cost actions we've taken to optimize our workforce, harmonize our policies, extract greater supply chain efficiencies and rationalize our real estate footprint.

In the fourth quarter, we continued to rebalance our workforce. We reduced our labor base by an additional 2.2% in the quarter through continued deployment of our automation program, Bionix, as well as additional bestshoring and pyramid correction. For the full year, we reduced our labor base by 12.6% net of new hires and contractor conversions. We continued to rebalance our skill mix, including the hiring of roughly 20,000 new employees during the year with a significant focus on digital capabilities.

In supply chain, we continue to extract efficiencies from our third-party spend, and we reduced third-party labor expense by a roughly 6% during the year. We're also reducing our hardware and maintenance expense by optimizing workloads to improve utilization of virtual machines and leveraging internal capabilities where feasible for the highest volume maintenance activities.

In real estate, we eliminated an additional [500,000] (inaudible) space during the quarter. And for the full year, we reduced our total square footage by 4.7 million square feet, representing a reduction of almost 20%.

So in summary, we delivered more than \$1.1 billion of in-year savings, which translates to roughly \$1.6 billion of run rate savings exiting the year. Excluding USPS, in-year savings were approximately \$1 billion in fiscal '18, and run rate savings exiting the year were \$1.4 billion.

In fiscal 2019, we're targeting an incremental \$400 million of in-year savings in addition to the run rate benefit from the action taken during fiscal 2018. Now the combined savings of \$800 million will be partially offset by \$200 million to \$250 million of headwinds, including stranded G&A costs, the Q1 FX benefits and the opt to cap lease impacts.

We're also planning to reinvest an incremental \$200 million to \$250 million from those savings in the business, in line with the capital allocation model we outlined at our Investor Day. Now these investments include the continued deployments of the DXC digital platform, Bionix; enhancement in our digital workforce and capabilities; BPS, Agile and robotic process automation; and blockchain capabilities.

Non-GAAP diluted EPS from continuing operations in the fourth quarter was \$2.28, adjusted for special items, and for the full year, non-GAAP EPS was \$7.94. In the quarter, our non-GAAP tax rate was 29.4%, reflecting our global mix of income and an unfavorable valuation allowance related to tax attributes in certain foreign jurisdictions. And for fiscal 2018, our non-GAAP tax rate was 28.3%, which was in line with the non-GAAP tax targets for the full year of 25% to 30%.

Bookings in the quarter were \$5.4 billion for an overall book-to-bill ratio of 0.9x. And for the full year, bookings were \$23.67 billion for a book to bill of 1x.

Now let's turn to our segment results. Global Business Services revenue was \$2.36 billion in the fourth quarter. GBS revenue was up 3.3% year-over-year and was up 2% sequentially. In constant currency, revenue was down 2.2% year-over-year but flat sequentially. In the fourth quarter, GBS segment profit was \$470 million and profit margin was 19.9% compared with 12.4% in the prior year and 18.6% in the third quarter. Now this margin improvement reflects cost takeout actions. GBS bookings were \$2.04 billion in the quarter for a book-to-bill of 0.9x.

Now for the full year, GBS revenue was \$9.254 billion. Segment profit was \$1.563 billion. Margin was 16.9%, and bookings were \$10.2 billion for a book to bill of 1.1x.



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Turning now to Global Infrastructure Services. Revenue was \$3.223 billion in the quarter. GIS revenue was up 3.6% year-over-year and was up 2.5% sequentially. In constant currency, revenue was down 3.2% on a year-over-year basis but flat sequentially. In the fourth quarter, GIS segment profit was \$477 million and profit margin was 14.8% compared with 11.4% in the prior year and 14.7% in the third quarter. Profitability improvement in GIS reflects the impact of cost actions we're taking to drive greater operating efficiencies, including bestshoring, labor pyramid rebalancing, benefits from our Bionix automation program and supply chain savings. Bookings for GIS were \$2.86 billion in the quarter for a book to bill of 0.9x.

For the full year, GIS revenue was \$12.48 billion. Segment profit was \$1.7 billion. Margin was 13.6%, and bookings was \$11.6 billion for a book to bill of 0.9x.

Now turning to the USPS business. Revenue was \$710 million in the quarter, up 11.1% year-over-year and down [2.2%] sequentially. USPS segment profit was \$121 million in the quarter, and profit margin was 17% compared with 9.9% in the prior year and 15.2% in the third quarter. The year-over-year margin improvement reflect cost actions taken during the year. Sequential margin improvement was driven by cost optimization ahead of the spinoff as well as the timing of milestone and award fees. Bookings for USPS was \$522 million in the quarter for a book to bill of 0.7x.

For fiscal 2018, USPS revenue was \$2.82 billion. Segment profit was \$417 million. Margin was (inaudible) 14.8%, and bookings were \$1.9 billion for a book to bill of 0.7x.

Now let me turn to some financial highlights for the quarter. Adjusted free cash flow in the quarter was \$557 million or 84% of adjusted net income, and this reflects the annual 401(k) match payments and seasonal higher -- seasonally higher payroll taxes. Adjusted free cash flow does not include any proceeds from receivable securitization program.

For fiscal 2018, adjusted free cash flow was \$2.427 billion or 105% of adjusted net income. Our CapEx was \$471 million in the quarter or 7.5% of revenue, and for the full year, CapEx was \$1.76 billion or 7.2% of revenue.

Now during the quarter, we returned \$123 million of capital to our shareholders, consisting of \$51 million in dividends and \$72 million in share repurchases. And for the full year, we returned \$311 million of capital to our shareholders, of which \$174 million was in dividends and \$137 million was in share repurchase. And for fiscal 2019, we expect to resume our pace of share repurchase in line with our capital allocation model.

Now today, our board authorized an increase in our quarterly dividend to \$0.19 per share as well as \$0.76 per share for the full year fiscal 2019. DXC will not adjust (inaudible) dividend as a result of the spinout of our USPS business. Therefore, shareholder will receive this dividend in addition to any dividend paid by Perspecta.

Cash at the end of the quarter was \$2.6 billion. Our total debt was \$8.4 billion, including capitalized leases. Net debt-to-total-capitalization ratio was 25.8%. Now as part of the USPS spinoff, DXC is expected to receive \$984 million from Perspecta. On that basis, the net debt to total capitalization of the company would be 18.8%.

Now let me close with fiscal '19 targets, all of which will now exclude USPS. We're targeting revenue for the fiscal year to be \$21.5 billion to \$22 billion. This compares with \$21.7 billion in fiscal '18. Our fiscal 2019 target for non-GAAP EPS from continuing operations is \$7.75 to \$8.15. Now this compares with roughly \$6.70 for fiscal 2018, which was recast to exclude earnings per share associated with the USPS business and adjusted for any stranded G&A cost. Our EPS target assume a tax rate of 24% to 28% for the full year, and our adjusted free cash flow target for fiscal 2019 is 90% or more of adjusted net income.

Now I hand the call back to the operator for Q&A session.

Jonathan Ford

Okay. Operator.



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Ashwin Shirvaikar with Citi.

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

I want to start with asking, Paul, can you talk about the cadence of revenues and profit improvement for the quarters through fiscal '19 as you lay out? And perhaps also provide clarification on some of the basic stuff like expected FX impact, the (inaudible) tax rate and the share count that you're using.

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

Yes. So I think right now if you look at the guidance that -- the target that we have given you for the full year of \$21.5 billion to \$22 billion, it will be -- right now we expect that this is again for the commercial business only because USPS is going to be spun off as of June 1. I do want to make sure everybody is clear on that. And I think what we will see is a relatively consistent performance throughout the year, growing a little bit more in the second half of the year on a sequential basis. I mentioned the tax rate, again, of 24% to 28%. I think using a midpoint right now would be appropriate. And as I mentioned, we'll resume our share buybacks, so we would expect to retire more share this year than we had done this past year. And we'll try to catch up on our capital. That's something in line more with our capital allocation model.

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

Got it. And the incremental synergies, \$400 million, that sounds good on top of what you already achieved. But can you speak as to whether that includes the impact of Bionix? And Mike, I get the improvement seen on a smaller scale as you drive these things out. But the industrialization of Bionix, can you talk about that, the potential for that?

John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

Yes. This is Mike. Listen, I think it's hard to gauge what the long-term effect will be of the industrialization of Bionix. But I -- this is going to have an impact, okay? I'm just telling you that right now. How much it is? I don't -- I honestly can't quantify it right now. But as we apply this capability to different aspects of our business, we are seeing significant reductions in labor or, said another way, increased productivity. And we are marching along here sort of offering by offering, function by function. So we're doing this very deliberately. And we start out with call centers, and that will expand to other functional areas. But it's not just that. It's also the whole approach to analytics and a whole set of other disciplines and methodologies to drive that. So the synergy target is -- encompasses more than just that. We're going to do more facilities rationalization. We're going to continue to move our resources around the world. We're going to continue to focus on our pyramid. We've launched a major program to hire students and bring them in and interns and co-ops and a whole host of things to continue to lower our overall labor costs. We are making good progress with the talent cloud. We got 7,000 subscribers, so we're now publishing tasks or jobs or components of projects and putting that out to not only internal employees but to the external world. That will expand. That creates less friction and provides highly valued skills at a lower cost. So you need to add those things all together and think of it more as an integrated program to continue to drive these synergies as we go forward. Does that help?

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

Yes, that does.



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Operator

And we'll take our next question from Bryan Keane with Deutsche Bank.

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

Just wanted to know about operating margins for GIS and for GBS, just how we think about those throughout the year. Will they improve year-over-year, each quarter as we go through the year? And then secondly, on the investments. I know we're talking about \$200 million and \$250 million. Just curious exactly what those investments are going into. And should we think about that as an annual expense in the business? So even beyond this fiscal year, that's something that's kind of necessary to keep the investment going in the business.

John Michael Lawrie - *DXC Technology Company - Chairman, President & CEO*

Yes. Listen, we are -- we conclude this year sort of the high end of our range on the margins. And as I said in my commentary, that was a reflection of doing better in the synergy arena than what we had originally forecasted. We also saw less than -- dis-synergies on the revenue side. We still expect to see some of those dis-synergies on the revenue side. And as we just talked about for the previous question, there are some additional cost synergies. But I'd say those margins will, over time, continue to increase, but the key point here is we are investing back in the business. So this is not just about taking cost out. We are continuing to invest in our Bionix program, and we'll spend tens of millions of dollars in that program this year. We are continuing to invest in our offerings, our digital workplace offerings. An example is gaining a lot of traction in the marketplace or continuing to invest in cyber. We're continuing to invest in analytics. So another investment area is the investment we're making with our partners, beginning to move some of our industry IP to different cloud platforms with our partners. And we moved some of our health care IP platform to Azure for example. We're making investments in IoT. We're making investments in blockchain. So these are all areas of our offering portfolio where we're going to continue to make investments because we're seeing a return. We're seeing a return in terms of increased sales and revenue. And in terms of other areas, we're -- the other major investment we're making is in our people. We're continuing to invest very heavily in the retraining and reskilling of employees, particularly those that want to reskill and prepare themselves for the opportunities that the marketplaces present. So in the end, those are the 3 primary areas that we are continuing to invest in.

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

And Bryan, I think in terms of the margin on the GBS side, I think we would expect them to be in the high double digit to 20%, starting a little bit lower in the first quarter and then moving up throughout the year because we have some seasonality typically in our GIS margins on the -- post-separation is on -- somewhere in the -- between the 13% to 16%, and I think, again, it will be growing reflecting -- as some of these margins also reflect the investment that we are making in the business. Now that's, I hope, answer to your question.

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

No, that's great.

Operator

We'll take our next question from Arvind Ramnani with KeyBanc.

Arvind Anil Ramnani - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

When I look at the last year, it's certainly been busy with kind of some of the cost cuts and of course, the USPS spin. And when you look into the next like 12 to 18 months, I mean, you outlined some of your priorities. But kind of can you more broadly outline what some of the major priorities



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are? And in particular, can you talk about some of the work you're going to be doing on -- the current drive revenue growth? Are you going to be looking to do some larger deals?

John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

Well, I would say all the above. So our fundamental priorities as we look out over the next 12 to 18 months is we want to continue to drive productivity and the quality of our service delivery. That is still the major cost element in our business, and the degree that we can improve productivity and continue to and see improved service levels, that has an enormously positive impact on our business. Our customer satisfaction -- and I said this in my commentary. Our customer satisfaction last year went up. So in the first year of integration, all we did, customer satisfaction continued to increase. So continuing to drive our cost structure and the productivity and improve service delivery is an absolutely critical objective as we look out. Digital, so yes, we are making a huge shift in our digital offerings. I've chronicled those. I've shared with you what the growth is. We're beginning to change our route to market in terms of investing on our large accounts to put more digital resources. Our digital delivery centers, we just opened or cut the ribbon yesterday on our digital delivery center down in New Orleans. So we are continuing to make a very significant investment in digital. We're engaging our delivery teams in helping us drive growth to our delivery teams, something we call our delivery-led growth initiative. And then, of course, the other priority is continue to focus on our workforce management. This includes our ability to more accurately predict what skills we're going to need, how many we're going to need, how we source them. I just talked about the Dynamic Talent Cloud. That's a whole different way of sourcing, skills and capabilities; how we onboard people; how we retain people; and how we are able to move them around from project to project. So workforce management, the reskilling of our people is a key priority, our whole digital initiative as we continue to want to increase the percent of revenue that we get from digital to offset the natural headwinds we have in the ITO business, some of the other legacy businesses and then continue to focus on the quality of delivery and the productivity of delivery. So that's how we're driving growth. That's how we're driving the cost envelope. And we're always looking opportunistically for acquisitions that would align with the strategy that I just outlined and as we've done the past years, make those types of acquisitions, and I expect that, that will continue.

Arvind Anil Ramnani - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. And just one quick follow-up. Looks like you're making good progress internally on automation and AI. Are you able to take some of these solutions to your clients to actually kind of drive revenue?

John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

Yes, you bet. I mean, take -- I mean, that's really the whole strategy, is what we're -- now we just had our global customer advisory board. That's exactly what we're doing. We closed another deal today. I don't want to talk about it but the same exact framework. We go in. We know what this automation and analytics and other capabilities that we have. We know we can lower the cost of the existing infrastructure. We know that, okay? Then what we do is we say, "And here are ways that you, Mr. Client, can reinvest in your business with our other offerings like our application modernization or cyber or analytics or other things." And that is the strategy, help free up the money through a simplified, more productive IT infrastructure, use those savings to reinvest in the digital platform to help the clients on their transformation journey. That is the strategy, hasn't changed since our Investor Day. It now is beginning to get some real traction with our larger clients. The IP industry is famous for talking about stuff years and years and years before it happens. I mean, I got to tell you, the enterprise institutions around the world are now just getting to critical mass in many of these things that we in the IT industry have been talking about for 5 or 6 years. So I think this gives us some optimism that the maturity of our offerings are converging when our primary client base, which is large enterprises around the world, are beginning to gather pace in their own digital transformations.

Arvind Anil Ramnani - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. And just if I could squeeze one last one in. And you mentioned blockchain a couple of times. Are there particular types of clients that you're seeing sort of more interest in? And I assume a lot of the work is still a little bit early and more sort of consulting in nature.



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John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

Well, I think blockchain is a pretty pervasive technology that is going to change a lot of how transactions are done. But just think, in our portfolio, think of insurance claims or think of health care claims as areas where blockchain can be certainly leveraged. The supply chain would be another area. Wherever you have a lot of intermediary transactions, blockchain is, I think, going to, over time, eliminate or at least reduce a lot of those intermediary steps in the end-to-end transaction in payment systems.

Operator

We'll move on to Jim Schneider with Goldman Sachs.

James Edward Schneider - Goldman Sachs Group Inc., Research Division - VP

I was wondering if you can maybe provide us a little bit of color on the revenue trajectory you expect as you head throughout the year? I think, Paul, you referenced the back half of the year being a little bit better from a revenue standpoint. Would you expect to be executing any M&A throughout the year that could help that ultimate revenue trajectory and I guess, maybe where you expect to -- you might be from a revenue growth standpoint exiting this year?

John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

Well, I'll let Paul answer. But as I said, we are -- we will do some more acquisitions. That I can tell you. I mean, we have a pipeline of things we're looking at. Jim, you know we just don't know when these things are going to close. They have their own sort of life cycles. So you just -- you don't know that. And most of what we do are classified more as tuck-ins that are very consistent with our overall strategy of improving our digital offerings. And eBES and Sable37 are great examples of that in the Microsoft Dynamics arena. So yes, I do expect to get some help from those potential acquisitions. I just don't know when they're going to occur, and I don't know what the full year impact would be on revenue because that's obviously time dependent. Traditionally, our revenue is a little lighter in the early part of the year and stronger in the back half of the year. We saw that this past year. So I don't -- some of that seasonality, some is just the way the year plays out. So we would expect that as we progress through fiscal '19. Paul, you may want to add.

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

Yes. No, I think, Mike, you captured it. If I look at it, this whole year, we've seen an improvement throughout the year for first quarter, second quarter sequentially all the way through the fourth quarter. We'll see a similar pattern in fiscal '19. If you look at the target that we have set out and if you take the midpoint of those targets, it would be a relatively flat year-over-year with a similar type of progression.

John Michael Lawrie - DXC Technology Company - Chairman, President & CEO

And Jim, I just don't know yet -- I don't know some of the headwinds. I mean, we -- I don't know how Brexit's going to play out. There are some great opportunities associated with Brexit to get many of those systems prepare for Brexit. That's an opportunity. It'll also -- I think it also has created some indecision and delay in other decisions and projects. We see -- we expect to continue to see some revenue dis-synergies as we're in the second year here. But I don't -- I can't quantify those for you. We see growing momentum with our partners. I mentioned in my commentary BPS offerings and our industry IP, some of our digital offerings. No question, we're seeing some momentum in growth. I mean, I haven't been on a lot of earnings calls where I could actually use the word growth before the number. So we are seeing that, and we're just giving you our best estimate right now where we see things playing out. Does that make sense, Jim?



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James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

It does. And then maybe on the cost synergy side, you've alluded to it in the past maybe being ahead on the bionics, driving the cost of sales that you mentioned but maybe being a little bit behind on supply chain. As you look through fiscal '19, what are some of the opportunities where you might kind of reaccelerate those cost synergies relative to how you've been progressing so far?

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

Yes. I think the areas where we have still a lot of opportunities would be in our contractor spend. That's an area that we have made some progress. I mentioned 6% reduction year-over-year. Then in fiscal '18, there's more yet to be done there, particularly as we also apply our Bionix program to that segment of our spend. I do believe also that you're going to see a lot more also from our facilities and particularly in the data center area where -- arena where we have just really started. This year, we have just already consolidated 2 of our 90 data centers. We have at least 10 in flight and more to come. So those are the areas where we see still some great opportunities.

Operator

We'll now take our next question from David Grossman with Stifel.

David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So Mike, growth is definitely improving. Although on an overall basis, it remains negative year-over-year. Are you seeing any light at the end of the tunnel as it relates to the legacy business? And perhaps you can share some of the data points that may give us a better sense of just how that legacy business is trending and whether it is actually starting to plateau.

John Michael Lawrie - *DXC Technology Company - Chairman, President & CEO*

Yes. I think the way I look at it is I look at the amount of revenue that we are getting from these new offerings. Go back to the Investor Day that we had whenever -- when did we have it, Jonathan? Last March, right? So we sort of laid out some projections around our digital growth, our industry IP and BPS growth, and that's largely playing out that way, slightly less growth than we laid out the first year but basically playing out. The other thing is we had estimated a decline in the traditional legacy businesses, primarily ITO but also our application, maintenance and management business, and we estimate what that curve would be. Now that curve wasn't as much as we had thought. So what happened this year was we didn't see the decline as rapid as we had forecasted, and we didn't see quite as much growth in some of the new offerings. And that got us sort of where we were -- where we are. The other thing that we're seeing is that when we do go into a client and we help them reduce their infrastructure costs, the reduction of those infrastructure costs is usually in a shorter time frame than the revenue that we achieved from the digital platform growth. Again, I don't want to go through any client names now but I'll give you an example of how this works. We went in and reduced the infrastructure cost by somewhere around 10% or 15% and that we began billing at a lower rate 2 or 3 months after we initiated the agreement. And then we began to get some of the reinvestment back into the digital platforms like our application modernization and some of our enterprise cloud apps business. That revenue is now starting to flow, and the account is growing. So we're now forecasting growth in that account for the first time in 7 years. But there was a -- not a delay, but there was an interregnum where the revenue actually went down slightly more before it went up. Those are -- that is -- I got to tell you, that's very difficult to model because you -- each thing is different. The transition to a digital workplace offering might take longer than the transition to a new cyber offering. So it's -- each of these have their own timescales, and each customer plays out slightly different. So what we try to give you is an aggregate, but the overall revenue model that we talked about over the 2- or 3-year period of time is absolutely intact with what we discussed at the Investor Day. Does that give you the color you're looking for?

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David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Yes, I appreciate the clarification. And just to follow that up then, talking about '20. Sorry, if I missed it, but do you have any plan or did you mention whether you're going to reclass that fiscal year '20 target that you'd laid out a year ago?

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

Yes, we will. Yes, we will. I think you can see already, initially, our margin expectations were 14% to 15% and now we're already closer to the 15%, so it'd be probably more likely than the 15% to 16% if I have to make a guess now. And then the revenue, I do believe, is going to be fine because we were already factoring -- making sure the USPS business was going to be in the same range of the 3% to 4% growth over that time frame from before. So we'll have an opportunity to update some of these.

John Michael Lawrie - *DXC Technology Company - Chairman, President & CEO*

And that's why we want to do another meeting sometime this fall so that we can give -- update those models and make sure everybody's on the same page post the formation of Perspecta.

Jonathan Ford

So we're going to dial -- close questions. Paul wanted to have a final comment before we close the call.

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

Yes -- no, sure. Sorry, I was -- just really wanted to make sure that as we set the targets for fiscal '19, you're at least clear on the EPS because I just want to make sure we -- that's -- we said that we will do \$7.75 to \$8.15. That's the target range that we are having -- we expect for fiscal '19. Now this is how it works out. For fiscal '18, we have reported \$7.94. Now if you take out the USPS contribution, that's \$1.03, and there's also some stranded costs that we will have to -- we plan to take out but we haven't. That's about \$0.20. Then, you get \$7.94 less the \$1.03, less about the \$0.20, you get to the \$6.70 that I referred to. So on a year-over-year basis, I want to make sure that people have the right calibration. We go from \$6.70 to \$7.75 to \$8.15 for the commercial DXC business, which is a 16% to 22% growth on a comparable basis, on a year-over-year basis.

Jonathan Ford

And with that, operator, we'll close the call.

Operator

Thank you, and that does conclude today's conference. Thank you all for your participation.



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