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DXC Technology Services, LLC

Q2 FY25 Earnings Call

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DXC Technology Services, LLC

Q2 FY25 Earnings Call

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PRESENTATION:

Operator^ Good afternoon, and good evening. (Operator Instructions) At this time, I would like to welcome everyone to the DXC Technology Q2 FY '25 Earnings Call. (Operator Instructions) And with that, I would like to begin our call and I would like to turn it over to Roger Sachs, VP of Investor Relation.

Roger Sachs^ Thank you, Operator. Good afternoon, everybody. Welcome to DXC Technology's second quarter earnings conference call. We hope you've had a chance to review our earnings release posted to the IR section of DXC's website.

Speakers on today's call are Raul Fernandez, our President and CEO; and Rob Del Bene, our Chief Financial Officer. Our agenda will be as follows. Raul will provide an overview of our results and an update on our strategic initiatives.

Rob will then walk you through our financial performance for the quarter as well as update you on our full year outlook and provide some thoughts on our fiscal third quarter. Raul and Rob will then take your questions. Certain comments we make on today's call will be forward-looking.

These statements are subject to risks and uncertainties, which could cause actual results to differ materially from those expressed on the call.

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You can find a discussion of these risks and uncertainties in our annual report on Form 10-K and other SEC filings.

We do not commit to updating any forward-looking statements made during today's call.

Additionally, during this call we will be discussing non-GAAP financial measures that we believe provide useful information to our investors. Reconciliations to the most comparable GAAP measures are included in the tables included in today's earnings release. With that, let me turn the call over to Raul.

Raul Fernandez^ Thank you, Roger. Good afternoon, everyone.

Thank you for joining us today for our second quarter fiscal 2025 earnings call.

I'm pleased to report a solid quarter, with adjusted EBIT margin and non-GAAP EPS exceeding our guidance and revenue coming in towards the high end of our range. Given this performance, we are raising our full year guidance for adjusted EBIT margin and non-GAAP EPS.

I'm proud of how our new leadership team has come together and the early momentum we've seen from our initiatives this year.

While there is more work ahead, particularly in our go-to-market initiatives, we're focused on execution and building a solid foundation to support even stronger performance going forward. Specifically, during the quarter, total revenue declined 5.6% year-over-year on an organic basis.

Adjusted EBIT margin equaled 8.6%, expanding 130 basis points year-over-year. Non-GAAP diluted EPS was $0.93, up 33% year-over-year.

We generated free cash flow of $48 million for a year-to-date total of $93 million compared to $16 million during the same period last year.

While corporate spending on discretionary projects remains under pressure, we continue to believe our biggest near-term opportunities lie in our self-help initiatives that will drive a more significant impact on results.

Our bookings remain an area of intense focus, and I feel we will make the progress needed in the upcoming quarters.

We expect our book-to-bill ratio to improve in the third quarter.

Our global delivery and sales footprint, complemented by a deep local presence, is a competitive advantage to serving clients. Being global and local allows us to understand and respond to regional dynamics by delivering tailored solutions that meet specific market needs while leveraging global expertise and resources. To drive improved sales discipline and execution, we implemented several new initiatives during the second quarter to augment our revamped go-to-market approach.

These include a new client relationship training program with nearly 150 team members now certified; a regular cadence of sales team performance reviews including detailed assessments of the value of the solutions we provide; and a new executive client sponsorship program to drive deeper client relationships.

Additionally, during the second quarter, we initiated several tactical actions in our offerings to build on our progress.

In our Global Business Services segment, where we help clients accelerate digital transformations, we continue to refine our delivery models and drive more scalable and standardized solutions.

Specifically, in Consulting & Engineering Services, we hired a new global delivery leader to sharpen operations, keep projects on track, and ensure contract requirements are met.

We are building more enterprise application capabilities, leveraging DXC Fast RISE with SAP service so clients can accelerate their SAP S/4HANA cloud implementations.

We are expanding our gen AI offerings using a center of excellence model to scale beyond proof of concepts to production. Let me highlight two examples of recent gen AI engagements.

For Equitable Holdings, a leading financial services client, we built and deployed a gen AI-powered virtual service agent. This solution quickly analyzes thousands of documents, enabling customer representatives to respond 80% faster and freeing them to focus on more value-added activities such as complex financial planning.

The success of this solution led to the creation of a Gen AI Center of Excellence for the client, which has developed several more gen AI-based applications, growing the relationship by more than 10x.

We are also helping a large global bank accelerate time-to-market for new credit card products.

Our gen AI-powered solution automates the conversion of hundreds of thousands of lines of legacy code into Java 50% faster with less errors. Expediting the time-to-market better positions the bank to capture market share in a highly competitive industry.

By embedding AI across many of our solutions, we're sharpening our competitive edge.

We are identifying numerous opportunities to help clients manage the full life cycle of gen AI from initial deployments to building complete solutions that grow with their businesses in a secure way. This includes matching the latest language models to meet client needs and ensuring gen AI solutions access data that is clean, current, and reliable. This approach is providing momentum in our data and AI practice within CES.

We continue to invest in our insurance business to grow our software and reoccurring services mix as well as to expand geographically.

We are being very thoughtful and deliberate in evaluating the range of opportunities we have to accelerate performance to deliver greater value for our clients and all stakeholders. To help drive long-term sales and improve profitability across our Global Infrastructure Services segment, which represents our portfolio of technology solutions, we took several actions during the quarter.

We rolled out a new workforce management system to better manage resources.

We brought in leaders to drive innovation in our software platforms, grow our public sector presence and enhance our security and Modern Workplace capabilities.

And we streamlined Cloud and ITO, security and Modern Workplace delivery under a single leader to improve consistency and accountability.

We are realizing a notable improvement in our delivery metrics and overall quality of service, leading to a record Net Promoter Score.

As a result, we have seen meaningful reduction in contract terminations.

Our global shared services model is now fully implemented, consolidating, standardizing, and eliminating redundant processes across sales, business, and account operations. This increases our agility to better serve clients and optimize our costs.

Our ERP consolidation plan remains on track, and we have successfully initiated the first migration wave from our legacy systems.

We expect all these initiatives to lay the groundwork for margin expansion and revenue growth over time. With our partner ecosystem and top-tier engineering capabilities, we are well positioned to capture opportunities including migrating clients to cost-effective platforms to reduce software expenses, and maximizing returns on cloud migrations through cloud-native applications.

Over the past 11 months, I've witnessed our global team's capability, resilience, and shared commitment to clients.

We are not only capable but also worthy of winning.

Now our focus is on doing so consistently and at scale.

Our journey to realizing this vision will involve tactical execution, a firm commitment to accountability, and rewards tied to measurable success. To support this, we have recruited a talented group of proven, hungry, and innovative leaders with deep industry expertise, complementing our reenergized workforce and essential IT services portfolio.

I am confident this combination is the right formula for success.

As we execute our enhanced operating model, I firmly believe we are on the path to delivering stronger results as we move forward. Embracing each opportunity with the passion of a first-time entrepreneur and executing with the precision of an experienced global leader, we are building a solid foundation for enduring success.

Now let me turn the call over to Rob for a detailed review of our second quarter results.

Robert Del Bene^ Thanks, Raul. And good afternoon, everyone.

Today I'll review our second quarter results and provide you with our latest updates to our full year fiscal 2025 outlook, along with our view for the third quarter.

Before discussing our performance, I want to point out a change in our reporting of adjusted EBIT.

Starting in the second quarter, gains and losses on the sale of real estate and facilities will no longer be included in the calculation of adjusted EBIT as these transactions are considered to be nonoperational.

During the quarter, we executed sales of approximately $60 million with a loss of $27 million. To be clear, the cash proceeds from these transactions are not included in free cash flow; and the losses, which were not included in any previous guidance for adjusted EBIT, are excluded from the reported second quarter adjusted EBIT results.

We have provided a historical view of our results reflecting the reporting change in our Excel data sheet that you can download from the IR section of DXC's website.

And now on to our results. Total revenue of $3.2 billion declined 5.6% year-to-year organically, which was towards the high end of our guidance range.

Our book-to-bill ratio for the quarter was 0.81, a modest improvement from 0.77 in 1Q. The trailing 12-month book-to-bill ratio was 0.88, the same as last quarter.

Adjusted EBIT margin expanded 130 basis points year-to-year to 8.6%, above our guidance for the quarter. This performance was primarily driven by a higher yield from cost management initiatives and a nonrecurring benefit related to the settlement of a legal matter, which added 30 basis points to the margin.

Non-GAAP gross margin for the second quarter was 25.1%, expanding 170 basis points year-to-year; one full point of impact was due to a reclassification of business development costs to SG&A, which is a better representation of the nature of the spending. Absent this change, gross margin would have expanded 70 basis points year-to-year, primarily due to ongoing cost management within our GIS segment.

Non-GAAP SG&A as a percentage of revenue was 10.4% compared to 9.4% last year. The one point increase was related to the reclass of business development spending. Excluding the impact, non-GAAP SG&A as a percent of revenue would have been flat year-to-year.

Non-GAAP EPS was $0.93, up from $0.70 in the second quarter of last year. The $0.23 increase was primarily driven by higher adjusted EBIT and the impact of a lower share count, each contributing a $0.09 improvement.

Now turning to our segment results. GBS, which represents 52% of total revenue, was down 1.6% year-to-year organically. The GBS profit margin increased by 30 basis points year-to-year to 12.8% largely due to more efficient resource management.

Within the GBS segment, Consulting & Engineering Services declined 3.4% year-to-year organically largely due to market pressures impacting custom application projects which contributes about two-thirds of CES' total revenue. The book-to-bill ratio of 0.93 improved from the first quarter, while the trailing 12-month book-to-bill ratio remains stable at just over 1.0.

Insurance and horizontal BPS grew 4.4% year-to-year organically. Embedded in this performance is our core insurance services and software business, representing close to 80% of the total, which was up 5% organically year-to-year. The book-to-bill ratio was 0.78 and, on a trailing 12-month basis was 0.95. And as a reminder, bookings in this business tend to be lumpy with significant variation quarter-to-quarter given the higher concentration of large and longer-duration deals.

GIS, which represents 48% of total revenue, declined 9.6% year-to-year organically as services revenue was down 8% in line with prior quarter, and resale declined 19%. Profit margin expanded almost 2.5 points year-to-year to 8.2% largely due to disciplined resource management, ongoing actions to optimize our data centers and networks, and the lower mix of resale revenue.

Within GIS, Cloud/ITO and Security revenues declined 10.1% year-to-year organically with services revenue down 9% and resale revenue down about 25% as we continued to reduce the number of low-margin deals. The book-to-bill ratio was 0.69 primarily attributed to the timing of certain large deal renewals and our disciplined approach to new deals. The trailing 12-month book-to-bill ratio equaled 0.71.

Modern Workplace declined 8% year-to-year organically with services revenue down 7% and resale revenue down 12%. The book-to-bill ratio equaled 0.8 and the trailing 12-month book-to-bill ratio is 0.91, both in line with last quarter.

Now turning to our cash flows and balance sheet.

During the quarter, our free cash flow, defined as operating cash flow less CapEx, equaled $48 million compared to $91 million in the same period last year. The decline was largely driven by DSO performance which deteriorated in the quarter. Capital expenditures equaled $147 million, down $10 million year-to-year; and new lease originations were about $10 million, down $14 million from last year. Taken together, capital expenditures and leasing originations declined $24 million for the prior period and as a percent of revenue improved by 50 basis points to 4.8%.

Our free cash flow for the first half of fiscal '25 equaled $93 million compared to $16 million for the same period last year. And as a percent of revenue, CapEx and lease originations improved 70 basis points to 5.5%.

Now a moment on our restructuring efforts where we're taking a very measured approach.

At the beginning of the year, we told you we would increase spending by approximately $250 million year-to-year.

We're now revising that to a maximum of $150 million. This adjustment is reflected in our updated free cash flow guidance. With disciplined hiring practices, we have reduced our net head count by approximately 4,500 since the beginning of the fiscal year, putting us on track to achieve our cost saving plans for the year.

We currently anticipate utilizing the full $250 million into fiscal 2026.

During the quarter, we reduced our debt through cash payments of approximately $227 million driven by retiring our outstanding commercial paper balance and paying down capital leases. This action was partially offset by the impact of the strengthening euro on our outstanding euro-denominated bonds.

Now let me provide you with our latest thinking on our full year outlook.

As we have half the year behind us, we're tightening the range for revenue and now are expecting total revenue to decline between 5.5% and 4.5% year-to-year organically with the midpoint of the range unchanged.

Given market conditions and somewhat longer conversion times we are seeing in our CES business, we now anticipate full year GBS revenue to decline slightly year-to-year, offset by GIS performance slightly better than our prior expectation.

As a result of our strong performance in the first half of the year, we're raising our full year adjusted EBIT margin outlook to a range of 7.0% to 7.5%, up from our prior guidance of 6.5% to 7.0%.

We expect our adjusted EBIT margin during the second half of the year to be lower than the first half. This is primarily due to merit increases and ramping investments in sales, marketing, and IT, all partially offset by labor efficiencies.

We continue to expect a full year non-GAAP effective tax rate of approximately 32%.

Full year non-GAAP diluted EPS is now anticipated to be between $3 and $3.25 compared to the prior outlook of $2.75 to $3. This update is primarily driven by the increase of our adjusted EBIT margin outlook.

Free cash flow for the year is now expected to be approximately $550 million, an increase from our prior view of about $450 million. This improvement is largely due to the increase of our EBIT outlook and lower anticipated restructuring spending to a maximum of $150 million. These cash flow benefits are being partially offset by the expansion of working capital.

And now for the third quarter.

We expect total organic revenue to decline 5.5% to 4.5% with a sequential improvement in our book-to-bill ratio.

We anticipate adjusted EBIT margin in the range of 7.0% to 7.5%, reflecting the higher investment activity I just mentioned; and finally, non-GAAP diluted EPS of $0.75 to $0.80.

And with that, let me turn the call back to Roger.

Roger Sachs^ Thank you, Rob. I'd now like to open the call for your questions. Operator, can you please provide the instructions?

Operator^ (Operator Instructions) Our first question from today comes from the line of Zack Ajzenman with Cowen.

Zachary Ajzenman^ This is Zack Ajzenman on for Bryan. Just first question on the free cash flow, wanted to dig in a little bit further. Nice to see the uptick for fiscal '25.

It sounds like this is driven by both profitability and the extension of restructuring. Just wanted to get a better sense on the sustainability and growth in the coming quarters and years.

I know fiscal '26, the goal was to get back to levels seen in '24.

As you extend the restructuring program, does that weigh on those goals?

Or are there still margin upside and other levers to help you kind of get back from that free cash flow and continue to build beyond fiscal '25?

Robert Del Bene^ Yes. Thanks for the question, Zack. This is Rob.

As a reminder, at the beginning of the year, when we set our free cash flow guidance, we said, without the restructuring and the change in lease originations, the approach of lease originations, our free cash flow for fiscal '25 would be very consistent with the prior two years.

So we have that strong fundamental base of free cash flow generation.

And when you now look at the forecast or assessment here for the full year, that is maintained.

If you back out the restructuring and account for lease origination changes, we are also at a very similar level from the last two years.

So that foundation in the $700 million of free cash flow is maintained this year, and that foundation will be maintained into fiscal '26.

As we get closer to the end of this year, we'll give more precise guidance obviously and we'll figure out how much of the restructuring will carry over or not.

But you should think of the fundamental cash generation as being consistent with what I said at the beginning of the year and consistent with previous years.

Zachary Ajzenman^ That's helpful. And nice to see the revenue stabilization. Just want to dig in to bookings specifically.

It sounds like an expected improvement in the coming quarters.

Can you just kind of dig into the moving pieces by segment?

GIS, any way to parse the company-specific factors, like the stricter go-to-market, versus broader structural market dynamics?

And anything you can say on GBS, the potential to return to 1.0 on the book-to-bill.

Robert Del Bene^ Yes.

So we have confidence going forward that the bookings will improve from first half into second half.

We have that confidence in both CES on the project-based work and in our GIS segment as well.

Insurance is a little lumpier so it's not as meaningful from a book-to-bill perspective.

Now from a CES perspective, pipeline has been growing.

So our go-to-market new organization, new management system, new leaders, is starting to take hold.

The first evidence of that is in our pipeline.

Our closure rates have been consistent, ticking up slightly.

So with better closure rates and better pipelines, it gives us confidence that the book-to-bill will improve going into the second half of the year.

And as a reminder, it was 0.93 in the second quarter, so we expect improvements from there.

In our CES business, that was both Modern Workplace and ITO, those are lumpy as well dependent on large renewals. Again based on the opportunities in front of us which, by the way we're off to a good start in October, based on that, we're confident, in our third quarter, bookings will be in the 1-plus range, 1.0-plus range. And based on our pipe, we also expect to have better performance in the fourth quarter than we had in the first half of the year.

So all of our internal indicators here are pointing to improved performance in both GIS and CES.

Raul Fernandez^ Zack, let me just amplify on one other point.

For both GIS and GBS, we've been recruiting, and I've helped recruit or assist in bringing in 13 new senior leaders into the team. They have an average experience of 29 years, and many of them I've worked with in other companies, so I know they can deliver. They've only been here, on average, for about 4.5 months.

So while we worked on the mechanics very early on, while we worked on making sure that how we tracked, what we tracked was more accurate, we've also been adding new talent that is going to have an impact because, as you can see from the data I just gave you, they've just arrived.

So I feel very confident, as I said in my prepared remarks, that those are areas where we'll see just better results.

Operator^ Our next question is from the line of Jason Kupferberg with BofA.

Tyler DuPont^ This is Tyler DuPont on for Jason.

I wanted to start by asking about growth expectations, particularly within GBS.

It was encouraging to see positive sequential growth in the quarter, but it looks like it decelerated around 200 bps on a year-on-year basis, mostly due to CES. And based on the prepared remarks, and correct me if I'm wrong, it sounded like growth is expected to be negative for the full year.

What have you seen over the past couple of months that made you change this outlook?

And is it more macro specific?

Or are there certain individual clients that are potentially delaying implementation?

Or just sort of it would be great to get a lay of the land of what you're seeing in GBS.

Robert Del Bene^ Yes. No, great question.

So what we're seeing is it is tied to the economy.

So it's macro, it's not company-specific or customer-specific. A little bit of color that I can give you is that in the CES business, it's hit us harder in custom application development as opposed to enterprise applications.

And as I mentioned earlier, our pipelines have improved so we're encouraged by that.

Our closing of deals, our close rates are good and healthy and improving.

It's really just a slowdown in the rollout of projects in custom apps.

That's why we took the outlook down a little bit in the second half of the year.

We were originally anticipating a little bit of an uptick in the second half, and we just don't see it yet and we took it down a bit.

Raul Fernandez^ Yes, let me just amplify on that as well.

I believe that the self-help initiatives, as I've mentioned in the call will have a far greater impact in the near term than the macro functions.

We have plenty of opportunities.

We can get more opportunities, especially with the new teammates that we have onboard, and we just have to convert them at a higher level.

So I'm confident that, again the fundamental changes that we've made, plus the new teammates that have come onboard, will give us the boost that we need in that area.

Tyler DuPont^ Okay. That's very helpful.

I appreciate the color there.

Then second, I wanted to ask about the go-to-market.

It seems like it's been evolving over the past couple of quarters.

And I was wondering if you could maybe just take a minute and discuss how this has changed since putting more of an emphasis on sales execution and focusing on geography.

Sort of what are the stakes in the ground, for lack of a better phrase, that we need to see to make sure that we're moving sort of in the right direction that we're hoping for?

Raul Fernandez^ Yes.

I think in the beginning, and again Rob and I have been together here for 11 months, it was a focus on fundamentals and mechanics that clearly weren't at average, below average.

So working on getting those to average, working on making sure that we've got a reward system in place for all of our sales executives across the world, that is both fair and positive but is also backed up by real success, measuring success in terms of revenue and profitability.

And that we have the right balance.

I think one of the things that I've gotten a much better appreciation is our global footprint is terrific.

Our global customer base is terrific.

I've engaged with a lot of customers, many of which never had seen the CEO from DXC before.

I really get a much better sense, a deeper sense of the value that we provide.

And that's a combination of the global offering, the skill sets and the local delivery, the ability to know the market, know the individuals, know the leaders, know the buyers, know the talent that we have on the ground to make it happen.

So as we execute on those mechanics and get those mechanics at a higher level of throughput, I feel confident that we've laid the foundation for additional growth there.

Operator^ Our next question comes from the line of Jamie Friedman with Susquehanna.

James Friedman^ So Raul, I wanted to ask about some of the comments you made in your prepared remarks with regard to the insurance business. You say you've grown the software and especially the recurring services mix.

The numbers look good in insurance. Congratulations on that.

So what are some maybe of the tactics related to those inputs like specifically related to the software and the recurring components of insurance?

Raul Fernandez^ Yes, great question.

It's better execution.

If you think about all the fundamentals we put in place, they affect the entire company.

While that segment or that business unit was, on a relative basis, doing a bit better, it still benefits from a smarter, more efficient go-to-market and all of the positive attributes that we're putting in place in terms of systems, rewards, et cetera.

We've also spent quite a bit of time in looking at the portfolio, looking at our SKUs in terms of our offerings, looking at our pricing, looking at past price increases, looking at where price increases are necessary now and in the future.

And so I have confidence at not just the IP and the services that we deliver through that segment but also the innovation behind that.

We've been able to recruit some great talent to really boost the product portfolio and to really think about how we can take that to another level and shift more into higher-margin recurring revenue.

So I think it's a good business that can be better and we're working on all the elements to make it better.

James Friedman^ Okay.

Then if I could just follow up on the GIS margin, good progress there as well.

So Rob, you did call out that a component of that is the lower reseller.

I wasn't sure in the sequence of the inputs to the margin increase if those were in the order that impacted or otherwise.

But anyway if you could unpack like how it is that you're doing better on the margin.

Robert Del Bene^ Yes. The resale element is a relatively small component of the improvement. The vast majority is because of the disciplined resource management and non-people-related cost management by the team. They've done an outstanding job of lowering costs with the revenue declines.

So Jamie, I'd attribute it to just very, very disciplined cost management.

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Operator^ (Operator Instructions) Our next question from the line of Rod Bourgeois with DeepDive Equity Research.

Rod Bourgeois^ I have a couple of questions that are structural related to the ITO business. The first one relates to the resale mix. Clearly, resale mix is dropping, which is great for margins but a bit of a headwind on the revenue side. That had started, I guess over the last couple of years so that's not a new trend.

It's a trend that had already been underway before the new management team came into place.

So my question there is, how much room is there to go on reducing the resale mix and having a business that's more based on services and less based on the product pass-through stuff?

Robert Del Bene^ Yes. Thanks for the question, Rod.

We're going to continue to see a year-to-year decline into the second half of this year.

Then I expect that decline to narrow through the first half of next year and then be more stable in the second half of next year.

So we're through most of it.

The last 1.5 years, we've gone through most of it.

I think there's another six to nine months and then it's going to start to level off.

Rod Bourgeois^ Okay. And by the way is a good portion of that tapering intentional where you're actively moving away from that business?

Or is it sort of...

Robert Del Bene^ Yes.

Rod Bourgeois^ Yes.

Okay.

Robert Del Bene^ Yes, Rod, it's definitely intentional.

The way I'd describe it is we're still bidding on work but holding to our margins, very disciplined on the margin thresholds we're willing to accept.

So we're losing a lot of those deals because we're sticking to our margin thresholds.

That's driving the reduction in revenue.

As I said, I could see kind of the end of the tunnel on those declines coming.

Rod Bourgeois^ Understood.

Then the other structural question is, as you move further into the AI era, is that prompting additional migration of legacy data centers to cloud?

And it just would be helpful to get an update on what's happening on that front.

Raul Fernandez^ Yes. That's a great question.

Look, the compute backdrop that you need for any gen AI activity today is very different than our legacy business and in even our business at GIS.

It's evolving. It's new, it's evolving.

But one of the things that excites me in the projects that I've had a chance to look at, participate in, talk to our experts as well as the customers, is the fact that kind of it gives us an opportunity to bring together our holistic set of services.

That includes cleansing data, making sure that proprietary data is the correct data that we should be using; picking, obviously the right language models to approach it; and then building fast prototypes, deploying them, learning from that deployment and then helping scale.

And the first example that I gave, it was a terrific initial SaaS deployment that had bottom line ROI markers that then led to the incremental deployments and, as I mentioned in my prepared remarks, a 10x increase in fees from the first pilot through where we're at today.

So that's definitely an area where demand will continue and I think we're very well positioned. Again a theme for all of us here is consistency and scale.

We just have to have a consistent approach and we need to scale it more effectively.

Operator^ Our next question comes from the line of Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang^ Just want to draw on your experience here, Raul, just thinking about visibility.

I know we have election certainty now in place, rates presumably falling further.

Should we expect some improvement in visibility, generally speaking, relative to the secular question that Rod just asked?

I guess I'm probably more focused on GBS here, that being more sensitive to changes. Any bigger picture comments there?

Raul Fernandez^ Yes.

Look, I think the commentary that I've heard from other CEOs in the space and the commentary that I hear from our end customers is consistent, so I have no outlier information there. The thing that Rob and I see, the whole team sees, is just an opportunity to execute on the fundamentals better.

As I mentioned before, the self-help initiatives, some of which I listed in my prepared remarks, and many more that are ongoing globally, are going to have a bigger impact in the next 12 and 24 months than the macro environment. The macro environment is good.

It can get a little better, it can get a little worse.

But the biggest key to success in the near term for us is executing on every single opportunity that we get a chance with.

I know that we've got the right talent, and I know that we've got the right references and I know that we have the right opportunities.

It's about putting all those together consistently and scaling it.

Operator^ (Operator Instructions) Our next question comes from the line of Jonathan Lee with Guggenheim.

Jonathan Lee^ Can you dig into some of the dynamics you're seeing around the softness in GBS versus the improvement in GIS and how we should be tying that to, call it, the low end versus the high end of your outlook here?

Trying to better understand what's needed to hit the higher end of your outlook.

Robert Del Bene^ Yes. Thanks for the question, Jonathan. To get to the higher end, we would need a little better performance just from the economics on the CES business, having the customers on the custom apps just loosen up and accelerate some of the projects.

So that would be the primary path for us to get to the higher end.

So instead of low single-digit negatives, it draws closer to flat in GBS, that would be the path.

Jonathan Lee^ Understood. And just as a follow-up, can you talk through what you're seeing around some of the pricing dynamics, specifically in CES?

Robert Del Bene^ From a price perspective, I see stability in our deals, so I'm encouraged by that.

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As we migrate our offerings over to enterprise solutions, the price stability is encouraging.

Those deals for us in the longer term will be higher margin than custom.

So from my perspective, in the short term, prices are stable.

Over the long term, the move to enterprise from customs will be beneficial to us.

Operator^ And ladies and gentlemen. that will conclude our Q&A session for today's call.

To close this out, I'd like to hand the call back over to Roger.

Roger Sachs^ Thank you, everybody, for joining us on our call today and we look forward to speaking with you again next quarter.