

Condensed Consolidated Statements of Operations

(preliminary and unaudited)

(in millions, except per-share amounts)	Three Months Ended	
	June 30, 2019	June 30, 2018
Revenues	\$ 4,890	\$ 5,282
Costs of services	3,622	3,867
Selling, general and administrative	507	440
Depreciation and amortization	470	471
Restructuring costs	142	185
Interest expense	91	85
Interest income	(30)	(32)
Other income, net	(118)	(94)
Total costs and expenses	4,684	4,922
Income from continuing operations before income taxes	206	360
Income tax expense	38	129
Income from continuing operations	168	231
Income from discontinued operations, net of tax	—	35
Net income	168	266
Less: net income attributable to non-controlling interest, net of tax	5	7
Net income attributable to DXC common stockholders	\$ 163	\$ 259
Income per common share:		
Basic:		
Continuing operations	\$ 0.61	\$ 0.79
Discontinued operations	—	0.12
	\$ 0.61	\$ 0.91
Diluted:		
Continuing operations	\$ 0.61	\$ 0.78
Discontinued operations	—	0.12
	\$ 0.61	\$ 0.90
Cash dividend per common share	\$ 0.21	\$ 0.19
Weighted average common shares outstanding for:		
Basic EPS	267.00	284.44
Diluted EPS	268.97	289.30

Selected Consolidated Balance Sheet Data
(preliminary and unaudited)

(in millions)	As of	
	June 30, 2019	March 31, 2019
Assets		
Cash and cash equivalents	\$ 1,868	\$ 2,899
Receivables, net	5,234	5,181
Prepaid expenses	728	627
Other current assets	360	359
Total current assets	8,190	9,066
Intangible assets, net	6,468	5,939
Operating right-of-use assets, net	1,591	—
Goodwill	8,806	7,606
Deferred income taxes, net	356	355
Property and equipment, net	3,628	3,179
Other assets	3,538	3,429
Total Assets	\$ 32,577	\$ 29,574
Liabilities		
Short-term debt and current maturities of long-term debt	\$ 1,511	\$ 1,942
Accounts payable	1,517	1,666
Accrued payroll and related costs	746	652
Current operating lease liabilities	586	—
Accrued expenses and other current liabilities	3,183	3,355
Deferred revenue and advance contract payments	1,609	1,630
Income taxes payable	186	208
Total current liabilities	9,338	9,453
Long-term debt, net of current maturities	7,893	5,470
Non-current deferred revenue	309	256
Non-current operating lease liabilities	1,129	—
Non-current income tax liabilities and deferred tax liabilities	1,281	1,184
Other long-term liabilities	1,410	1,486
Total Liabilities	21,360	17,849
Total Equity	11,217	11,725
Total Liabilities and Equity	\$ 32,577	\$ 29,574

Condensed Consolidated Statements of Cash Flows

(preliminary and unaudited)

(in millions)	Three Months Ended	
	June 30, 2019	June 30, 2018
Cash flows from operating activities:		
Net income	\$ 168	\$ 266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	474	509
Operating right-of-use expense	176	—
Share-based compensation	18	22
Gain on dispositions	(8)	(46)
Unrealized foreign currency exchange gains	(14)	(16)
Other non-cash charges, net	(5)	12
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Increase in assets	(335)	(300)
Decrease in operating lease liability	(174)	—
Decrease in other liabilities	(366)	(78)
Net cash (used in) provided by operating activities	(66)	369
Cash flows from investing activities:		
Purchases of property and equipment	(105)	(79)
Payments for transition and transformation contract costs	(72)	(92)
Software purchased and developed	(63)	(49)
Payments for acquisitions, net of cash acquired	(1,911)	(43)
Business dispositions	—	(65)
Cash collections related to deferred purchase price receivable	371	137
Proceeds from sale of assets	21	19
Short-term investing	(75)	—
Other investing activities, net	12	(8)
Net cash used in investing activities	(1,822)	(180)
Cash flows from financing activities:		
Borrowings of commercial paper	1,401	633
Repayments of commercial paper	(1,401)	(633)
Borrowings on long-term debt, net of discount	2,198	483
Principal payments on long-term debt	(509)	(1,278)
Payments on finance leases and borrowings for asset financing	(210)	(259)
Borrowings for USPS spin transaction	—	1,114
Proceeds from stock options and other common stock transactions	7	9
Taxes paid related to net share settlements of share-based compensation awards	(12)	(1)
Repurchase of common stock and advance payment for accelerated share repurchase	(500)	(314)
Dividend payments	(51)	(51)
Other financing activities, net	(36)	(3)
Net cash provided by (used in) financing activities	887	(300)
Effect of exchange rate changes on cash and cash equivalents	(30)	(39)
Net decrease in cash and cash equivalents	(1,031)	(150)
Cash and cash equivalents at beginning of year	2,899	2,729
Cash and cash equivalents at end of period	\$ 1,868	\$ 2,579

Segment Results

The following table summarizes segment revenue for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018:

Segment Revenue

(in millions)	June 30, 2019	June 30, 2018	% Change	% Change in Constant Currency
Global Business Services	\$ 2,159	\$ 2,213	(2.4)%	0.5%
Global Infrastructure Services	2,731	3,069	(11.0)%	(7.6)%
Total Revenues	<u>\$ 4,890</u>	<u>\$ 5,282</u>	(7.4)%	(4.2)%

We define segment profit as segment revenues less costs of services, segment selling, general and administrative, depreciation and amortization, and other income (excluding the movement in foreign currency exchange rates on our foreign currency denominated assets and liabilities and the related economic hedges). The Company does not allocate to its segments certain operating expenses managed at the corporate level. These unallocated costs include certain corporate function costs, stock-based compensation expense, pension and OPEB actuarial and settlement gains and losses, restructuring costs, transaction, separation and integration-related costs and amortization of acquired intangible assets.

Segment Profit

(in millions)	<u>Three Months Ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Profit		
GBS profit	\$ 366	\$ 403
GIS profit	340	474
All other loss	(54)	(74)
Interest income	30	32
Interest expense	(91)	(85)
Restructuring costs	(142)	(185)
Transaction, separation and integration-related costs	(105)	(70)
Amortization of acquired intangible assets	(138)	(135)
Income from continuing operations before income taxes	<u>\$ 206</u>	<u>\$ 360</u>

Segment profit margins

GBS	17.0%	18.2%
GIS	12.4%	15.4%

Non-GAAP Financial Measures

We present non-GAAP financial measures of performance which are derived from the statements of operations of DXC. These non-GAAP financial measures include earnings before interest and taxes ("EBIT"), adjusted EBIT, non-GAAP income before income taxes, non-GAAP net income and non-GAAP EPS, constant currency revenues and net debt-to-total capitalization.

We present these non-GAAP financial measures to provide investors with meaningful supplemental financial information, in addition to the financial information presented on a GAAP basis. DXC management believes these non-GAAP measures allow investors to better understand the financial performance of DXC exclusive of the impacts of corporate wide strategic decisions. DXC management believes that adjusting for these items provides investors with additional measures to evaluate the financial performance of our business operations on a comparable basis from period to period. DXC management believes the non-GAAP measures provided are also considered important measures by financial analysts covering DXC as equity research analysts continue to publish estimates and research notes based on our non-GAAP commentary, including our guidance around non-GAAP EPS targets.

Non-GAAP financial measures exclude certain items from GAAP results which DXC management believes are not indicative of operating performance such as the amortization of acquired intangible assets and transaction, separation and integration-related costs.

Incremental amortization of intangible assets acquired through business combinations may result in a significant difference in period over period amortization expense on a GAAP basis. We exclude amortization of certain acquired intangibles assets as these non-cash amounts are inconsistent in amount and frequency and are significantly impacted by the timing and/or size of acquisitions. Although DXC management excludes amortization of acquired intangible assets from its non-GAAP expenses, we believe that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation. Any future transactions may result in a change to the acquired intangible asset balances and associated amortization expense.

There are limitations to the use of the non-GAAP financial measures presented in this report. One of the limitations is that they do not reflect complete financial results. We compensate for this limitation by providing a reconciliation between our non-GAAP financial measures and the respective most directly comparable financial measure calculated and presented in accordance with GAAP. Additionally, other companies, including companies in our industry, may calculate non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes between companies.

Reconciliation of Non-GAAP Financial Measures

DXC's non-GAAP adjustments include:

- Restructuring costs - reflects costs, net of reversals, related to workforce optimization and real estate charges.
- Transaction, separation and integration-related costs - reflects costs related to integration planning, financing, and advisory fees associated with the HPES Merger and other acquisitions and costs related to the separation of USPS.
- Amortization of acquired intangible assets - reflects amortization of intangible assets acquired through business combinations.
- Tax adjustment - reflects the estimated non-recurring benefit of the Tax Cuts and Jobs Act of 2017 for fiscal 2019.

EBIT and Adjusted EBIT

A reconciliation of net income to adjusted EBIT is as follows:

(in millions)	Three Months Ended	
	June 30, 2019	June 30, 2018
Net income	\$ 168	\$ 266
Income from discontinued operations, net of taxes	—	(35)
Income tax expense	38	129
Interest income	(30)	(32)
Interest expense	91	85
EBIT	267	413
Restructuring costs	142	185
Transaction, separation, and integration-related costs	105	70
Amortization of acquired intangible assets	138	135
Adjusted EBIT	<u>\$ 652</u>	<u>\$ 803</u>
Adjusted EBIT margin	13.3%	15.2%
EBIT margin	5.5%	7.8%

Adjusted Free Cash Flow

A reconciliation of net cash provided by operating activities to adjusted free cash flow is as follows:

(in millions)	Three Months Ended	
	June 30, 2019	
Net cash used in operating activities	\$	(66)
Net cash used in investing activities ⁽¹⁾		(1,747)
Acquisitions, net of cash acquired		1,911
Payments on capital leases and other long-term asset financings		(210)
Payments on transaction, separation and integration-related costs		94
Payments on restructuring costs		92
Sale of accounts receivables		(2)
Adjusted free cash flow	<u>\$</u>	<u>72</u>

⁽¹⁾ Excludes short-term investments.

Non-GAAP Results

A reconciliation of reported results to non-GAAP results is as follows:

Three Months Ended June 30, 2019					
(in millions, except per-share amounts)	As Reported	Restructuring Costs	Transaction, Separation and Integration-Related Costs	Amortization of Acquired Intangible Assets	Non-GAAP Results
Costs of services (excludes depreciation and amortization and restructuring costs)	\$ 3,622	\$ —	\$ —	\$ —	\$ 3,622
Selling, general and administrative (excludes depreciation and amortization and restructuring costs)	507	—	(105)	—	402
Income from continuing operations before income taxes	206	142	105	138	591
Income tax expense	38	28	22	31	119
Net income	168	114	83	107	472
Less: net income attributable to non-controlling interest, net of tax	5	—	—	—	5
Net income attributable to DXC common stockholders	\$ 163	\$ 114	\$ 83	\$ 107	\$ 467
Effective tax rate	18.4%				20.1%
Basic EPS from continuing operations	\$ 0.61	\$ 0.43	\$ 0.31	\$ 0.40	\$ 1.75
Diluted EPS from continuing operations	\$ 0.61	\$ 0.42	\$ 0.31	\$ 0.40	\$ 1.74
Weighted average common shares outstanding for:					
Basic EPS	267.00	267.00	267.00	267.00	267.00
Diluted EPS	268.97	268.97	268.97	268.97	268.97

Three Months Ended June 30, 2018

(in millions, except per-share amounts)	As Reported	Restructuring Costs	Transaction, Separation and Integration-Related Costs	Amortization of Acquired Intangible Assets	Tax Adjustment	Non-GAAP Results
Costs of services (excludes depreciation and amortization and restructuring costs)	\$ 3,867	\$ —	\$ —	\$ —	\$ —	\$ 3,867
Selling, general and administrative (excludes depreciation and amortization and restructuring costs)	440	—	(70)	—	—	370
Income from continuing operations before income taxes	360	185	70	135	—	750
Income tax expense	129	41	16	33	(33)	186
Income from continuing operations	231	144	54	102	33	564
Income from discontinued operations, net of tax	35	—	—	—	—	35
Net income	266	144	54	102	33	599
Less: net income attributable to non-controlling interest, net of tax	7	—	—	—	—	7
Net income attributable to DXC common stockholders	\$ 259	\$ 144	\$ 54	\$ 102	\$ 33	\$ 592
Effective Tax Rate	35.8%					24.8%
Basic EPS from continuing operations	\$ 0.79	\$ 0.51	\$ 0.19	\$ 0.36	\$ 0.12	\$ 1.96
Diluted EPS from continuing operations	\$ 0.78	\$ 0.50	\$ 0.19	\$ 0.35	\$ 0.11	\$ 1.93
Weighted average common shares outstanding for:						
Basic EPS	284.44	284.44	284.44	284.44	284.44	284.44
Diluted EPS	289.30	289.30	289.30	289.30	289.30	289.30