

08-Nov-2023

Genpact Ltd. (G)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Roger Sachs

Vice President-Investor Relations, Genpact Ltd.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Balkrishan Kalra

Global Business Leader-Financial Services and Consumer & Healthcare, Genpact Ltd.

Michael Weiner

Chief Financial Officer, Genpact Ltd.

OTHER PARTICIPANTS

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Maggie Nolan

Analyst, William Blair & Co. LLC

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Bryan C. Bergin

Analyst, TD Cowen

Sam Salvas

Analyst, Needham & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, welcome to the 2023 Third Quarter Genpact Limited Earnings Conference Call. My name is Didi and I will be your conference moderator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session toward the end of this conference call. As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

I would now like to turn the call over to Roger Sachs, Head of Investor Relations at Genpact. Please proceed.

Roger Sachs

Vice President-Investor Relations, Genpact Ltd.

Thank you, Didi. Good afternoon, everybody, and welcome to our third quarter earnings call to discuss the results for the period ended September 30, 2023. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

Speakers on today's call are Tiger Tyagarajan, our President and CEO; Mike Weiner, our Chief Financial Officer; and BK Kalra, our next CEO. Today's agenda will be as follows. Tiger will provide an overview of our results and update you on our strategic initiatives, BK will follow with a few brief introductory comments, and then Mike will walk you through our financial performance for the quarter, as well as to update you on our full-year 2023 outlook. Mike and Tiger will then take your questions. We expect the call to last about an hour.

Some of the matters we will discuss in today's call are forward-looking and involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-





looking statements. Such risks and uncertainties are set forth in our press release. In addition, during today's call, we will refer to certain non-GAAP financial measures that we believe provide additional information to enhance the understanding of the way management views the operating performance of our business. You can find a reconciliation of these measures to GAAP in today's earnings release posted to the IR section of our website.

And with that, let me turn the call over to Tiger.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our third quarter 2023 earnings call. I know you all have seen the exciting news that BK Kalra has been appointed as Genpact's next CEO, as I've announced my retirement in February of 2024. I will share more about this announcement and BK will share a few words. But first, let's review the quarter.

At a high level, we saw increasing pressure in short cycle advisory and other project work in quarter three as clients remained sharply focused on large transformational deals that prioritize cost reductions. This resulted in total revenue being below our expectations. However, bookings remain strong and are on pace to grow at least 25% in 2023. In addition, we continue to make significant progress in the use and deployment of GenAl as we move into live production environments with early demonstrated results. This is leading to many new inflows as clients prepare to embed large language models into their operations.

Turning to our performance in more detail, we delivered on a constant currency basis, total revenue of \$1.14 billion, up 2% year-over-year; Data-Tech-Al services revenue of \$500 million, down 2% year-over-year; and Digital Operations services revenue of \$636 million, up 6% year-over-year. We also delivered adjusted operating income margin of 17.2%, up 10 basis points year-over-year, and adjusted diluted earnings per share of \$0.76, up 1% year-over-year.

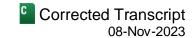
Our third quarter revenue grew less than expected. We saw ongoing pressure in short-cycle projects and advisory work, driven by three things. One, fewer small deals converted; two, longer decision cycle times for those small deals; and three, lower demand for smaller tech deals in our Financial Services and Consumer & Healthcare verticals. These challenges were predominantly felt in our Data-Tech-Al services, where we design and build solutions to transform our clients' businesses.

However, our recent large deal wins are ramping up on schedule. This has drive solid performance in our Digital Operations services, where we digitally transform and run our clients' operations. Given our year-to-date performance, lower-than-normal visibility into client discretionary spending, and no expectation of seeing the typical seasonal year-end lift from budget flush spending, we are resetting our full-year 2023 revenue outlook.

We now expect full-year top line growth of approximately 2.5% year-over-year on a constant currency basis compared to our prior expectation of 5.5% of 6.5% growth. Mike will provide greater details on this updated outlook.

Despite the challenging macro environment, demand for our long-term annuity-based services remains very healthy. Fueled by continued robust inflows, our high-quality pipeline once again reached a record level. We believe our deep domain process and data expertise, combined with our experience building, developing and refining our AI capabilities over the last seven years, gives us a unique competitive advantage in these times with the rise of GenAI.

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This has led to many new deal inflows year-to-date embedded with GenAl. We signed two new large deals during the guarter following the 11 we signed in the first half of the year. Win rates in the period were approximately 55% above historical levels, and roughly half of our wins continue to be sole sourced.

We also added 32 new logos during the guarter, a bounce back from the first half of the year. With the anticipated growth in bookings for the year and ongoing expansion of our pipeline, we continue to believe that we are wellpositioned for accelerating growth in 2024 compared to our adjusted outlook for 2023. However, given limited visibility into our short cycle revenue, we currently do not have the same level of confidence in forecasting a return for double-digit growth in 2024, as we did in our prior quarter update. We will provide a more detailed 2024 outlook during our year-end earnings call in early February.

Turning to our five key strategic initiatives, we continued to make progress on all of them in quarter three. First, revenue from our priority accounts grew 6% year-over-year during the quarter and expanded to approximately 64% of total revenue. Our investments in these clients are paying off as approximately 70% of our year-to-date bookings were from our priority accounts. We continue to expect this portfolio to grow faster than the company average over the long term.

Second, we continued to deepen our partnerships with cloud technology players as we co-innovate and create joint IP solutions. Three examples. First, we expanded our partnership with AWS, integrating their Bedrock GenAl capabilities with our proprietary cloud-based financial crime solution. This solution has been deployed into production at two financial institutions to drive precision and efficiency in detecting, investigating, and preventing financial crime. We grew our team and certifications in GenAI, machine learning, and data engineering for Google Cloud and new SaaS solutions listed on the Google Cloud platform Marketplace. And finally, as an elite partner of ServiceNow, we are enhancing our cloud-based joint solutions that automate procurement and sourcing, supply chain, and insurance processes just to name a few.

Third initiative, we are continuing to invest in new operating centers in tier 3 cities in India where we expanded our talent base and footprint. These new hubs not only offer us cost benefits, but also access to diverse talent pools with lower attrition.

Fourth, we continue to drive outcome and transaction-based commercial models, which represented 16% of our revenue in the third quarter. And finally, our recent investments in large deal team continue to generate great results, both in bookings and pipeline.

As expected, our attrition level for the third quarter was 25%, consistent with the first half of the year and significantly lower than the 36% during the same period last year. Adjusting for involuntary attrition and employees with less than three months of service, our attrition rate was even lower at 21%.

Let me now update you on the rapid progress we are making with GenAI. I'm more confident than ever that this is a huge opportunity for us. We have three focus areas. First, we're using GenAI to disrupt less penetrated areas for us and are wide open on new service models. For example, customer care, FP&A, sales and commercial operations.

Second, we are prioritizing services where we are a recognized leader. For example, financial accounting, financial crimes and risk services, and supply chain where GenAl acts as a catalyst to drive a step function improvement in outcomes. And third, we are implementing GenAl internally across our own HR, training, knowledge management, and software development functions, helping to drive speed, margin improvement, and employee and user experience.



We currently have more than 90 specific GenAl solutions that are undergoing rigorous testing, either with clients or our internal teams. We have begun to shift our focus from building proof-of-concept and pilots to implementing solutions in live production environments, with about 10 pilot deployed or on the verge of going live. Today, we've had nearly 2,000 client conversations helping to generate GenAl roadmaps with specific use cases and related execution paths.

While I already shared the financial crimes solution deployed on Amazon Bedrock earlier in the call, let me now share two more examples that are on a rapid path to production. For a global entertainment company, we've integrated AI into mining and sentiment analysis of their customer chat data. This has led to a 40% reduction in resources for handling chat feedback, as well as a significant increase in first-time resolution by providing ideal responses to service agents to solve customers' issues. For a leading financial institution, we integrated GenAI, predictive AI, and machine learning models into their loan review process, resulting in a 3 times increase in volume processed. This transformation is enhancing client satisfaction and driving business growth.

While we are still in the early days, GenAI embedded solutions enable clients to quickly achieve outcomes. As a result, we believe it will help accelerate the trend towards greater use of alternate commercial pricing models, ultimately leading to a greater decoupling of revenue growth from employee growth over the long term. Our ability to upskill our employees at scale, combined with our deep domain expertise represents a competitive advantage for us as we help clients unlock the benefits of GenAI. We now have more than 90,000 team members enrolled in our AI training programs with almost 47,000 having completed various levels of certifications. We have also created an internal AI playground where our employees can experiment with multiple large language models to help drive GenAI adoption. Currently, more than 60,000 employees are using this platform.

Our progress was recently recognized by the leading industry analyst firm, HFS, where we earned the highest ranking in their inaugural Generative Enterprise Services Horizon report.

Now, let me come back to the CEO succession plan we announced today. It has been an incredible journey for me leading Genpact over the last 12-plus years. The world around us has changed dramatically in that time, and Genpact has successfully transformed along with it.

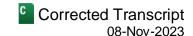
I have tremendous personal and professional respect for BK. He has been a true partner for me for years and helped shape and execute the various pivots of the company. He knows our business, our clients, and our teams better than anyone and embodies the very best of who we are at Genpact. His holistic and hands-on approach to strategic and operational leadership will be a guiding force as he becomes our next CEO. Equally importantly, we have built a great leadership team over the years that will make the whole transition seamless.

As for me, I plan to stay actively involved as a member of the board and will, of course, work very closely with BK to ensure a smooth and successful transition. With that, I'd like to turn it over to BK for a few additional remarks.

Balkrishan Kalra

Global Business Leader-Financial Services and Consumer & Healthcare, Genpact Ltd.

Thank you, Tiger. I consider it an honor to be selected as Genpact's next CEO. And on behalf of the entire Genpact team, I want to express our immense gratitude for your leadership. As many of you know, I have been with Genpact since our early days. I look forward to leading this talented team and building on the strong foundation that Tiger has established. I'm excited to step into the CEO role early next year. Over the next several months, I'll be reviewing every aspect of the business and spending time listening to our clients, employees, partners and investors. The focus for us right now is navigating the current macro environment. I'm confident the



headwinds are temporary and our business model remains robust. We expect to see a top line improvement in 2024. We participate in underpenetrated and high growth market. And with unparalleled dedication of our global team, we are extremely well-positioned to drive sustainable long-term growth for all our key stakeholders.

With that, let me turn the call over to Mike to go over the quarter in more detail.

Michael Weiner

Chief Financial Officer, Genpact Ltd.

Thank you, BK, and good afternoon, everyone. Today, I'll review our third quarter results and provide you with our latest thinking regarding our full year 2023 outlook. Total revenue of \$1.136 billion was up 2% year-over-year both as reported and as a constant currency basis. Data-Tech-Al services revenue, which represents 44% of total revenue, declined 2% both on an as reported and a constant currency basis. This performance was below our expectations, largely due to incremental pressure related to short cycle discretionary tech spending that escalated during September for both the Financial Services and Consumer & Healthcare verticals.

Digital Operations services revenue, which represents 56% of total revenue, increased 6% year-over-year, both on an as reported basis and a constant currency basis, reflecting on time deal ramps related to recent large booking wins. From a vertical perspective, Financial Services increased 6% year-over-year, largely due to large deal ramps, partly offset by clients lower than expected discretionary tech spending.

Consumer & Healthcare declined 2% year-over-year, largely due to pressure on short cycle, growth-oriented, digital marketing projects and discretionary tech spending, as well as the impact from the recent divestiture of a business we had previously classified as held for sale last year. High Tech and Manufacturing increased 4% year-over-year, primarily driven by ramp ups related to recent [ph] new logo (16:16) wins, partly offset by the impact of reduction of scope of a priority high tech client mentioned earlier in the year.

Despite our disappointing third quarter top line performance during the 12-month period ending September 30, 2023, we grew the number of client relationships with annual revenue greater than \$5 million from 158 to 182. Additionally, clients with annual revenue greater than \$25 million expanded from 34 to 38, and clients more than \$100 million increased from three to five.

Adjusted operating income margin was 17.2%, up 10 basis points year-over-year and 40 basis points sequentially, largely due to higher gross margins and general operational efficiencies. As a reminder, our performance in the third quarter last year included the positive impact from the business designated as held for sale last year that has been divested.

Gross margins in the third quarter expanded 10 basis points year-over-year, primarily reflecting cost management actions implemented earlier in the year. Sequentially, gross margins improved 20 basis points, largely driven by better utilization and greater mix of digital operations revenue offset by the impact of ramping up of recent large deal wins.

SG&A as percentage of revenue improved 60 basis points both year-over-year and sequentially, reaching approximately 20%. Year-over-year improvement was largely due to the absence of expenses related to nonstrategic business that was divested, offsetting the higher investment in sales and marketing and research and development in third quarter of 2023. Sequential improvement from second quarter was primarily due to operating leverage.



Our effective tax rate was 24.1% compared to 20.8% last year, largely due to changes in our jurisdictional mix of income and a recent increase in UK statutory income tax rates. Adjusted EPS was \$0.76, up 1% year-over-year from \$0.75 during the third quarter of last year. The increase was primarily driven by higher adjusted operating income of \$0.02, the positive impact from lower outstanding share count at \$0.01, partly offset by \$0.02 impact from year-over-year increase in our effective tax rate.

Turning to cash flow and balance sheet. During the quarter, we generated \$162 million of cash from operations compared to \$226 million during the same period last year. The decline was driven by sequential increase in our DSOs in the third quarter related to delayed collections on certain accounts where cash was received in early October. On a year-over-year basis, DSOs expanded by 3 days to 84 days. We now expect the end of the year to be at a similar level. Our net debt to EBITDA ratio for the last four rolling quarters was 1.1 times. Capital expenditures as percentage of revenue equated to approximately 1.3%.

Now let me provide you with our latest thinking regarding our full year outlook. As Tiger discussed earlier, we saw clients become more cautious on discretionary project spending during the third quarter. This translated into lower levels of short cycle project revenue than we've anticipated. At the same time, we remain focused on prioritizing large transformational deals driven by cost savings and efficiency gains. This dynamic resulted in less near-term revenue as bookings remain skewed towards large deals where revenue is recognized over a multiyear period. As a result, we now expect revenue for full-year 2023 to be approximately \$4.45 billion, representing a year-over-year growth of 2.5% on a constant currency basis. We now anticipate our full-year adjusted operating income margin to expand by 50 basis points year-over-year to 17%. This is up from our prior outlook of 16.8%.

The increase is primarily driven by the greater mix of digital operations revenue in our revised top line outlook, as well as lower investment in Data-Tech and AI services revenue growth for the remainder of the year. We expect a recent large deal bookings to contribute to higher revenue in the fourth quarter compared to the third quarter. Given that many of these deals have initial onshore delivery, we continue to expect full-year 2023 gross margin to be relatively flat to slightly down compared to last year.

Taking into account our year-to-date tax expense, we now expect full-year 2023 effective tax rate to be at the lower end of our 24% to 25% range. Given the updated outlook, we now expect adjusted earnings per share for the full-year 2023 to be approximately \$2.89, representing a year-over-year growth of 6%. Due to the anticipated DSOs and lower expected adjusted operating income, we now expect to generate full-year cash flow from operations of approximately \$475 million compared to our prior outlook of approximately \$500 million.

We now expect capital expenditures as a percent of total revenue to be at the low end of our 1.5% to 2% range full year. As Tiger discussed, given our limited visibility and short cycle revenue, we do not have the same level of confidence in calling for double-digit growth in 2024, as we did when we spoke to you last quarter. That said, we continue to believe we're well-positioned for accelerating growth in 2024. Over the next several weeks, we'll be finalizing our forecast and provide you with specific 2024 guidance during our year-end earnings call in early February.

With that said, let me turn the call back to Roger.

Roger Sachs

Vice President-Investor Relations, Genpact Ltd.

Thank you, Mike. We'd now like to open up our call for your question. Didi, can you please provide the instructions?



QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment for our first question. And our first question comes from Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Hey, thank you. Well, Tiger, it's been an amazing run. So it's weird to hear that the end of an era here come February. But congrats on that news. And of course, congrats to BK.

[indiscernible] (22:51).

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Yeah. Well, I'm sure we'll get a chance to speak again, I guess this quarter as well. But just let's get into the business for a second here. Just thinking about the comments around short cycle as well as large deals. It's been a pretty common theme, Tiger, that we've been hearing throughout this results season. So maybe can you talk a little bit about ACV versus TCV? I've been trying to understand that dynamic better for a lot of the companies. I'd love to hear your thoughts on that because it sounds like the backlog is strong, but the short cycle work isn't filling out. So that must be having an impact on the level of bookings that convert this year or in year. So anything then to walk us through that that dynamic?

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

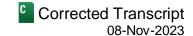
So Tien-Tsin, first of all, thank you. And your question may be the answer itself. It's exactly the dynamic that we are seeing. Very strong long cycle annuity deals with multiyear TCV. Typically, as you know in our business, that ranges in the order of magnitude of three to slightly above three-year terms on the average, actually closer to four years. And then on the short cycle, you could have three months, six months, nine months, one year, etcetera. And those short-term projects are the ones that have been challenged and we've heard that across the industry. In fact, we've heard both dynamics across the industry.

What then happens is we see that 25%, at least bookings growth that we talked about, which sets the stage nicely, particularly for Digital Operations, but also for half of our Data-Tech-AI, about half of our Data-Tech-AI is long cycle in nature, it sets up really nicely for the long haul. The short-term bookings that don't get done immediately translates to impact on revenue not coming through for the year and that's the dynamic we are seeing. Mike, do you want to add anything?

Michael Weiner

Chief Financial Officer, Genpact Ltd.

Yeah. What I'd add to that is that if you actually play out what you just said, Tiger, with regard to 25% projected year-over-year bookings growth and how it manifests itself in the financials for the third quarter and how we're thinking about the fourth quarter as well. Our Digital Operations business grew 6%. We're expecting it to continue to grow, which the vast majority of the large deals was reflected in there as well as, as you said earlier, about half of the Data-Tech-Al business is there.



So it is a tale of two cities as you kick off the discussion with incredibly strong, transformational, large deal wins that make up the vast majority of the pipeline with some shorter near-term non-annuity, Data-Tech-Al pressure that we're seeing in the third and projecting into the fourth quarter.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

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Great. No. thanks for going through that. So just my quick follow up. And if we're – so no budget flush assuming this year makes sense. I heard the comments around 2024 and the acceleration in 2025. But, what are you looking for? Is there anything that you can do to maybe catalyze the short cycle work short of pricing? I mean, imagine changing over to calendar year sometimes helps, but at this stage, it's probably too early to call. Is there anything that can be done on your side to maybe catalyze that?

Michael Weiner

Chief Financial Officer, Genpact Ltd.



Yeah. The way we're kind of thinking about it without getting into specific numbers today with regard to 2024 and how we're thinking about entering the year. There's a key – there's a number of key variables we think about in our business. Obviously, the basis of it with the Digital Operations business growing strong will act as a fundamental of base for us with these large deal signings we had, both the – including the two we had this particular quarter. But really the variable – the variability, it really comes from our Data-Tech-Al business that we talked about earlier.

Two just points, the pipeline of Data-Tech-Al I remains incredibly strong and growing. So that means there's huge demand there. The large deals that I mentioned earlier, also having Data-Tech-Al component into it will continue to ramp up through next year. But specifically, what could we do and what are we seeing right now? So there's a huge opportunity associated with generative Al, specifically while we didn't see the budget flushing that we traditionally see in the third and particularly into the fourth quarter. We are not hearing any degradation in terms of generative Al budgets going into next year.

So when we think about it, those dollars are what we're going to go after. With our huge focus and investment on data engineering solutions, I think that's going to be a nice tailwind for us as we grow to help us through, particularly in the Data-Tech-AI to help drive our growth next year above the level that we had this year, certainly.

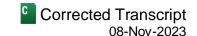
N. V. Tyagarajan

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President, Chief Executive Officer & Director, Genpact Ltd.

And then just to add, finally, to what Mike said in terms of some of the specific actions we've already taken. We now have a GenAl set of offerings on the back of the 90 projects and pilots that I talked about, of which 10 are into getting closer and closer to production more and 2 are in full production. The more that progresses, the more we get into replication mode.

And as you can imagine, GenAl is a conversation that if you can replicate and start, you know, rolling off those solutions, it gets locked up pretty quickly. So we expect that to be a tailwind. Second, Generative Al itself begs the question for our clients as to whether they have all the data lined up. And that's where Mike's comment on data engineering is a big one. We expect data engineering to be one of the tailwinds in our Generative Al as we complete this year and enter this year. And those specific actions we are doing in terms of resource allocation into the specific buying factors, industry verticals, and geographies where we see the most uplift.



Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Thanks for walking through that.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Absolutely.

Operator: Thank you. One moment for our next question. Our next question comes from David Koning of Baird. David, your line is open. Please check your mute. Please rejoin using the Call Me feature. One moment for our next question. Our next question comes from Maggie Nolan of William Blair.

Maggie Nolan

Analyst, William Blair & Co. LLC

Thank you. I was hoping you could comment a little bit. It's great to have you regularly provide kind of that non-FTE percentage that you've been giving. Can you give a little bit of color on the traction of that non-FTE work within your high priority accounts and how widespread that is being adopted within those particular accounts?

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

So, Maggi, actually it's a great question. At the total revenue level, our non-FTE commercial models, the penetration is 16%, as you heard in my remarks. And as you remember, we had said that over the long term, 2026 horizon, we would like to get that to at least 20%. And last quarter, I reiterated that there is a very high probability that we'll get there faster because our bookings seems to be tracking in terms of its penetration of [ph] alternate (30:45) commercial models higher than that 16%, which is great and therefore we keep accreting.

Within priority accounts, though that penetration of non-FTE pricing models is higher than the company average, the exact number I wouldn't be able to give right away, but it's tracking higher than the company average. And the reason is very simple. Often, in the smaller relationships, you don't have enough of a combined scale to be able to drive the kind of non-FTE pricing and value-based pricing that you can when you do financial accounting with order management, with supply chain. And when you put all that together, our ability to drive real value is tremendous, and we participate in that value creation.

Maggie Nolan

Analyst, William Blair & Co. LLC

Thank you. And then, on the margins, do you anticipate that this current dynamic with the short-cycle work versus the longer term kind of cost optimization projects is going to have an impact on where gross margin or operating margin can come in over the next couple of quarters?

Michael Weiner

Chief Financial Officer, Genpact Ltd.

Well, there's two separate dynamics that are going on associated with our gross margins. As you know, when we have these large deal ramp-ups, particularly when we take onshore delivery and move it to offshore, tends to have a dilutive effect on the business in the near term and it gets accretive from a gross margin perspective. Where the countervailing view on that as well is that our Data-Tech-Al gross margins when we have slower revenue growth disproportionately benefit us on a gross margin basis. So, with that said, in our projections going

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into next year with the recovery in Data-Tech-AI, I think they'd be relatively flat on a go-forward basis with those two counter things going in different directions.

Maggie Nolan Analyst, William Blair & Co. LLC Got it. Thank you. And congrats, Tiger and BK, on your announcement. N. V. Tyagarajan President, Chief Executive Officer & Director, Genpact Ltd. Thank you, Maggie. Operator: Thank you. One moment for your next question. And our next question comes from Ashwin Shirvaikar of Citi. Ashwin Vassant Shirvaikar Analyst, Citigroup Global Markets, Inc. Hey, guys. Tiger, congratulations on the long run, and it's been a pleasure working with you. And, BK, congratulations. Very well-deserved and look forward to working with you. N. V. Tyagarajan President, Chief Executive Officer & Director, Genpact Ltd. Thanks, Ashwin. Ashwin Vassant Shirvaikar Analyst, Citigroup Global Markets, Inc.

I guess – yeah. I guess the question I have is if you look at Data-Tech-Al and Digital Ops, right, the Digital Ops business should still, I would imagine, even without sort of budget flush and without things like that should still be sequentially growing most quarters, right? And so that would imply kind of Data-Tech-Al kind of shrinks to the, I don't know, \$475 million, \$485 million kind of range for December. So, then I kind of think of the carryforward from that, you know. The - I just want to try to get better color on the less - in not quite double-digit kind of comment. Is that more of a mid-single-digit type of comment, better or worse, what kind of visibility do you have by line? Any thoughts there.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Mike, go first.

Michael Weiner

Chief Financial Officer, Genpact Ltd.

So, let me kick it off. There's two things to really unpack there. So, your sequential observation of third quarter into fourth quarter regarding Digital Operations is 100% correct, both on a notional dollar basis and our year-over-year percentage basis, also off of the tough fourth quarter comp from that perspective. So, correct, by definition, our Data-Tech-Al business would be weak going into the fourth quarter, okay?

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So, with that said and the full ramp-up that - I'm going to build on some of the other comments we said earlier with the full ramp-up of the Digital Operations business that we have on the large deals we've won through the year, that'll provide a nice base for next year, right?

Now, if you then think about our Digital – our Data-Tech-Al business with some of the drivers that we're talking about, particularly that regarding Generative AI, right, and being able to utilize some of those budgeted numbers that are out there, particularly, again, with the data engineering solutions that we're offering, we think that's going to help propel our Data-Tech-Al business.

So at the end of the day, logic would dictate that next year we'll be somewhere between our full year 2023 guidance, but a - less than our initial double-digit view that we had then. So, we'll have to ultimately see where it goes. We'll provide additional information about that in early February.

But the obvious, the other thing that we have to think about, the variable out there that's creating a little less visibility than a normal is the macroeconomic environment. Does it remain stable? Does it improve? Does it deteriorate, right?

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

The one other thing that I would add, Ashwin, the one other thing that I would add to what Mike said, Ashwin, on Digital Operations, is that going into the third quarter, actually probably even going – finishing off the second quarter, going into the third quarter. The big discussion that we all had was confidence in the ramp of the wins that we had as we go through quarter three and quarter four. And one of the most pleasing aspects of our business is that ramp, how it exactly delivered what we had expected on Digital Operations.

So even in this environment, we are really confident, not just with your comment, that it's a natural thing to come through. But even though risk associated with those types of ramps hasn't played out at all, so it's actually really, really solid.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.



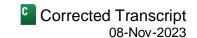
Right. And that's sort of where I was going to go next is with regards to the expectations that you had. You're just to confirm, you're not necessarily seeing delays with regards to sort of rebadging type deals. What types of deals and decision making are you seeing delays with? I mean, I know the broad classification is short cycle discretionary. But if you can be more granular with regards to what you're seeing by vertical, by geography. Any details there would be helpful.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Yeah. I'll take the easy ones because I guess the whole industry would be seeing this and you would agree with that because you probably see more of it as you talk to the peer group. Technology project work where teams are allocated, let's say the financial services firms, banks. And as those projects get completed, the question of what is the next project comes up. And if the leaders in the firm decide that actually we don't want to spend any more money on the next set of projects. So instead of spending x billion dollars, we'll spend x divided by two. That means that, you know, those projects - new projects don't come in to utilize the same set of people who bring the expertise, who built the domain, etcetera.

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It's a really tough decision for that bank to take because the moment that happens, we move those teams into great projects with other people. Those people don't sit idle. But everyone in banking, a number of people in retail, consumer goods and in manufacturing are clearly taking those decisions, have been those decisions. That's one example.

Another would be in the front end improvement of marketing experience, improvement of digital marketing. Some of those are coming under the radar and under the lens of is this really needed and is the payback immediate? Those are two questions that get asked. Particularly, I think at the end of the year, budget flushing not available, etcetera.

So, those are two examples. I'll give you examples, where we're not seeing that at all. Supply chain, a great example where we are not seeing any degradation, or I need to improve my supply chain. I need to get a diversification on my supply chain driven by all macro factors. Another one would be get my data ready for GenAl. Two examples where we are not seeing any degradation.

Michael Weiner

Chief Financial Officer, Genpact Ltd.

I would just quickly add to that, too, Tiger, that our pipeline associated with that type of work has not reduced. It's actually increased. The quality of the pipeline increases. So, that's going to be, again, a nice driver for us as we go into 2024. We work hard on converting that pipeline into revenue.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from Bryan Bergin of TD Cowen.

Bryan C. Bergin

Analyst, TD Cowen

Hi, guys. Thank you. Tiger, good working with you. Congratulations on the retirement. BK, congrats on the promotion here. My first one is a clarification. So, I just want to be crystal clear. The Digital Ops, it sounds like there's really nothing changed. You feel good about the ramp. So, as we – as you were thinking about what you would grow in 2024, just to be clear, is there any change on how you were feeling about the business? Fully understand that the DTA business is flattening out here but just on the Digital Ops to start.

Michael Weiner

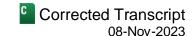
Chief Financial Officer, Genpact Ltd.

No. What we said in the first and second quarter and our last has played out exactly how we did. Ashwin asked a moment ago if we saw any degradation in terms of Digital Operations, projected ramp, no. Worked out quite well. And that's really as I talked about earlier, we'll continue to provide the base for fourth quarter and into next year. We've seen no degradation.

Bryan C. Bergin

Analyst, TD Cowen

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Okay. Very good. And then just on the margin expenses here. You're obviously able to offset I guess the mix aspect of this. But as you're kind of leaning in to reduce costs, can you just talk about how you're balancing efficiency here versus the need for growth investments?

Michael Weiner

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Chief Financial Officer, Genpact Ltd.

Yeah. We're not – very simply. We're not pulling away from growth investments. In my prepared comments, I tried to articulate, we're not pulling away from sales and marketing investments or R&D. There's natural efficiencies in our business, particularly in a down cycle, particularly Data-Tech-AI on that small cohort of work that we do, but we're not pulling from those investments for the future.

Bryan C. Bergin

Analyst, TD Cowen

All right. Thank you.

Operator: Thank you. [Operator Instructions] One moment for our next question. And our next question comes from Mayank Tandon of Needham & Company.

Sam Salvas

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Analyst, Needham & Co. LLC

Great. Thanks. Hey, guys. This is Sam on for Mayank today. Thanks for taking the questions. Just a quick one for me. The 32 new logos this quarter was good to see. Could you guys talk about which verticals had the strongest new logo additions this quarter?

N. V. Tyagarajan

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President, Chief Executive Officer & Director, Genpact Ltd.

I'll remind you that actually it's nicely distributed across all our verticals and we are very pleased with what I call in my prepared remarks a bounce back. Because if you remember the first half of the year, it had come down versus the prior three or four quarters. And the reason for that one was a reduction in some of the smaller, faster growing technology companies that we saw withdraw for all good reasons that we all know in the first half. Got replaced by other larger clients across all verticals, and interestingly across geos as well, whether it's Europe, Asia or North America.

Sam Salvas

Analyst, Needham & Co. LLC

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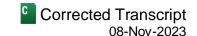
Got it. Okay. Thanks, guys.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Thank you.

Operator: Thank you. I'm showing no further questions at this time. I would now like to turn it back to Roger Sachs for closing remarks.



Roger Sachs

Vice President-Investor Relations, Genpact Ltd.

Thanks everybody for joining us today. And we look forward to speaking to you again in early February.

Operator: This concludes today's conference call. Thank you for participating and you may now disconnect.

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