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Genpact Ltd. (G)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the 2023 Fourth Quarter Genpact Limited Earnings Conference Call. My name is Michelle 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 towards 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, Vice President of Investor Relations at Genpact. Please proceed.

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

Thank you, Michelle, and good afternoon, everybody, and welcome to Genpact's fourth quarter and full year 2023 earnings conference call. We hope you had a chance to read our earnings release, posted on the IR section of our website, genpact.com. Today, we have with us Tiger Tyagarajan, our Outgoing President and CEO; BK Kalra, our Incoming President and CEO; and Mike Weiner, our Chief Financial Officer. Tiger will start with a high level overview of our performance for the full year 2023. BK will then speak to our strategic priorities and outlook. And finally, Mike will cover our financial performance and outlook in greater detail before opening the floor to your questions.

Please also note that during this call, we will make forward-looking statements, including statements about our business outlook, strategies and long-term goals. These comments are based on our plans, predictions and expectations as of today, which may change over time. Our actual results could differ materially due to a number of important risks and uncertainties, including the risk factors in our 10-K and our 10-Q filings with the SEC.

And during this call, we will discuss certain non-GAAP financial measures. We have reconciled those to the most directly comparable GAAP financial measures in our earnings press release. These non-GAAP measures are not intended to be a substitute for our GAAP results. And finally, this call in its entirety is being webcast on our Investor Relations website, and an audio replay and transcript will be available on our website in a few hours.

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

N.V. Tyagarajan

Director & Outgoing President and Chief Executive Officer, Genpact Ltd.

And I was on mute. Thank you, Roger. Good day, everyone, and thank you for joining us today for our fourth quarter and full year 2023 earnings call. I will start with a brief overview of our 2023 financial results, and then hand the call over to our Incoming CEO, BK, to take you through our strategic priorities and outlook for 2024.

For the full year 2023, we delivered total revenue of $4.48 billion, up 2% year-over-year and 3% on a constant currency basis, driven by Data-Tech-AI services revenue of $1.99 billion, up 2% on both an as reported and constant currency basis, and Digital Operations services revenue of $2.48 billion, up 3% year-over-year as reported or 4% on a constant currency basis. Gross margins of 35.1%, which was flat year-over-year; income from operations margin of 14.1%, up 260 basis points year-over-year; and adjusted operating income margin of 17%, up 50 basis points year-over-year. And diluted earnings per share of $3.41, up 81% year-over-year, and adjusted diluted earnings per share of $2.98, up 9% year-over-year.

Bookings for the full year reached $4.9 billion, up a strong 26% on a year-over-year basis, as we signed a record 14 new large deals, each with total contract value greater than $50 million. Inflows remain healthy, resulting in a high quality pipeline that reached near record levels as we exited the year. Win rates increased to 60% versus 51% in the prior year, and we added 91 new logos. Sole sourced deals represented 40% of bookings, below our typical 50% level, reflecting the much higher number of large deal wins, which tend to be more competitive.

Throughout the year, we made progress on our key initiatives for 2023. First, revenue from priority accounts grew 4% year-over-year and expanded to 63% of global revenue. Second, we strengthened and expanded relationships with key cloud technology partners to co-innovate and develop joint IP solutions. Third, we opened and scaled three new operating centers in Tier 3 cities in India.

Fourth, we continue to drive non-FTE commercial models, with non-FTE deals reaching 20% of total revenue in the fourth quarter and 17% of total revenue for the full year. Fifth, investments in our large deal teams generated a strong bookings and pipeline that I described earlier. And finally, for the fourth consecutive year, our global workforce completed approximately 10 million trading hours on Genome, our on-demand learning platform.

Finally, before I turn the call over to BK, I want to take a moment to reflect on Genpact's major accomplishments during these last 12 years. During that time, we grew total revenue at a compounded annual growth rate of 9%, driven by a number of important strategic pivots, including our decision to double down in a chosen set of industry verticals, services and geographic markets; our decision to extend beyond business process management with significant investments in data, tech and AI; and finally, our move over the last five years to the middle and front office, with our emerging service lines and supply chain risk and sales in commercial services.

All of our success would not be possible without the tireless efforts of the Genpact team. Their constant passion and focus on driving client outcomes and value and an insatiable curiosity and desire to learn, has become our cultural foundation and has been a source of endless inspiration for me. It is my daily interaction with them that I'll miss the most as I transition to the next phase of my journey.

With regard to BK, our board could not have picked a better person to be Genpact's next CEO. His deep understanding of our business, the trust and relationship he has built with our clients and his strategic leadership with a strong bias for technology and AI, have been a key driver of our success, driving the significant expansion of our Consumer/Healthcare and Financial Services verticals that collectively generated $2.8 billion in revenue in 2023. I am very excited to see him lead this next evolution of Genpact.

And finally, I want to sincerely thank our board for being such great stewards of the company through multiple cycles and on so many occasions being my and my lead team's guide and mentor.

With that, let me turn the call over to BK.

Balkrishan Kalra

Incoming President, Chief Executive Officer & Director, Genpact Ltd.

Thank you, Tiger; and good afternoon, everyone. Let me start by saying that I am excited and humbled to lead our 125,000 talented people around the world that make up Genpact. I have seen first-hand the incredible dedication of the Genpact team and the significant value we add to our clients, designing, implementing and running mission-critical operations for some of the world's biggest brands.

In preparation for stepping into the CEO role, I have been carefully assessing our senior leadership team and the strategic priorities we must pursue, to put us on path towards accelerating growth. As I reflect on 2023, there is no doubt that the macroeconomic environment challenged us and the industry as a whole. I am very proud of the team and the long-term accomplishments outlined a moment ago. But I must also say that we must improve our execution to reach our full potential.

Digital Operations and Data-Tech-AI together represent a $750 billion market, growing at high single-digit growth rate, well above the 3% constant currency growth we delivered in 2023. My number one goal as CEO is to make sure that we realize our full potential. As a longstanding member of the Genpact team, I have a clear point of view about where we can improve execution. We need to sharpen our focus and drive simplification to increase speed and accountability throughout the organization. In 2024, we will be laser focused on changing the conversation we are having with clients by bringing more data and technology to bear, to deliver more holistic and growth-oriented solutions.

We will also drive simplification to increase speed and accountability. Let me give you a couple examples. First, we have simplified our sales and go-to-market leadership structure, moving from highly matrixed organization to 12 unit leaders that mirror our client organization and roll it into three vertical segments we report externally. Second, we have unified data, tech and AI under one leader, which matches how clients operate and buy. Both of these changes will increase speed and accountability, driving improved sales execution in 2024, particularly in Data-Tech-AI.

In my first 100 days, I am prioritizing, A, spending more time with the clients as we partner with them to shape the future, theirs and ours, by leveraging data, technology and AI-first principles. I have already met a number of our clients since the announcement, and I'm committed to meeting with 100-plus clients in my first 100 days to further inform our strategy. B, continuing to build our senior leadership team.

We have made a number of important additions to our leadership team in the last few months across operations, finance, marketing. And I am committed to continually identify and fill gaps quickly. Reaching our full potential will require maximizing our talent and driving greater accountability across the organization.

And, C, strengthening our partner relationships to deliver holistic solutions. I believe we are in a unique position to further leverage our domain and industry expertise, access to data, and CXO relationships to deliver improved performance for clients and thereby improve revenue growth and profitability for Genpact.

I want to be clear that doing business as usual, just doing what we have done in the past, only slightly better, is not acceptable. That said, improving execution will not happen overnight. It will take time and investment.

In 2024, we plan to invest in two key areas: partnerships and AI-first. I mentioned partnership a moment ago, and we will continue to invest in deepening our relationships with various platform providers, broad and specialized, as well as with enterprise application and cloud workflow technology partners.

Second, we are moving quickly to embed AI in all our solutions that we bring to market and investing to make our internal operations AI-first as well. For the first time, we have appointed a Chief Technology and Transformation Officer who will lead the charge on embedding AI in our internal operations.

With regards to gen AI, we continue to make rapid progress. Last year, we had more than 3,000 client conversations, more than 80,000 Genpact team members enrolled in AI training programs, the launch of our first AI innovation center in London, and more than 50 gen AI use cases in testing and 30 gen AI solution and production environment with clients, either deployed or going live.

Turning now to our 2024 outlook, and Mike will go through more details, but I would like to provide a high level overview upfront. First, on revenue, 2024 will be a year of building as we strengthen our foundation for future growth. Therefore, we are setting our revenue guidance for the full year at 2% to 3% year-over-year growth on as reported basis. On profitability, we expect to keep gross margin and AOI margins roughly flat in 2024 at 35% and 17%, respectively. With regard to any revenue upside we are able to achieve over the course of the year, our bias will be to reinvest a portion of the upside back into the business to drive future revenue growth.

Before I hand it over to Mike, I want to say a few words about Tiger. We have been exceptionally fortunate to have Tiger lead us for the past 12 years. He shaped the company to be one of the world's leaders in domain like finance and accounting, procurement and supply chain, to name a few. His commitment to clients is unparalleled and will always act as a guide for all of us at Genpact. And his focus on building the capability of our teams at scale through platforms like Genome is inspiring. On behalf of all of Genpact, I do want to thank Tiger for his enormous dedication and leadership.

Finally, I want to conclude by saying that I'm confident that we will achieve our full potential, delivering the revenue growth and profitability we believe we are capable of. That said, I also want you to know that I understand that actions speak louder than words. And on that point, I look forward to providing more details and progress reports to you in the coming quarters.

With that, let me turn the call over to Mike.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

Thanks, BK. I want to congratulate you on being named Genpact's new CEO. Having worked closely with you over the last few years, I've seen firsthand your strong focus on execution, financial acumen, and the ability to energize teams. I believe we are very fortunate to have you as CEO. Today, I'll review fourth quarter results and brief highlights of our full year 2023 performance. I will then provide our outlook for 2024.

Beginning with fourth quarter results, total revenue of $1.15 billion was up 4% year-over-year both on an as reported and constant currency basis. Data-Tech and AI services revenue, which represents 44% of total revenue, increased 3% year-over-year or 2% on a constant currency basis. This performance was largely driven by increased sales of data and analytical service solutions in notable focus areas, including supply chain and risk. Digital Operations services revenue, which represents 56% of total revenue, increased 5% year-over-year or 4% on a constant currency basis, primarily reflecting on-schedule deal ramps for recent large booking wins.

From a vertical perspective, financial services revenue increased 4% year-over-year largely due to large deal ramps, partly offset by continued pressure around client discretionary tech spend. Consumer and health care revenue increased 2% year-over-year largely due to ramping of finance and accounting and supply chain engagement, partially offset by pressure in discretionary tech spending as well as the impact of the recent divestiture of business classified as held for sale last year.

High tech and manufacturing revenue increased 6% year-over-year, primarily driven by ramp of new logos within finance and accounting engagements across both Digital Operations and Data-Tech and AI services, partly offset by the impact of reduction in scope from a high tech client in early 2023.

Adjusted operating income was 17.7%, up 70 basis points year-over-year, primarily due to higher gross margin and general operating leverage. As a reminder, our performance during the fourth quarter last year included the positive impact from businesses designated as held for sale that has been divested.

Gross margin in the fourth quarter expanded 70 basis points year-over-year, primarily reflecting cost management actions implemented early last year, 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 80 basis points year-over-year to 20.7%. The year-over-year improvement was largely due to the absence of expenses related to the non-strategic business that was divested as well as the overall operating leverage, offset by higher investments in sales and marketing and research and development in the fourth quarter of 2023.

Our effective tax rate was negative 83.8% compared to 27.1% during the same period last year, primarily driven by a non-recurring $170 million benefit related to intercompany transfer of certain intellectual property rights. Excluding this impact, our effective tax rate would have been 23.4%.

GAAP net income was $291 million, up 225% year-over-year. GAAP diluted EPS was $1.59, up 231% year-over-year. These growth rates reflect the impact of the tax benefit I just mentioned.

Adjusted EPS was $0.82, up 17% year-over-year from $0.70 in the fourth quarter of last year. The increase was primarily driven by higher adjusted operating income of $0.07, the impact of lower taxes $0.05 each, lower outstanding shares of $0.02, and a $0.01 benefit related to lower interest expense partly offset by a $0.02 impact from lower FX remeasurement gains compared to the same period last year.

Lastly, our attrition rate for the fourth quarter was 23%, near the low end of our historical levels. Adjusting for involuntary attrition and employees with less than three months of service, our attrition rate was 19% during the fourth quarter.

Now, we'll provide you some color around full year 2023 performance. Total revenue was $4.48 billion, up 2% year-over-year or 3% on a constant currency basis. Data-Tech and AI services revenue, which represents 45% of total revenue, increased 2% both on an as reported and constant currency basis.

Digital Operations services revenue, which represents 55% of total revenue, increased 3% year-over-year or 4% on a constant currency basis. During the year, we grew the number of client relationships with annual revenue greater than $5 million from 158 to 185. Additionally, clients with annual revenue greater than $25 million expanded to 34 from 39. Clients with more than $100 million increased from three to five.

As expected, gross margin for the year was flat versus 2022. This was largely due to the impact of ramping of new large deal wins with significant portion of onshore delivery that exhibited lower gross margin in the early years. Despite our flat gross margin, adjusted operating income margin expanded 50 basis points year-over-year to 17%, primarily driven by cost efficiencies and operating leverage.

SG&A as percentage of revenue declined 110 basis points to 20.4% largely due to the absence of expenses related to the non-strategic business that was divested as well as overall operating leverage, offset by higher investment activity during the latter half of the year.

Our full year tax rate was negative 4.8%, down from the 24% in 2022 largely due to the non-recurring benefit from the IP transfer I mentioned earlier. Excluding that transaction, our full year 2023 effective tax rate would have been 23.4%.

Given this tax benefit, our full year GAAP net income was $631 million, up 79% year-over-year and our full year GAAP diluted EPS was $3.41, up 81% year-over-year. Adjusted EPS was $2.98, up 9% year-over-year from $2.74 in 2022. The increase of $0.24 was primarily driven by higher adjusted operating income of $0.18, lower share count of $0.05, lower net interest expense of $0.02, and a $0.04 benefit related to lower taxes, partially offset by lower FX remeasurement gains during 2023 compared to 2022 of $0.05.

Turning to cash on our balance sheet, year-end cash and cash equivalents totaled $584 million compared to $647 million at the end of the fourth quarter of 2022. We reduced total debt by $161 million and exited the year with a net debt to EBITDA ratio of the last four rolling quarters of 0.9 times. With undrawn debt capacity and existing cash balances, we have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy of reinvesting back in our business, pursuing M&A, and returning capital to shareholders.

Days outstanding expanded to 88 days from 81 days in 2022 due to increased penetration of non-FTE pricing models and client cash management practices as interest rates remain elevated. The overall credit quality of our portfolio continues to be very strong. Despite the higher DSOs, we're able to generate $491 million of cash from operations, exceeding our expectations for the year. The majority of this outperformance was driven by higher adjusted operating income.

Capital expenditures as a percentage of revenue was approximately 1.4%, in line with our expectations. During the fourth quarter and full year 2023, we returned $100 million and $325 million of capital to shareholders, respectively. This included dividend payments of $25 million in the fourth quarter and $100 million for the full year.

We also repurchased 2.2 million shares at a total cost of $75 million at a weighted cost of $34.27 per share during the quarter and a total of 6 million shares at a total cost of $225 million at a weighted average price of $37.48 for the full year. Our buyback during the 2023 and our net share count outstanding reduced by 3% (sic) [Our buyback during 2023 reduced our net share count outstanding by 3%], as we continue to exceed our expectations we initially set for full year, as we took advantage of the meaningful discount in intrinsic value calculations.

Finally, let me provide you some color on our outlook. First, I want to acknowledge that as you can see in our press release, we have adopted a new guidance structure heading into 2024. Specifically, we are now providing full year revenue guidance for Digital Operations and Data-Tech and AI services revenue, along with first quarter guidance for total revenue, Digital Operations and Data-Tech and AI services revenue, gross margin, and adjusted operating income margin.

Let me read the details. Genpact's outlook for full year 2024 is as follows. Total revenue is in the range of $4.57 billion to $4.61 billion, representing year-over-year growth of approximately 2% to 3% as reported and 2.1% to 3.1% on a constant currency basis. This includes Digital Operations services revenue of approximately 3% year-over-year and Data-Tech and AI services revenue of approximately 1.9% year-over-year at the midpoint of the range as reported. And Digital Operation services revenue of approximately 3.1% year-over-year and Data-Tech and AI services growth of approximately 2.1% year-over-year at the midpoint of the range on a constant currency basis.

I would also like to note that based on our bookings mix and timing associated with deal ramps, as we expect year-over-year revenue will be higher in the second half of the year related to the first half, which is in line with our historical patterns, full year gross margin of approximately 35%; full year adjusted income from operation margin of approximately 17%; and full year adjusted EPS in the range of $3 to $3.03.

This represents year-over-year growth of 1% to 2% and includes the positive impact related to lower share count of $0.06 offset by the impact of higher expected taxes of $0.04, higher interest expense of $0.04, and the negative year-over-year FX impact of $0.02 due to the $4 million remeasurement gain we recorded last year.

Our effective tax rate is expected to be 24.5% compared to 23.4% reported for full year 2023. The increase reflects the implementation of new Pillar 2 global minimum tax rates as well as our lower year-over-year benefit related to stock-based compensation. We're forecasting cash flow from operations to be approximately $500 million. Capital expenditures as percentage of revenue are expected to be approximately 1.5% to 2% in 2024, which includes investments related to our internal systems upgrades.

Our outlook for the first quarter is as follows. Total revenue of $1.108 billion to $1.114 billion represents year-over-year growth of approximately 1.75% to 2.25% as reported or 1.95% to 2.45% on a constant currency basis. This includes Digital Operations revenue growth of approximately 2.8% year-over-year and Data-Tech and AI services growth of approximately 1% year-over-year at the midpoint of the range as reported and Digital Operations services revenue growth of approximately 3% year-over-year and Data-Tech and AI services growth of approximately 1.3% year-over-year at the midpoint of the range on a constant currency basis.

Gross margin is expected to start the year at approximately 34.5% in the first quarter and increase over the course of the year, as we make progress with offshoring delivery, improving utilization, and the continued adoption of non-FTE pricing commercial models. Adjusted operating income margin is expected to start the year at approximately 16% in the first quarter and increase steadily over the course of the year as gross margin improves.

Our expectation is that investments in partnerships and AI that BK spoke about in his opening remarks, will be funded largely through efficiency gains with little to no increase in full year operating expenses in terms of absolute dollars on a year-over-year basis. That said, as BK noted, to the extent we're able to deliver revenue upside over the course of the year, our bias is to reinvest a portion of that upside back into the business for future revenue growth.

Lastly, we remain committed to returning capital to shareholders through a regular cadence of buyback and quarterly dividend payments. We currently anticipate approximately 30% cash flow from operations for share repurchases during 2024. Additionally, our Board of Directors approved 11% increase in our regular dividend to $0.153 per quarter or $0.61 on an annual basis.

Our dividends increased at a compounded growth rate of approximately 15% since we began paying dividends in the first quarter of 2017. With this expected activity, we plan to distribute 50% of our operating cash flow to shareholders during the year. In closing, I'm confident that the path BK is laying to drive increased focus, speed and accountability to the organization will put us in strong position to drive long-term shareholder value.

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

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

Thank you, Mike. We'd now like to open up the call for your questions. Michelle, would you please provide the instructions?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is going to come from the line of Puneet Jain with JPMorgan. Your line is open. Please go ahead.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Hey. Thanks for taking my question. Congrats, BK, for the new role; and Tiger, thank you so much for your thought leadership and all the discussions we've had over the last more than 12 years actually.

N.V. Tyagarajan
Director & Outgoing President and Chief Executive Officer, Genpact Ltd.

A

Thank you.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

So, I'd like to start with like the question on the guidance. Looking at the guidance for Q1 and the full year, looking at the ranges, it doesn't look like you expect like a steep ramp from Q1 level for rest of the year in terms of like the absolute dollar number for revenue. So, I know you mentioned that it'll be like a year of buildup. Can you double-click on those comments like, well, like all those changes, like the simplification which all – it seems like makes sense, could they have any impact on revenue? What do you expect like for trends rest of the year?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So let me start with talking about the guide in totality then I'll turn it over to BK if he wants to provide some additional color, right? So as we think about the guide, you're correct in that 2% to 3%. I want to give you a little more color on how we're thinking about it.

I think we took a prudent approach in creating that guide, right? What we did this year, we took a more detailed bottoms-up planning approach at a very granular level. The key change in our assumptions really is regarding the macro. We assumed no improvement from the second half of 2023 with regard to the macro. Now, that being said, we have some good tailwinds coming into the year at the 20% – 26%, I should say, growth in bookings, remembering that growth in bookings comes in over a three- to five-year period. Unfortunately, that is netted against the weak macro that we have seen notably hitting us in small deals.

So as we extrapolate what we've seen in the second half of 2023, we're not predicting any recovery in that in the guide, right? That's also netted against the typical productivity and changes in scope that have been factored into our guide. With that said, a better macro and execution, we can do better.

And as far as your other comment with regard to I believe you're asking about the cadence of the revenue earning and we gave some general guidance in my comments, that'll be more skewed towards the second half than the first half of the year. And what we're committed to do, we've given you the first quarter guide. We'll continue to do that on a quarterly basis as we move through the year.

If you want to add anything, BK.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Well, you said it very well. Puneet, thanks so much and I think you mentioned macro and execution, Mike. And I would say, look, macro, we don't control. We will deal as we progress. Execution, we do and the simplification comment that you made, Puneet. As we execute, I do see more potential, but for now, we are wanting to stick to the guidance and we'll provide you more color as we progress.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Got it. No, that's helpful and fair. And can you also share your thoughts on Genpact's long-term guidance that was issued a few years? I think the prior goal was like to hit double-digit top line growth over the medium term. Is that still doable beyond this year?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Let me take that. And look, I think how I'll think about that is following, Puneet. My clear mission is to have Genpact achieve its full potential and in that full potential, do we believe that we can grow at at market or above market? The answer is yes. And it needs improvement in our execution and that is what I am focused on.

And as we improve execution, we can certainly come back to overall tier of growing at or above market rate. If you are specifically asking, is 2026 we are holding to, I think we are in early stages of my innings here and as we progress, we will update you more on that.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you and all the best.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you.

Operator: Thank you and one moment as we move on to our next question. And our next question is going to come from the line of Keith Bachman with BMO. Your line is open. Please go ahead.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Hi. Thank you very much. I had a couple. You've mentioned a few times during your prepared remarks about improving execution. And I'm just trying to understand, I don't want to steal thunder from any future conversations or presentations, but what type of things do you think need improvement on in terms of execution that might translate to better growth?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Great question, Keith. How I think about that is how do we strengthen our foundation. We have a very high-quality foundation, foundation of domain and data, foundation of trusted client relationships, foundation of global talent. And when I speak about execution, it is how we strengthen and buttress it further.

So take an example of clients. We are wanting to change our conversation and we are changing the conversation as we speak to include data and technology in making the conversation more holistic and making our solution far more holistic. But if you think from our competency of data and domain, how do we bring in solutions or partners? And that's where we are investing in. So that, again, we are more focused on growth-oriented solutions and front to back solutions for our client. And this is what I mean by execution.

Simplification is an integral part of it and we are driving quick changes as I come into this chair, and that is my thesis is it'll improve our agility and accountability. And I'm seeing early results of that. That's what I mean by execution.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Okay. And my follow-up question relates to that is how do you think about either expanding existing skill sets or getting into new market opportunities in terms of using M&A in particular? And so you mentioned 50%, I think, of free cash flow, the capital allocation projects. But how do you think about the changing nature or changing the strategy as it relates to M&A or is it more of the same? Thank you and that's it for me.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you. Thank you, Keith. Look, I think how I'll think about it is following. M&A continues to be a key strategic level for us. It always has and it would be. And as I think of M&A, and I want to connect it back to execute, I think we have done reasonably well in finding assets. Can we improve our execution in integrating the assets via the attribute of execution? But is M&A integral part of our strategy? The answer is yes, yes, yes and we will continue to be disciplined from ROIC standpoint and as we execute more and what we will update you as we go along, Keith.

[indiscernible] (00:37:34)

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Our number one thing that we're looking for is in addition to the financial discipline and everything else BK just alluded to is how we're building additional capabilities for the organization inorganically. So to the extent those capabilities, gen AI-related or AI-related come about, we'll be deploying capital there to build upon that – build a franchise.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Okay. Many thanks, gentlemen.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you.

Operator: Thank you and one moment as we move on to our next question. And it looks like our next question is going to come from the line of Maggie Nolan with William Blair. Your line is open. Please go ahead.

Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Hi. Thank you. Can you elaborate on the simplification of the go-to-market strategy and what you hope the outcomes of this are for the business?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Sure, Maggie. So clearly, I think as organically you build the organization, you somehow start orienting yourselves to various dimensions, and that is what happened with us as well. And me coming in from inside, really understood from the client perspective as well as from our internal teams as to how we can increase the agility and accountability.

So from multiple metrics to organization, what we have done the last 60 days is oriented ourselves to 12 business units, that middle client organization. When I say that, so take an example of orienting with consumer goods and retail companies or orienting – we always had but we had other dimension and I think we clarified it for the organization and oriented everybody to be in the service of clients as we build the capabilities, as we build data or

AI capabilities. And similar simplification exercises, we'll report back, but this is what I mean by simplification, what you specifically asked.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. I think I'll just quickly add on to that. Ultimately, what we're hoping for with all that is speed and clarity to be able to move quicker and, quite frankly, grow our revenue at a just faster pace. The opportunities are out there.

Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Thank you. That's helpful. And then specifically on the DTAI segment, did something change between 3Q and 4Q that allowed you to grow sequentially? And then how should we think about any potential change in the context of 2024 and how you incorporated that into the guidance?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So let me quickly talk about the – yeah, the sequential move in deal from 3Q to 4Q. We had the impact of the new deals we talked about. They've ramped as expected. They actually ramped even a little bit better. That was offset by higher productivity and change in scope on existing work, which is typical within our historical average, right?

As we move into our first quarter guide, we still have the positive impact of those new large deals now quarter three as they continue to move through on a year-over-year basis. However, when you look at the vintage or the historical vintage of existing contracts, we have higher deal-related productivity on those existing contracts, which is typical in terms of the timing, which pulls down some of that growth as well as with the absence of second half of 2023, which had fewer large deals flowing in, which is going to affect us in the first half of the year. They're lumpy in nature as well as DTAI just has a seasonal low in the first quarter.

Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Okay. Got it. And congrats, BK, and thank you, Tiger.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Maggie.

N.V. Tyagarajan
Director & Outgoing President and Chief Executive Officer, Genpact Ltd.

A

Thank you, Maggie.

Operator: Thank you and one moment as we move on to our next question. And our next question is going to come from the line of Ashwin Shirvaikar with Citigroup. Your line is open. Please go ahead.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks. Congratulations, BK and Tiger, on the formalization of the changes that you guys announced the last quarter.

N.V. Tyagarajan
Director & Outgoing President and Chief Executive Officer, Genpact Ltd.
A

Thank you.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Maybe I could start with asking a question on margins. Normally, we do see sort of year-over-year margin improvement. You're kind of holding the line on that. Is that a very specific signal with regards to wanting to invest for growth?

And then the part two of the margin question is you're starting out with 16%. What's driving − in 1Q, what's driving that and what kind of margin cadence should we then expect to see?

Michael Weiner
Chief Financial Officer, Genpact Ltd.
A

So, look, I'll start off and I'll talk to you − I'll hand it over to BK at the end of it. So it will expand at a normal cadence throughout the year based on the historical patterns, right? So it will expand also as we have the revenue that'll earn in on the growth that we have in the business as we're projecting. But, yeah, you're right. We're holding our dollar fixed cost relatively constant and what we're doing with those additional monies is we're putting in into the business quite notably in terms of investments that are staged throughout the year.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.
A

And what I'll add – Ashwin, and thanks so much for your comments earlier. Yes, we are investing to grow and we always have. Are we infusing more? The answer is yes but as we go along, we will inform more about – as I understand, as I listen from clients, I will inform you more about our thesis. But clearly, we are wanting to invest to make sure that growth stacks up at or above market rates.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

And BK, that's sort of where I wanted to go with my next question. You've mentioned that you have on your schedule meeting 100-plus clients in the first 100 days. That period obviously started already. You've met a number of clients. Could you share maybe some granularity what sorts of commentary you were getting back from the clients with regards to your capabilities, where you might need to incrementally invest and perhaps even thoughts on M&A?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.
A

Great question again. So look, I'll say three comments, Ashwin. Point number one, more broadly, clients still are seeing the uncertain environment. And that's what you see in our macro comments that Mike alluded to, point number one.

Point number two. Very quickly, every conversation certainly has componentry of data and AI, which wasn't the case just six months ago, eight months ago. And therefore, a lot of conversation is about transforming them, front to back transformation, and thinking about, hey, how do we generate value not just in a particular function, but across the board in the sectors we operate in. And I think we have demonstrated to them in many number of ways.

You take an example of a recent press release that we did for Advantage Solutions, where we announced a partnership with Advantage Solutions, a leading provider of sales and marketing services in consumer goods space. And we are delivering to our front to back solution along with Salesforce, our AI-led decisioning process for them and it is one of the larger deals that we announced recently.

So, conversations like these are taking shape in a more significant way. And like Mike earlier alluded to, we are constantly looking in our pipeline from an M&A standpoint to buttress our capabilities, while staying disciplined on the various pieces of M&A, as well as integrating them. But really exciting time for us. We believe we are ahead in the AI conversations and really feel excited about our capabilities and the ones that we are going to visit.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. All the best.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Bryan Bergin with TD Cowen. Your line is open. Please go ahead.

Bryan C. Bergin
Analyst, TD Cowen

Q

Hi. Thank you. Tiger and BK, congrats again. My first question. BK, appreciate the details you've shared here on the sales simplification and the DTA leadership consolidation. Those really seem to center more on driving consistent growth execution. So I wanted to ask you about your view on the cost side of the equation. I understand you've got growth investments you're going to lean into here, but are there any structural changes in the organization you may also be considering to improve profitability?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thanks, Bryan. So look, I think I'll answer that in two parts; and Mike, feel free to chime in. Point number one. Are we constantly focused on improving profitability? The answer is yes, yes, yes. You see that in 2023 and you see that consistently over last five, six, seven years year-on-year; and you see the cadence improving. So we have acute focus on improving profitability, while clearly investing to grow and ramping our top line growth, point number one.

Point number two. As we go through this cycle, we will constantly evaluate how to invest our dollars. And also, at least for this year we are thinking if we are able to grow better, we want to stay in the range so that we are investing to grow.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. I'm going to parse into two things, right? I think you hit it really well when you talk about what we're trying to do in the 2024 guide about reinvesting in our business. But one of BK's mantras in the organization is, we are an AI-first company, right? So what does that mean? He is pushing every functional area, my own included in finance, on how we can adopt AI solutions embedded in our own organization that will drive cost efficiencies, as well as production efficiencies, and we can be our own test cases for that.

So, I can foresee ourselves in the future years being able to leverage that from a productivity and cost perspective. But for 2024, we're going to take all of those efficiencies that we're having and we're just at the beginning of many of them and we're looking to plow a lot of them into it. And we have a laundry list of investments to execute on, all really supporting our capabilities that will ultimately result in an increased level of sales.

Bryan C. Bergin
Analyst, TD Cowen

Q

Okay. That's clear. Thank you. And then, my follow-up is just on large client performance. So, are there any large client ramp-downs that are weighing here as you enter 2024? We know you had the High Tech client last year. Just curious if there's any further reductions like that this year as you enter the year that may be offsetting the ramp of new bookings?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

No, nothing more than the typical cadence that we have on that. So, nothing to call out. We look at it, it's all within the same historical average. So there's nothing like we had last year or nothing pending that we're aware of. So, we're not planning for any of that.

Bryan C. Bergin
Analyst, TD Cowen

Q

Okay. Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Sean Kennedy with Mizuho. Your line is open. Please go ahead.

Sean Kennedy
Analyst, Mizuho Securities USA LLC

Q

Hi, everyone. Thank you for taking my question and congrats on a strong quarter. I was wondering how you see your client gen AI readiness and overall reception to it. Are there any specific barriers to overcome, and do you see a difference depending on the type of client and project? Thank you.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Sean. So overall, I'll parse this into two parts. Is there a lot of excitement with every single client, which wasn't the case six months ago? I'll say the answer is a resounding yes. Every single client conversation before we provoke, and we are always the ones who are wanting to provoke, but they are wanting to have the conversation. So the doors are open, is point number one.

However, just take the example of data. Data is not as structured that AI can result into outcomes that they expect in our good fashion. So all of that is helping us bring our data capabilities, as well as our AI framework that we have. We have been into AI for last seven years, since the time we acquired RAGE Frameworks back in 2016, 2017 timeframe.

So, we have honed Frameworks on AI. So, that is really helping us with this turn on AI. And that's where I have reported in my prepared remarks that we have 3,000 conversations. So, many conversations are – we record every single conversation that we have as a disciplined company. But I also reported the numbers that have gone into production. But we do see increased velocity of that and we really feel good about that.

Sean Kennedy
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for all the detail.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thanks, Sean.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Spencer Lebov with Wedbush Securities. Your line is open. Please go ahead.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Hey. Thanks. It's actually Moshe Katri from Wedbush. DK, welcome, and Tiger, good luck on whatever you're planning to do next. So question, BK, when you're looking at your portfolio, are you happy with the client base, i.e., do you think that you need to prune some of those customers that are not really maybe worth the attention that you have, and maybe that also could potentially at least temporary impact top line growth for this year? That's my first question.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Spencer. So what we feel exceptionally good about is all of our clients, not just Fortune 50, Fortune 100 clients that get named, but all of our clients. We are very disciplined in onboarding every single client, but we are very, very proud of all the client base that we have. And in their own right, they are iconic companies. So no, there isn't any plan, Spencer, that you specifically asked.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Understood. And then, the follow-up is more about for the next 6, 12 months and kind of going back to Tiger's commentary on win rates. So, win rates had a pretty nice uptick. Maybe you could talk a bit about what drove that uptick and what do we need to do to kind of keep on moving that win rate number higher? It's a pretty impressive kind of improvement on a year-over-year basis.

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

It's a great question. I'll say three specific things, Spencer. One, yes, we are very, very proud of the win rate that we achieved. And there are a few reasons. Tiger also spoke about large deals, and we increased our focus on large deals, and that has helped us increase the win rate percentage in a significant fashion, and this was in 2023. We had 14 large deals greater than $50 million. That is reflected in the 60% win rate that Tiger spoke about.

Point number two, we are increasing our focus on data and tech, and that is making our solution far more holistic. That is also helping us improve our win rate.

And point number three, we are increasing our investment and focus on partners, and that is, again, will bring – you see some of those. I already spoke about Salesforce. We also announced another press release just couple years back on Dropbox. We have ServiceNow and Genpact came together to streamline their procurement function. So, partners is also helping us increase our win rates.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Understood. Thanks.

Operator: Thank you. [Operator Instructions] One moment while – and our next question comes from the line of Surinder Thind with Jefferies LLC. Your line is open. Please go ahead.

Surinder Thind
Analyst, Jefferies LLC

Q

Thank you. BK, if I think about the transformation journey that you're about to kind of take Genpact on at this point, can you talk about how maybe structural it is and how you're going to evaluate the change in terms of the key metrics and the timeframe that you're thinking about? Is it just on the sales side or do you really have to kind of rethink about delivery here? And part of the question is also is that given all of this conversation about generative AI, are clients asking for a lot more productivity commitments at this point as well?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

There are many questions in your question, Surinder. So if I don't answer, I mean, you can call that out, but let me parse that. Today, formally, is my first day as CEO. So I think I would just say that yes, I've been here for many, many years, so I understand our clients and Genpact exceptionally well. So therefore, speed is of essence.

Having said that, point number one, what we are talking about is front to back transformation for us as well, not just for our clients. If you would note that this morning, we announced our Chief Technology and Transformation Officer for first time in Genpact history, and that particular role is to transform Genpact internal processes with AI-first lens that Mike was earlier alluding to. So it is not just at the front end of the business, but also our own middle office, back office and how 127,000 of us interact with one another as well as with clients.

And I think we are looking at – specific, I also do not want to launch 55 initiatives. Just want to stay focused on execution and discipline. And as we progress, there are stage 1 and stage 2 initiatives that we are together coming on as the management team and committing to it. And there'll be specific lead indicators that we will have internally, and at the appropriate time, we will expose it to all of you.

Surinder Thind
Analyst, Jefferies LLC

Q

That's helpful. And then, I guess just on the last part of this is related to the commentary earlier about the conversations with clients focused on the data component and the AI component. How does that impact maybe the productivity commitments that they're looking for? And then, additionally, let's say that there's deals that you signed a year ago before there was all of this excitement about some of these new offerings. Just are some of those clients also revisiting some of that, is that what's maybe causing a slower ramp, or do clients have an opportunity to revisit maybe what they had wanted six months ago in light of how fast technology and processes and things are changing? How do we think about that dynamic?

Balkrishan Kalra
Incoming President, Chief Executive Officer & Director, Genpact Ltd.

A

So, I missed answering that question. Thanks for reminding me. So I'll answer that in two parts, Surinder. One, there is – we've been – AI as a conversation for us, as I mentioned just a while ago, is not new for us. Yes, it is new for clients, but we were always baking all of that in our solutions, and we are now – our pipe has opened up a lot more for having those conversation. Short answer to the question that you're asking, is there more productivity therefore?

No, we are not seeing that, because I think we've been in a fairly competitive place and competitive market. And I think we are leaning in upfront in our contracts that we are demonstrating to clients. And there isn't a new conversation opening up with clients that, hey, now gen AI has come in, because we've been demonstrating them – that in our solutions. And I think we are building actually more holistic solutions, including data, that is, as I mentioned, opening up newer conversations for us. Short answer, Surinder, no, we are not seeing any different productivity curve. And if, at all, at any point it happens, we will authentically share with all of you.

Surinder Thind
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. I'm showing no further questions. And I would like to turn the conference back over to Roger Sachs for closing remarks.

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

Thank you, everybody, for joining us today and we look forward to speaking to you again next quarter.

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