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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2017 Genpact Limited Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Mr. Roger Sachs. You may begin.

Roger Sachs - *Genpact Limited - Vice President-Investor Relations*

Thank you, Tiffany. Good afternoon, everybody, and welcome to Genpact's third quarter earnings call to discuss our results for the quarter ended September 30, 2017. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com. With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer; and Ed Fitzpatrick, our Chief Financial Officer. Our agenda for today is as follows: Tiger will provide a high-level overview of our results and update you on our strategic initiatives. Ed will then discuss our financial performance for the quarter in greater detail and provide an update on our financial outlook for the year. Tiger will then come back for some closing comments and then we will take your questions. As Tiffany just said, we expect the call to last about an hour.

Please note the year-over-year growth rates discussed today include the impact of the reclassifications of the divested GE Capital businesses to Global Client revenue as if these transactions occurred on January 1, 2016. This was done to provide a consistent view of the underlying growth trends of our business. The actual results without these adjustments are included in our earnings release.

Some of the matters we will discuss in today's call are forward-looking. These forward-looking statements 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 our call today, we'll refer to certain non-GAAP financial measures, which we believe provide additional information for investors and better reflect the way management views the operating performance of the business. You can find a reconciliation of these measures to GAAP in our earnings release in the IR section of our website.

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

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our third quarter earnings call.

Our strong third quarter Global Client BPO constant currency revenue growth of 15% continued to fuel our momentum for the year and was balanced across most of our chosen industry verticals. Transformation Services comprised of consulting, digital and analytics grew more than 25% for Global Clients. We are gaining traction in our key service lines as clients are increasingly looking for transformative solutions incorporating deep expertise in domain, process and digital technologies.

The Genpact Cora Automation to AI platform, coupled with the enhanced capabilities from our targeted acquisitions in AI design thinking, mobility, cloud-based intelligent workflow technologies and deep domain expertise are all resonating really well in the market. I'm also excited by the positive response to our relaunch of the Genpact brand with the tagline, "transformation happens here".

Specifically, during the quarter, total revenues increased 10% on a constant currency basis. Global Client revenue increased 13% on a constant currency basis. Global Client BPO revenues increased 15% on a constant currency basis. Adjusted operating income margin was 16.4% and adjusted EPS was $0.46, increasing 23% year-over-year.

Global Client revenue growth was strong across most of our chosen verticals, including insurance, banking, manufacturing, CPG, High Tech and Life Sciences. This led to our 15% constant currency growth in our Global Client BPO revenues.

Solid growth in our service lines continued to be led by Transformation Services that grew more than 25% during the quarter driven by demand for our digitally led solutions and digitally embedded intelligent operations. Finance and Accounting as well as our core industry vertical operations also contributed nicely to the strong Global Client BPO growth.

Global Client ITO was up 2% on a constant-currency basis in the quarter.

GE declined 12% during the quarter, and we anticipate exiting the year with GE representing less than 10% of total company revenue on a run-rate basis. As expected, the revenue trajectory improved from the first half of the year. While GE continues on its own significant transformation journey, our relationship remains very strong as one of their key strategic partners and we are committed to helping them drive value.

Our pipeline continues to grow across our targeted verticals, service lines and geographies driven by ongoing traction from our Transformation Services. Inflows are up year-over-year and we remain pleased with our win rates.

In the volatile macro environment, CxOs are becoming even more proactive looking for competitive advantages by embracing digital, data and analytics to transform the way they run their businesses. This is leading to deals in our pipeline now having significant Transformation Services components embedded in them. These deals are being driven by a dramatic increase in the number of strategic CxO level conversations, centered around solving for business outcomes that go well beyond cost savings such as top line growth, market share expansion, customer experience improvement, dealing with ever-changing compliance and regulatory requirements and minimizing risk and losses. These has led to an increasing number of both small and large size deals in our pipeline.

On the one hand, we see clients embedding Transformation Services into their operations that bring in digital analytics and AI as they think about wide-scale re-imagination and redesign. These tend to be relatively smaller size sole-source deals having faster cycle times and shorter durations that very often expand into larger end-to-end engagements as these clients embrace completely new ways of doing business.

On the other hand, we are simultaneously seeing a new genre of large deals propelled by clients looking to change their business models where they want to standardize and simplify operations to become more agile in order to remain competitive now and into the future. Some of these engagements come out of the smaller Transformation Services deals I just mentioned. While others come from clients who are motivated to immediately undergo a full scale transformation that includes leveraging digital and analytics solutions embedded in them. As a result, year-to-date, we have signed 5 new deals with total contract values greater than $50 million.

The recent launch of Genpact Cora, our comprehensive Automation to AI platform is being extremely well received in the marketplace and is recognized by leading analysts and research firms. We believe that Genpact Cora, which is a modular interconnected mesh of flexible digital technologies is the first platform to fully integrate automation, analytics and AI engines all in a single unified platform.

Leveraging Genpact Cora, we are demonstrating our ability to deliver significant value to our clients across our chosen verticals. We are doing this by creating replicable and scalable digital solutions by bundling together digital analytics and consulting with deep domain expertise to address clients' critical problems using design thinking to completely reimagine and transform their operations. As a result, we are seeing many new opportunities to grow our top line.

Let me share a few specific examples to bring to life how we are helping our clients generate significant value. A large global financial institution is using Genpact Cora LiveSpread, which combines AI, dynamic workflow, natural language processing and natural language generation to automate the entire underwriting process. This accelerated the rollout of new commercial card products across 24 emerging markets in 10 different languages as well as significantly improved the number of quality commercial loans they are able to underwrite with reduced funding time, thereby winning more business.

A leading hotel and hospitality business is now using Genpact Cora AR Flow to standardize and automate processes that predict and lower the number of billing disputes leading to dramatically improved cash flows, customer experience and of course, cost savings.

To improve client customer service at a large global financial institution, we implemented Genpact Cora LiveWealth to gather insights from disparate data sources inside and outside the firm resulting in the elimination of billing and asset reporting errors delivering real-time customer response.

A top U.S. grocery chain is using Genpact Cora's AI specifically machine learning and computational linguistics to automate the review and processing of transportation contracts to reduce cost leakage and identify areas of recovery from overbilling leading to tens of millions of dollars of bottom line impact.

Importantly, we are finding that the more we grow our intelligent operations, the more we can compete and win digital-led transformations. At the same time, the more we win and grow our digital led solutions, the more opportunities open up to win long-term intelligent operations engagements.

As part of our strategic planning, we had identified end-to-end supply chain services as a huge opportunity to add value to our clients with a real potential to scale. Supply chain management represents one of the largest functions within the CPG, Life Sciences, High Tech and manufacturing industries. And is an area ripe for reimagining and redesign, as current technology platforms have not solved for end-to-end outcome improvements.

We believe we are a market leader bringing innovative domain-led digital solutions to clients in this service line that today is largely driven by non-standardized manual processes. In fact, the Everest Group, a noted industry analyst research firm, recently recognized Genpact as a top 3 leader in supply chain management, reflecting our leadership in digital strategies to drive end-to-end transformation in supply chain operations.

For example, we partnered with a global CPG client to create a transformational road map for their supply chain. The redesigned operating model is aimed at helping the client improve their customer satisfaction and fulfillment rates, driving higher revenue for them by addressing supply chain inefficiencies across functions and geographies.

By demonstrating our deep industry acumen and digital expertise, we subsequently won a large-scale, long-term engagement to transform and jointly run the client's supply and operations planning process on an ongoing basis. This deal represents our largest transformation engagement to date and sets the stage to drive significant disruption in supply chain management throughout the industry.

We've also established a new supply chain Center of Excellence in the U.S. and are using Genpact Cora to embed advanced analytics and digitize the client's entire supply chain to provide 100% visibility into performance and drive tangible improvements in order fulfillment levels across multiple categories.

We recently unveiled our new brand positioning designed to bring real-world transformation into focus. Our new tagline, "Transformation Happens Here", highlights the transformative outcomes that we drive using advanced digital technologies and deep domain and process expertise. Transformation happens here every day with our clients with their business operations, with their people and with their customer experiences. Our new branding is also designed to reflect the creativity, digital agility, humanity and personality of the people and the expertise that are driving forces of our company. Since our rollout in late September, we have seen dramatically increased traffic to our website, better engagement with our content and very positive early feedback from clients and the industry at large. Our evolved participation at key industry events has led to meaningful engagements with senior leaders at many of our key target accounts.

Our acquisitions over the past 2 years have added significant digital capabilities in AI, mobility and cloud-based dynamic workflows. We also added U.S. onshore operations depth in our insurance vertical. As a complement to our advanced digital portfolio, we recently acquired TandemSeven, a customer and digital experience innovation company, enhancing our design thinking capabilities. The addition of TandemSeven's team of consultants, technologists and designers working with Genpact's global business process and domain experts extends our ability to transform client operations end-to-end by connecting the front to middle and back offices, which is critical to maximize ROI from digital transformation. Additionally, TandemSeven's proprietary cloud-based design platform, UX360, models and benchmarks detailed customer journeys using customer experience data.

All of our recent acquisitions are in line with our expectations and aligned to our strategy. The various businesses have all integrated really well with our teams, allowing us to accelerate our time-to-market with new solutions, driving innovation for our clients across our key verticals.

As we discussed with you last quarter, we continue to take actions that realign our ITO portfolio to focus on areas connected to our deep domain expertise. Consistent with this thinking, subsequent to end of the third quarter, we divested a small legacy European IT business that no longer fits with our strategy. While this divestiture has a marginal impact on current year revenue, it allows us to better deploy our resources, capital and leadership bandwidths to more sharply defined higher growth opportunities such as data engineering as well as areas where we believe we have strong competitive advantage, including risk in banking and capital markets and commercial leasing and lending.

With that, let me turn the call over to Ed for a more detailed review of the quarter and full year expectations.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Thank you, Tiger, and good afternoon, everyone. Today, I'll provide you with more detail on our third quarter operating results and provide you with an update to our full year 2017 financial expectations.

During the third quarter, we generated total revenues of $709 million, an increase of 9% year-over-year or 10% on a constant-currency basis. Revenues from Global Clients, which currently represents 90% of our total revenue increased 12% year-over-year or 13% on a constant-currency basis led by Transformation Services growing year-over-year by more than 25% representing approximately 20% of total Global Client revenue.

Within Global Clients, our BPO revenues grew 14% year-over-year or 15% on a constant-currency basis while Global Client IT service revenues increased 2%. We now expect Global Client ITO revenue to decline approximately 4% on a constant currency basis for the full year.

GE revenues, which represents 10% of our total revenue declined at 12% in the third quarter and we're on track to meet our full year expectations.

Overall business process outsourcing revenues, which represents 82% of our total revenues increased 10% year-over-year, while total IT services revenue increased 6% year-over-year.

Adjusted income from operations for the quarter was $116 million, up 11% year-over-year with the corresponding margin of 16.4%, up from 16.1% during the third quarter of 2016. This includes a $5 million charge related to the divestiture of the non-strategic European IT support business that Tiger mentioned earlier.

Gross margins were 39.5%, consistent with the third quarter last year and improved sequentially due to increased leverage and favorable mix. We expect fourth quarter gross margins to be closer to 39%, in line with our full year estimated gross margins.

SG&A expenses totaled $172 million compared to $157 million in the third quarter of last year. Our sales and marketing expense as a percentage of revenue was roughly flat compared to the 6.5% in the same quarter last year.

Total G&A expenses as a percentage of sales increased by approximately 40 basis points year-over-year driven by higher G&A related to recent acquisitions, including transaction costs and stock-based compensation, partially offset by operating efficiencies. Excluding nonrecurring acquisition-related costs as well as stock-based compensation, total G&A expense as a percentage of revenue would be about flat year-over-year.

Adjusted EPS for the third quarter was $0.46 compared to $0.37 last year. The $0.09 year-over-year increase is primarily driven by higher operating income of $0.05, share repurchase activity of $0.03 and a foreign exchange re-measurement gain of $0.02, partially offset by higher interest expense of $0.01 per share.

During the quarter, we returned approximately $12 million to shareholders in the form of our third regular quarterly dividend of $0.06 per share that equates to a current annual yield of approximately 1%.

Our effective tax rate for the third quarter was 18.4% compared to 19.8% in the third quarter of last year. The decrease in our effective tax rate is primarily due to certain discrete items recorded during the quarter.

Now let me turn to our balance sheet and cash flows. Cash and cash equivalents totaled $440 million, up from $419 million at the end of the third quarter of 2016. With undrawn debt capacity of $189 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy. Our rolling net debt-to-EBITDA ratio decreased from 1.9 turns to 1.7 turns during the quarter as we reduced our total debt by $55 million during the quarter, and improved trailing 12-month EBITDA from last quarter.

Our days sales outstanding were 85 days, in line with last year. We expect DSOs to improve by 2 to 3 days by year-end.

We generated $148 million of cash from operations in the third quarter of 2017 compared to $150 million during the same period last year, largely in line with our expectations.

Capital expenditures as a percentage of revenue were 3.6% in the third quarter of 2017 compared to 2.8% during the third quarter of 2016 primarily due to investments in the expansion of our global delivery centers and digital assets. We continue to expect capex as a percentage of revenues to be approximately 3% to 3.5% on a full year basis.

Now let me update you on our full year outlook for 2017. With only a quarter remaining in the year, we have greater visibility into the full year outlook and now expect total revenue for the full year to be between $2.72 billion and $2.73 billion, up from our prior range of $2.66 billion to $2.71 billion. This represents total growth of approximately 7% on a constant-currency basis. Acquisitions during the year, including the recent deal for TandemSeven are now expected to contribute approximately 2 points of growth.

Given the recent appreciation in the euro, Australian dollar and British pound, we now expect a full year adverse foreign exchange top line impact of approximately $15 million or approximately 60 basis points, down from the $24 million we had assumed as of the end of the second quarter.

We now expect Global Client revenue to grow approximately 10% on a constant currency basis compared to our prior estimate of a range of 8% to 10% with Global Client BPO revenue now expected to grow by approximately 13% on a constant currency basis versus our prior expectation of approximately 12%.

Our adjusted operating margin income expectation remains at approximately 15.7%. We now expect our 2017 effective tax rate to be approximately 19% to 20%, in line with 2016's rate of 19%.

Finally, full year adjusted earnings per share is now expected to be between $1.59 and $1.60, up from our prior estimate of $1.53 to $1.57 due to higher expected operating income, a lower expected tax rate and the improved year-over-year FX remeasurement impact. There is no change in our assumption for the overall weighted average shares outstanding for the full year.

With that, let me turn the call back over to Tiger for his closing comments.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

Thank you, Ed. Our new brand positioning broadcasts to the marketplace that Transformation Happens Here. Those 3 words reflect our belief that Genpact's powerful combination of domain and process expertise, along with digital analytics and design thinking, uniquely positions us to drive intelligent operations and to provide digitally led solutions to transform our client businesses. The momentum we are seeing in our Global Client revenues and in Transformation Services flowing through to higher top line expectations for the full year reflect the current traction we are seeing in the marketplace. We have deep and trusted relationships with our clients across all of our verticals that have been built on the bedrock of consistently providing outstanding delivery and service, which is demonstrated in our very high Net Promoter Scores. We are more and more being viewed as their thought partner on digital transformation journeys.

Over the last 3 years, we have added significant leadership and talent across our sales organization, digital and analytics team, consulting teams and domain experts both organically and through our targeted M&A deals. I could not be more pleased with our current position in the marketplace to serve our clients in this rapidly changing world.

With that, I'll turn the call back over to Roger.

Roger Sachs - *Genpact Limited - Vice President-Investor Relations*

Thank you, Tiger. We'd now like to open our call for your questions. Tiffany, can you please provide the instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Bryan Keane from Deutsche Bank.

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

Just a couple of quick ones. I guess, the first question I had is just on the GE IT revenues, that reversed pretty strongly from -- it's been a decline obviously for several quarters. Can you talk a little bit about what popped there and what the outlook there is in the GE IT side?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, remember, we talked about that the GE revenues still align with our full year expectation for GE, I think we were down 16% to 20% is what we said for the full year. We're still in that range. And if you remember in the second quarter we dipped a bit due to the timing of certain consolidation efforts that we talked about where we were -- where we did win some new work with GE. So that kind of corrected itself in the third quarter. Some of that transition related, so you saw a bit of a spike in the third quarter and you get back to kind of a normalized level in the fourth quarter such that for the full year, we are aligned with what we expected on -- for GE revenue year-over-year.

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

Okay. And then just looking at the full year earnings now, \$1.59 to \$1.60, I think that means then that there'll be a decline in earnings I guess sequentially from where we were in the third, somewhere in that \$0.40 range, and I know the Street was at \$0.43, just trying to think about some moving pieces there, to think about in the fourth quarter that's causing maybe a little bit lower margin than we anticipated.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Sure. So we gave a lot of color on the call but I'll break it down for you pretty straight forward. So you can calculate with revenue, revenue will be higher Q4 than Q3. Gross margins we said would be a bit lower, approximately 39% or maybe just below 39% in line with our full year. So gross margin percentage a bit lower really due to mix and a few other dynamics that happening there on the mix of revenue for the fourth quarter. So that's one piece of it. The other big pieces are foreign currency impacts, re-measurement impact of a couple of cents that I talked about. The divestiture of the non-strategic IT business is a $0.02, which will be favorable. And tax rate being higher by about $0.01, roughly closer to 20% or thereabouts, such that the full year tax rate will be 19% to 20%. And then we are dialing up our spend as we typically do in the fourth quarter, and a big part of that related to the rebranding and the marketing that we're going after, that you heard Tiger talk about, that we're really excited about. So spend will ramp such that for the full year we talked about EPS at about $1.59 to $1.60 all that should reconcile with what I just laid out for you.

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

Okay. And then just finally, Tiger, just the pipeline in general, just feels more healthy and obviously, the business is coming along pretty well in the Global Client side. As you look out into next year, do you feel that some of this momentum continues that we're seeing here in 2017?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

So Bryan, no reason to believe it won't. I mean, if you look at the macro environment, it seems to be broadly actually chugging along across the globe and there's no question that most of our clients in every industry is looking at how do they change, and how do they drive transformation given all that's happening in the world of digital and data, and so on. With the kind of Genpact Cora solutions that we have started taking to market and our depth and domain expertise, we feel very confident of the 2 engines we talked about, which are getting to the client to help them drive transformation through digitally led solutions as well as long cycle, large annuity contracts and the 2 are connected to each other one leads to the other, etc. So feel very good about the business model, feel very good about how we will close the year and therefore, enter next year.

Operator

And our next question comes from Joseph Foresi from Cantor Fitzgerald.

Joseph Dean Foresi - *Cantor Fitzgerald & Co., Research Division - Analyst*

So I know you mentioned the 2% contribution inorganically, but I was wondering, what drove the increase in guidance? Was it the better performance of the core business, inorganic or both?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

I think it's all 3 of the things we mentioned on the call. The organic business is doing better, so I would say in the range that we gave before, we're now viewing that as, we're at the high end of that range for -- as we look at the full year. The other items are contributing to the increase, which is the FX improving as well as the acquisitions now being a bigger part and that's a combination of what we just added in the third quarter as well as the acquisitions that we've made prior even doing a bit better. So it's a combination of all 3.

Joseph Dean Foresi - *Cantor Fitzgerald & Co., Research Division - Analyst*

Got it. Okay. And can you update us on the IT business, are the cuts done there? I know you did the divestiture in Europe. And do you think that will grow, that business will grow in 2018?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

So, Joe, our objective that we've stated actually for quite a few of these calls has been around identifying the specific focus areas in our ITO business, realigning our resources, realigning our management bandwidth. And those identified areas are those where we have domain depth. We called out 2 on this call. One would be for example, in the area of IT, that intersects with risk in the banking and capital markets vertical. And other one that we called out actually consistently is in the area of technology that intersects with commercial leasing and commercial lending. Just 2 examples, and we have a set of similar sharply identified focused areas that we have directed resources to, directed our investment towards, and that has helped stabilize the IT business. We think that it's that stable platform that we'll take forward. So we now feel good about the way that IT business is organized.

Joseph Dean Foresi - *Cantor Fitzgerald & Co., Research Division - Analyst*

Got it. And just lastly. Any thoughts on GE and the margin profiles as we head into next year? I figured I'd try.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

Joe, nothing to call out. We've always said that our focus with GE tends to be at the leading edge of innovation. We tend to innovate with GE on some of the new solutions that we're developing as we do with some of the other strategic relationships we have. Those continue to be the way our partnership continues to evolve. And as GE continues to drive its own transformation agenda, we think we can continue to participate in adding value to them. So feel good about both the way we will do that as well as what it means for our business both from a top line and from a margin perspective.

Operator

And our next question comes from Bryan Bergin from Cowen.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - VP*

Tiger, the large deal genre that you mentioned, can you comment on whether that's both existing and new clients? And when you think about the size of those deals, can you give us a sense of how the scale is relative to what you've seen in the past, even this year last time?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

So. Bryan, great question. So I would say, equally split between existing clients and new clients. It's so much a function of the client. Interestingly, it's not a function of the industry. You have clients who are jumping on the transformation journeys in every industry and it's a function of who their leaders are, what is the agenda, how does it fit their strategy. In terms of size and scale of these, I would say that they tend to be larger than they were on the average a couple of years back. But that is to be expected because these are more complex, they have much more transformational services embedded in them. They are more encompassing, I just described one of them, the supply chain transformation followed by a complete end-to-end managed services around end-to-end supply chain, that is a very complex deal, it was a global CPG company, by definition therefore, they are large and therefore, they are complex.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

It's nice to see them flowing again right because last year we had a bit of pause in larger deals. It's good to see them flowing again, Tiger talked about 5 large deals this year, which is terrific.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - VP*

Right, right. Okay. And then what about the productivity commitments that are being embedded in the new contracts, as you're adding more advanced automation and other digital tools, how is that changing?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

That's actually undergone a pretty significant change as more and more digital technologies have become available. And as they become available, we've built a number of those solutions, we've partnered with a number of ecosystem players, and we've acquired as we said a number of companies that are actually in that digital ecosystem space. And bringing those digital technologies into a number of these deals means that you drive much better outcomes, you drive them much faster and you obviously drive much higher productivity. I must say that a number of these digital technologies though our approach and most of our sophisticated clients, their approach is while cost is a great outcome, it's often the third or fourth outcome that you look at because the outcome around growth, the outcome around customer satisfaction, market share improvement, price increase, loss reduction, working capital improvement, tend to be actually bigger game in that digital embedded deal hunt.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - VP*

Okay. As far as those deals, the outcome-based side, how much of your portfolio is outcome-based now or at least in the pipeline?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

All of them have gain share components in them. We've always had them, except that now those gain share components are driven not just by process improvement, Lean and Six Sigma and process redesign, they now also have outcome improvements driven by digital and analytics and all the insights and actions that it can drive from there. So it's actually very pervasive in all our deals as it's always been. I don't think the color of deals has changed to the extent that they have completely flipped to only being outcome-based. I don't think the industry has gone there, and we've not gone there.

Operator

And our next question comes from Anil Doradla from William Blair.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Associate*

This is Maggie Nolan in for Anil. I was hoping you could give us a little more color on the nature of the divestiture that you made and the magnitude of that revenue-wise?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yeah. So that business that Tiger had mentioned, orders of magnitude about a couple million dollars per quarter just a nons-trategic legacy IT support business. And as we look to focus our efforts and our team's efforts on these next-generation solutions, that one it just made sense. So better focus, small impact to top line growth and better focus from a management perspective.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Associate*

Okay, great. And then I was wondering about you mentioned the supply chain services in your prepared remarks. What's the magnitude of that opportunity? And then what's the competition like in that space as well?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

The magnitude of the opportunity is actually pretty massive. I mean, one would argue that at some level, it's actually bigger than finance and accounting as a total opportunity. Now these are very early days of the industry trying to find these types of solutions in the supply chain arena. If you take a typical manufacturing company whether it's consumer-products or a core manufacturing company, 15%- 20% of revenue is spent on supply chain. So opportunity is massive, and we think we are building a very long-term trajectory around becoming one of the leading providers in the supply chain services in the verticals that I just named.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Tiger is talking about the TAM. The opportunity that we talked about is one of the large deals. So large deal and market we think is terrific as well.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Associate*

Okay, great. And the competition in that space?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

It's all the usual suspects, all trying to get into the space. It includes our typical technology players, the large global system integration and our usual competitors, which it includes from a consulting and transformation perspective. It will include all the consulting firms. It is obviously again, by the very nature that it's such a large cost base and so important for customer satisfaction and revenue growth for manufacturing companies, and CPG companies. It's a space where everyone is trying to find the right solution for their clients. We think that in the end-to-end managed services space, we have a good start to building this for the long term.

Operator

And our next question comes from Ed Caso from Wells Fargo.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

It's Rick Eskelsen on for Ed. Just a question following up on the large deal question that was asked earlier. With all the investment you guys have made in the front-end, how much are you able to sort of shape and push the client agenda on these large deals? Or is it really still a function of what's going on internally within the clients? And how have you seen that change over the last couple of years?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

So clearly, we are shaping a number of these conversations, the shape of the transformation agenda. That's why it tends to sometime start with a Transformation Services, consulting type engagement which then leads to a subsequent managed services engagement, which we have been involved in shaping. There's no question that there's more of those than we've ever seen. Having said that, these are large enterprises that at the right time, would automatically then bring in competitive forces to make sure that they get the best answer. But the nature of these are such that they tend to be shaped more than they used to be.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

That's helpful. And then just a follow-up on the talent acquisition side. Maybe if you could talk about sort of what you see out there in the market both in terms of finding the new talent, including in the digital areas where you're doing a lot of investing, and then also on the retraining side of your existing workforce and moving them more towards the puck is going.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

They're both very important. Clearly, in the digital arena, there is a war for talent. I don't think it's a surprise. Whether it is our kind of companies or the high-tech companies or every industry. And within digital, clearly, one would call out something like artificial intelligence as being at the extreme end of that war for talent. I think our real opportunity here that we are leveraging is that talent finds working with someone like us as a great opportunity to actually get to an area where you have true domain expertise that you can then leverage that digital technology to bring it to life and add value. And it doesn't stop at just consulting, you then actually, deliver that so you can actually see the value getting delivered. We think our ability to attract talent and retain them often hinges on that, and we're finding that to play out both on the organic level and at the M&A inorganic level. And as far training is concerned, we have a number of training programs and certification programs. We've always been very good at doing that historically across a range of competencies. We just added a whole range of digital competencies to that, including AI.

Operator

(Operator Instructions) Our next question comes from Dave Koning from Baird.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Yeah. And so I guess first of all, when I first looked at Q4 guidance, the growth sequentially is about 2%, and it's a little slower than normal. But then given the comments you made about the GE business stepping down a little and Global Client IT stepping down, the actual underlying Global Client growth is the very normal strong 5% up sequential. That's basically what we're kind of looking at here, right, very normal good growth in the core business?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

[You got that right.]

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

GC BPM, in mid-teens, 14-ish percent like we were, so that's good. GE does step down. GC IT also steps down a bit because we had some lumpy deals in the second quarter and third quarter, you heard us talk about growth there. So that's exactly right.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Good, okay. And then the Europe IT business that you're divesting, you can see in the way you've guided the full year for Global Client IT to still be down 4% when it's been flattish the first 3 quarters roughly. Does that mean, I mean, it looks like the sequential guide, sequential drop-off, is that $8 million-or-so drop-off. Is that all due to Europe IT business and really just trying to understand the size -- the annualized size of that business going away?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, so a couple of million of that drop is that divested business but then remember I did say there were a couple lumpy deals second quarter, third quarter, which causes it to be higher, I think first quarter was lower actually. It was second and third that stepped up due to a few deals that we had done that were lumpy that we don't expect to recur, so based on visibility right now, the down 4% seems about right.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Got you, then just the last quick thing. Margin progression, very good this year. Is there anything one-off for us to start to think about this year, either on the positive or negative side, when we should start to think about normalizing that. And then as we think of next year, comps, is there anything in 2017 that was a little bit one-off to the margin?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

I think there were a lot of pluses and minuses this year but about 39% is not an unreasonable place to be. I think that's kind of where we...

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

You're talking about gross margin

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Oh, gross, gross, Oh yeah. So gross, so it all flows. So gross margin, operating margin is at 15.7%. We've been on this journey and what we said was to the extent that we have opportunities or pressure, our view is that we'll dial up and dial down the investments. And that's exactly what we've been doing, dialing up the investments on the capabilities that Tiger's been talking about the whole time here and I think we've been able to demonstrate that flexibility over the past few years. So nothing out of the ordinary and we're managing it for that.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

In either direction. Yeah.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

All right. Well, you guys are crushing it. Thanks.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - CEO, President and Director*

That's a good way to end.

Operator

And at this time, I'm showing no questions in the queue. And I'd like to turn the call back over to your host for any further remarks.

Roger Sachs - *Genpact Limited - Vice President-Investor Relations*

Great. Thank you everybody for joining us on the call today, and we look forward to speaking with you again, next quarter. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. You may now disconnect. Everyone, have a great day.