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Genpact Ltd. (G)

Q2 2022 Earnings Call

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CORPORATE PARTICIPANTS

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

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

Michael Weiner
Chief Financial Officer, Genpact Ltd.

OTHER PARTICIPANTS

Maggie Nolan
Analyst, William Blair & Co. LLC

Bradley Clark
Analyst, BMO Capital Markets Corp.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Jared Levine
Analyst, Cowen & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, welcome to the 2022 Second Quarter Genpact Limited Earnings Conference Call. My name is Lisa 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 the conference call. As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

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

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

Thank you, Lisa, and good afternoon, everybody, and welcome to our earnings call to discuss our second quarter results for period ended June 30, 2022. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com. Speakers on today's call are Tiger Tyagarajan, our President and CEO; and Mike Weiner, our Chief Financial Officer.

Today's agenda will be as follows. Tiger will provide an overview of our results and update you on our strategic initiatives. Mike will then walk you through our financial performance for the quarter as well as provide our current thoughts on our outlook for the full year 2022. Tiger will then come back for some closing remarks, and then we will take your questions. And as usual, we expect the call to last about an hour.

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

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

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

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

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our second quarter 2022 earnings call. I hope all of you had the opportunity to attend our Investor and Analyst Day in New York City this past June or had a chance to listen to the archived webcast available on the Investor Relations section of our website.

Our results for the second quarter reinforced the strategic plan we laid out for the next several years. We are pleased that the momentum we saw coming after 2021 has continued through the first half of the year. As we had expected, strong demand for our Data-Tech-AI services was the primary driver of our 12% constant currency year-over-year top line growth for the quarter, while Digital Operations services delivered steady performance.

Our priority accounts grew 17% and represented 65% of total revenue. In a challenging macro environment, our adjusted operating income margin expanded 190 basis points on the back of several strategic actions that align to our long-term plan and build agility for the future.

Specifically during the second quarter of 2022, we delivered total revenue of $1.089 billion, up 12% on a constant currency basis; Data-Tech-AI services revenue of $489 million, up 22% on a constant currency basis; Digital Operations services revenue of $601 million, up 5% on a constant currency basis; adjusted operating income margin of 16.9%, expanding 190 basis points from the first quarter; and adjusted diluted earnings per share of $0.70, up 6% year-over-year.

Every company continues to grapple with numerous challenges, including 40-year high inflation, rising energy costs, ongoing supply chain disruption and high levels of talent attrition. In response, clients are engaging with us to navigate the short term and build resilience for the long term, particularly in areas such as supply chain, sales and commercial, and risk.

As we move into the second half of the year, overall, demand remains healthy as reflected in our high-quality pipeline. With all this macro uncertainty, we are seeing clear signs of shifting client priorities, with cost taking center stage.

Bookings during the second quarter remained strong and in line with our expectations. The majority of our deals continue to be long term in nature, with almost 70% being annuity based and nearly half of them continuing to be sole sourced. We converted a number of small and medium-sized deals this quarter that closed faster than before, and have seen cycle times trending down over the last four quarters, as clients are looking for faster payback to their investments. We also signed three new large engagements during the second quarter, with total contract value exceeding $50 million each: one in banking, one in insurance, and the third in high tech. Additionally, we added 30 new logos, up from an average of 26 new logos in the last 12 months' period through March 31 of this year.

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Total revenue for the quarter was up 12% year-over-year on a constant currency basis, and growth was broad based across all our industry segments, in particular financial services delivered strong double-digit growth. As we discussed in our recent Investor and Analyst Day, we have two service sets that work together to deliver tangible outcomes for our clients.

The first is Data-Tech-AI services, where we design and build solutions using data and modern technologies to help transform our clients' businesses and operations. These address our clients' key problems, better align them to their strategic goals, and deliver improvement in their outcomes. The second is Digital Operations services, where we transform our clients' operations and run them globally to deliver higher levels of end-to-end performance.

As our business has evolved, we have reassessed how we will report our results to be more in line with our clients' needs and how we think about our business internally. Going forward, we will report revenue by these two service sets, Data-Tech-AI and Digital Operations. We are also retiring the GE global client bifurcation as GE is now less than 9% of our revenue.

During the second quarter, Data-Tech-AI services grew 22% year-over-year on a constant currency basis, fueled by the ongoing momentum we are seeing in our emerging services like supply chain management, sales and commercial, and risk. Data-Tech-AI services contributed 45% of total revenue for the quarter, up from 44% in the first quarter of this year and 42% in the full year 2021.

Digital Operations services continued its steady growth, increasing 5% year-over-year on a constant currency basis, broadly in line with the first quarter of this year and up from a decline of 1% in full year 2021. Digital Operations services contributed 55% of total revenue for the quarter.

Let me share a few examples of how our services are helping our clients deliver better outcomes. First, a global food and beverage company was facing intense volatility in demand, leading to much higher-than-expected inventory write-offs for perishable products. We designed and built new demand forecasting models for these product lines, leveraging machine learning and analytics to significantly improve supply and demand planning and supply chain efficiency that led to better margins, as well as a $400 million reduction in inventory. We now run these supply chain operations for them.

Second, technology companies are trying to adopt new business models, transitioning from asset-based to consumption-based revenue models. These companies are experiencing challenges from customer churn and revenue leakage in license revenue. For one such client, we have built proprietary analytical models that combine internal data such as customer booking and license usage with external data such as competitor products and wallet share to align their 9,000 strong sales force to the right opportunities at the right time with tailor-made offerings and pricing. This drives material improvement in customer renewals and profitability for the client.

Lastly, a large global equipment manufacturer with long-term service and maintenance contracts is dealing with rapid inflation, impacting more than 50,000 parts used to replace and repair equipment serviced in the field. We built complex algorithms to optimize its service and maintenance pricing models, leveraging external economic and competitor data and internal parts, cost, margin and reliability data. This dynamic market-based pricing and servicing model is expected to improve the client's overall revenue growth and profitability.

All of these examples address challenges that are extremely relevant in today's macro environment and are highly replicable across clients and across industries. We are disproportionately investing in our priority accounts, a

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portfolio of clients that are on significant transformation journey where we see the most opportunity to drive meaningful outcomes for them that we believe have significant growth potential for us above company average.

During the second quarter, revenue from our priority accounts grew at 17% and represented 65% of total revenue, in line with the first quarter of this year. During the 12 months period ending June 30, 2022, we grew the number of relationships with annual revenue over $5 million from 137 to 154. Clients with more than $25 million in annual revenue increased from 27 to 34. Clients with more than $50 million in revenue increased from 12 to 14.

During the quarter, we initiated several strategic actions to align our cost base to our long-term plan, while also building agility to better respond to the macro environment. First, as part of our continuous evaluation of our business, we have sharpened our portfolio to focus on services where we see the greatest opportunity and have de-prioritized assets that do not align with our strategy or adversely impact long-term profitability. We have identified a small business that we expect to divest where we believe there is potential to better maximize its value under different ownership. We have classified this business as held for sale, allowing us to better deploy our resources, capital and leadership bandwidth to more sharply defined strategic opportunities.

Next, we've been implementing a long-term, flexible and hybrid global delivery model that incorporates a mix of offshore, onshore, near-shore and remote working based on the needs of our clients, type of services, regulatory considerations, and employee preferences. This has allowed us to further optimize our real estate footprint by consolidating sites, leading to future cost savings and, importantly, giving us more flexibility to help clients drive tangible outcomes.

The sharpening of our focus caused us to take certain deliberate employee actions in the second quarter, largely tied to roles related to our non-strategic services or right shoring of roles. Non-strategic services currently represent approximately 10% of our total revenue, down from 21% in 2018 and growing at less than company average.

As a result of these actions, we recorded a restructuring charge during the second quarter. Mike will cover the financial impact of these actions on both the quarter as well as our updated full year outlook.

Let me spend a few minutes on talent. As we had expected, we saw an uptick in our quarterly attrition to 38% versus 33% over the prior three quarters. We've always witnessed an increase in attrition during the second quarter, post our annual bonus payout that occurs in March each year. This attrition was primarily concentrated at the lower end of our organizational pyramid, where we are able to quickly fill roles to meet demand.

Our attrition rate includes all employees who leave the company regardless of their tenure or reason. Adjusting for both involuntary attrition as well as employees in training with less than three months of service, our attrition for the quarter would have been 34%. As we've always said, we manage attrition at the individual skill and geography level. For example, attrition in our call centers in the Philippines and the Americas has always been higher than company average. On the other hand, our attrition in the mid-senior levels and specialist expert groups is the same as pre-pandemic levels.

Given our global talent management practices that enable us to hire, reskill and redeploy employees at scale, we did not see any impact to our clients' engagements or our ability to convert new bookings. During the quarter, we hired almost 10,000 new team members across the globe, reflecting Genpact's powerful brand in a very competitive talent environment.

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During the quarter, our employees completed more than 2.5 million training hours, leveraging our online on-demand learning platform Genome, up from approximately 2 million training hours last quarter. Using our internal redeployment platform TalentMatch, we successfully redeployed almost 6,000 reskilled employees to support the changing needs of our clients. The ability to reskill, upskill and provide new opportunities for our employees is critical to managing attrition.

Employees who are active on Genome and employees who move to different roles internally have at least 50% lower attrition rates than the company average. This is a competitive advantage that we bring to our clients, particularly in today's macro environment, given our clients themselves are struggling to find the right talent.

As we enter the second half of the year, I believe we are well-positioned to continue to address the changing needs of our clients. Through our strategic investments over the past several years, we have diversified our service offerings to include many emerging services on top of the strength of our core services like finance and accounting. This wide range provides our clients with access to capabilities that help them manage a variety of challenges associated with today's highly volatile environment, while also enabling them to build resilience for the future. This includes cost, working capital, growth, risk and supply chain challenges, all of which are non-discretionary needs. Across these areas, we are able to partner with our clients to deliver better outcomes for them. At the core of this is our agility and nimbleness, which allows us to take these different services to our clients to partner with them at speed and scale.

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

Michael Weiner

Chief Financial Officer, Genpact Ltd.

Thank you, Tiger. Good afternoon, everyone. Today, I'll review our second quarter results and provide an update on our full year 2022 financial outlook. Total revenue was $1.089 billion, up 10% year-over-year or 12% on a constant currency basis and in line with our expectations. Data-Tech-AI services revenue, which represents 45% of total revenue, increased 20% year-over-year or 22% on a constant currency basis, largely driven by our cloud-based data solutions across notable focus areas, including supply chain, sales and commercial, and risk. Digital Operations services revenue, which represents 55% of total revenue, increased 3% year-over-year or 5% on a constant currency basis, primarily due to deal ramps from recent wins.

From a vertical perspective, financial services increased 17% year-over-year, largely due to fintech and digital banks where we're helping them navigate various regulatory challenges and scale their operations, as well as continued demand for our risk services with traditional banks. Consumer and healthcare increased 9% year-over-year, largely driven by sales and commercial and supply chain engagement versus a very strong prior year growth rate. And our high tech and manufacturing increased 13%, largely driven by supply chain, finance and accounting engagements, with both new and existing clients.

Adjusted operating income margin was 16.9%, down 100 basis points from the second quarter of last year, but expanded 190 basis points sequentially. Our performance in the second quarter included the positive impact of classification of certain non-strategic assets as held for sale that Tiger referred to earlier, given our intention to divest this small business. Additionally, adjusted operating income margin during the quarter benefited from growth related to operating leverage and the impact of our cost containment initiatives, resulting in lower SG&A

As a reminder, our higher-than-normal adjusted operating income margin level during the second quarter of 2021 largely resulted from lower travel expenses and the delay of certain planned R&D and sales and marketing investments to the second half of 2021 due to COVID-19.

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During the quarter, we recorded a $39 million restructuring charge. This primarily related to approximately $20 million charge included in other operating income line of our income statement related to certain leased properties we no longer plan to occupy and $17 million of severance costs related to employee actions. We anticipate the majority of these savings from these actions will benefit us in future results. The restructuring charges are excluded from our second quarter adjusted operating income and aligned with the margin drivers we outlined at our recent Investor Day.

Gross margin for the second quarter was 34.4%. Excluding restructuring cost I just mentioned, gross margin for the quarter would have been 35.2% compared to 35.8% reported in the first quarter of 2022. The sequential decline is largely due to the elevated attrition in the quarter above the normal seasonal increase, reflecting the current market environment as well as higher travel cost, partially offset by off-cycle pricing adjustments and better utilization from our ongoing demand of Data-Tech-AI services. We expect gross margin to improve as we progress through the balance of 2022 as Data-Tech-AI services continue to scale.

SG&A as a percentage of revenue was 21.4%, up 70 basis points year-over-year, largely due to the impact of investments in sales and marketing and R&D that we dialed up in the latter part of 2021, partially offset by G&A leverage. Excluding the impact of restructuring charges I mentioned earlier, SG&A as a percent of revenue would have declined 10 basis points year-over-year.

Adjusted EPS was $0.70, up 6% year-over-year from $0.66 in the second quarter of last year. The $0.04 increase was primarily driven by higher adjusted operating income of $0.02, the impact of lower outstanding shares $0.02, lower taxes and net interest expense of $0.02, partially offset by $0.02 impact from lower FX remeasurement gains recorded in the quarter compared to the same period last year.

Our effective tax rate was 24.8% compared to 24.2% last year. The increase was primarily due to the mix of lower benefits recorded in the current year, partially offset by some new lower tax rates in certain jurisdictions.

Turning to cash flow and balance sheet. During the quarter, we generated $102 million of cash from operations. That compares to $161 million in the same period last year. This was lower than our expectations as elevated interest rates caused several clients to reevaluate their historical payment patterns, resulting in DSOs expanding to 84 days from 82 days in the first quarter of 2022 and 83 days in the second quarter of 2021. Overall, credit quality of our portfolio remains unchanged. Additionally, cash flow from operations during the quarter was also impacted by severance payouts that are part of the restructuring charge I discussed earlier.

Cash and cash equivalents totaled $460 million compared to $862 million at the end of first quarter, largely driven by the repayment of our $350 million bond in the second quarter of 2022. Our net debt to EBITDA ratio for the last four rolling quarters increased to 1.7 times from 1.5 times at the end of the first quarter of 2022, reflecting the impact of the second quarter restructuring charge that's included in our EBITDA calculation. With our undrawn debt capacity, existing cash balances, we continue to have ample liquidity to pursue growth opportunities and execute on our capital allocation strategy. We continue to expect our net debt to EBITDA ratio remain in the preferred 1 to 2 times range.

As I discussed in our recent Investor Day, our capital allocation priorities to drive long-term shareholder value are as follows. First, we are investing in our businesses to support organic long-term growth initiatives. Next, we'll continue to pursue strategic and disciplined M&A to add to our domain capabilities in our strategic focus areas. And lastly, we're committed to a robust return of capital [ph] program (00:22:52), with 40% to 50% of operating cash flow earmarked for share repurchases and dividends to help drive TSR.

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During the quarter, we continued to execute on our program of a more regular cadence of share repurchases [ph] (00:23:06) and bought back approximately 1.8 million shares for a total cost of $76 million at an average share price of $42. We also paid out dividends totaling $23 million.

Capital expenditures as a percentage of revenue was approximately 1.2%. We continue to expect the percentage to be approximately 1.5% to 2% for full year 2022, with a higher spending during the remaining part of the year as employees return to office as part of a hybrid delivery model.

Now, let me update you on our full year outlook. Given the strong start to the year, we now expect revenue to be between $4.32 billion to $4.37 billion, representing reported year-over-year growth of 7.5% to 9%. This incorporates a larger-than-expected currency headwind of $21 million that we provided to you on our full year outlook last quarter, reflecting the strengthening US dollar. This also includes approximately $28 million of expected full year revenue associated with business held for sale compared to a similar amount in 2021. Now, we expect total revenue growth to be between 9.5% to 11% on a constant currency basis compared to our prior full year outlook of 9% to 11%.

Given our year-to-date performance and the positive impact from strategic actions we outlined earlier, we now expect our full year 2022 adjusted operating income margin to be towards the higher end of our prior 16% to 16.5% outlook range. We now expect adjusted earnings per share for full year 2022 to be between $2.68 and $2.74 compared to our prior outlook of $2.60 to $2.76. Of note, the incremental currency headwind impacted the top end of our adjusted EPS range for the full year outlook by $0.02.

Lastly, we now expect to generate full year cash flow from operations closer to $500 million as clients increasingly maximizing near-term cash flow. The lower cash flow expectations are not related to any business slowdown as our overall demand remains strong.

With that, let me turn the call back over to you, Tiger.

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Thank you, Mike. Our first half performance highlights the resilience of our business model, our durable competitive advantage, and the relevance of our services in the market. This is evidenced by our continued strong bookings and expanding pipeline of opportunities. The intimacy we have built with our clients, particular across the C-suite, beyond just the CFO and CIO, gives us deep insight into what is happening in their businesses and industries, allowing us to pick up signals and take early actions to drive value for them. This is particularly relevant in an environment where deal cycle times are shortening and clients are looking for rapid payback to their investments.

Our ability to combine our deep expertise across industry and domain, with our strength in operationalizing insights to actions that lead to tangible outcomes sets us apart as a strategic partner that can help clients navigate the challenges they face today and build resilience for the future.

We continue to be recognized by leading industry analyst firms and partners for the capabilities we have built and invested in. For example, by IDC for our proprietary and unique data and analytics verification program, DataBridge, as the largest upskilling data program of its kind in the world, with more than 58,000 employees trained. By Everest Group as a leader in its 2022 supply chain management services, advanced analytics and insights services, as well as financial crimes and compliance operations PEAK Matrix. By ServiceNow as its 2022

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Financial Services Global Partner of the Year. By HFS recognizing our experience business Rightpoint in the Winner's Circle of its Top 10 Employee Experience Services 2022 and number one for outstanding voice of customer. And finally by Microsoft naming Rightpoint as its 2022 US Partner of the Year for Employee Experience and runner-up for its Worldwide Partner of the Year for Employee Experience.

We also continue to be recognized for our commitment to ESG initiatives with EcoVadis awarding us a Platinum rating, putting us in the top 1% of more than 95,000 organizations across sustainability parameters. We've also recently honored with a CSO50 Award on the sixth year in a row for our continued excellence in cybersecurity.

Our performance this quarter aligns to the multi-year strategic plan we laid out at our recent Investor Day. Through 2026, we expect to drive sustainable 10%-plus organic revenue growth, expand our adjusted operating income margin at a more meaningful pace than in the past, and continue to deliver strong cash flows. We are confident in this given our strong position in an attractive, high growth and underpenetrated market where we have significant recurring revenue and deep client relationships.

Our operating leverage, strong free cash flows and healthy balance sheet allow us to continue to make strategic investments in our areas of focus, including services, capabilities and client accounts. As we look to the rest of the year and beyond, we are confident in our ability to execute against this plan and create even more durable value for our stakeholders.

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

Roger Sachs

Vice President-Investor Relations, Genpact Ltd.

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

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QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. [Operator Instructions] The first question is coming from Maggie Nolan of William Blair. Please go ahead.

Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Thank you. Tiger, you made a comment on client decision cycle times trending down. And I believe you've said that in the recent past as well. I'm curious, is that showing up disproportionately in either the Data-Tech-AI or Digital Ops segment?

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

A

Maggie, hi. No, actually, it's showing up equally in both Data-Tech-AI as well as Digital Operations. And interestingly, it's showing up both in large deals as well as obviously in smaller and medium deals. One would expect it to be faster cycle in smaller deals and medium-sized deals, but it's also showing up in larger deals, and I guess, I mean, the simple reason for that is our clients are very focused these days, no surprise. Cost is back as a big agenda item and they want payback of their investments very quickly. So I'm a little not surprised, but we've seen this trend for -consistently for about four quarters.

Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Okay, great. And then can you give us a little more information on what is the nature of the business that you are divesting and why it's non-strategic? And then just to clarify, I believe you said 10% of rev is kind of non-strategic revenue. Is that inclusive of this business or incremental to the business you've already flagged to divest?

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

A

Yeah. I think the answer to the last part of the question is it includes this business. But what we're really talking about is a specific business that has an asset. So maybe, Mike, you can answer the specifics around the business itself.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. We're not really disclosing the specifics around the business itself, but this is a business we've invested in, we've built for a number of years, and we think it's in a good position right now to be in better hands, and we're able to continue to fund it and invest in the business on a go-forward basis. And we look to hopefully consummate a deal in the not too distant future from that perspective and provided some financial information in our press release on the size of the deal.

And, again, if you want to think about it from – as your first question was, you said about 10% of our business, we're over a $4 billion business [audio gap] (00:32:15) that's about $400 million and our business is about $21 million. So it's a very, very small business for us.

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Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Okay. And is the remainder of that $400 million being actively evaluated?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

No, no, no. A great question. The remaining piece of that $400 million is continuously managed and invested in appropriately. So, again, this was a sub-segment of that $400 million that was specifically tied to a freestanding asset or freestanding business that we think we're in a good place right now to monetize as that fits in line with our future strategy.

Maggie Nolan
Analyst, William Blair & Co. LLC

Q

Got it. Thanks for taking my questions.

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

A

Thanks, Maggie.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Thank you.

Operator: Next question comes from Brad Clark of BMO. Please go ahead.

Bradley Clark
Analyst, BMO Capital Markets Corp.

Q

Hi. Thank you for taking my question. I wanted to dive in on the pricing comment you mentioned connected to the gross margin line. Could you just provide some color and commentary on how those conversations are progressing with clients and if you're able to quantify any impact that pricing is having to benefit [ph] both growth and (00:33:45) operating margins? Appreciate any color into that. Thank you.

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

A

Brad, when we thought about the overall pricing environment and the inflationary environment for the year, we had factored in some element of price increases in conversation with our clients. And we had actually factored that in and it's going as per our expectations.

The key to understand here is that these take time. These are against long-term annuity contracts that we have. And the real discussion that we have with our clients is, how do we create a win-win situation by driving more value. Often, it's increasing the scope. It's sometimes finding opportunities to drive automation and change, and analytics and insights that drive incremental value in the outcomes that get delivered and getting paid for those outcomes. So there are a variety of ways we do this, because it's always in partnership with our clients. So it takes time and we are very pleased with the way [ph] it's been (00:34:55) progressing through the year so far. Brad, did we lose you?

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Bradley Clark
Analyst, BMO Capital Markets Corp.

Q

No, I'm here. Thank you.

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

A

Thank you. The next question?

Operator: The next question is coming from Ashwin Shirvaikar of Citi. Please go ahead.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Hey, Tiger. Hey, Mike. Good to hear from you.

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

A

Hey, Ashwin. Hi.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Hi.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Hey. I guess, my first question is, and you mentioned this at the Investor Day and of course, repeated it today, the nature of demand is changing with more focus on cost. Could you sort of review how you expect that to affect your new segments in terms of demand, if you could kind of go through that?

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

A

Great question, Ashwin. I would say both segments, the Data-Tech-AI services as well as Digital Operations services have enough ammunition to help our clients navigate cost improvement and cost take-out situations. And we are, therefore, seeing the tailwind of demand come through with cost being the agenda on both types of services.

Having said that, one of the incremental advantages of Data-Tech-AI services is that it also tackles risk, it also tackles sales and commercial, particularly, for example, the example I gave around tech businesses that are trying to convert themselves from an asset-based business into a consumption-based business. If you can think about tech businesses trying to do that, that's a big change. You're talking about renewal cycles, you're talking about how do I get to the customer at the right time. How do I make sure that my churn rate drops in an environment where I'm not getting new growth? So that sales and commercial services and that's very significant growth agenda in our Data-Tech-AI.

And then, of course, supply chain. There is no question that one of the biggest conversations we are having amongst all our services is supply chain services across a range of manufacturing, consumer goods, life

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sciences, technology customers. So I would say cost is an agenda on both. Data-Tech-AI has an incremental – lots of other things that sit there that allows even more growth to happen.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you. And then just a modeling question as we look to incorporate the new segments in our models. 3Q, 4Q, anything to look out for either from a seasonality perspective or any other perspectives, from a modeling perspective, anything to watch out for these two particular segments? Should they stay in that – one of them in the 5%, 6% range and the other in the upper-teens, low-20s?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. I think that's probably a fair way to answer it. [indiscernible] (00:38:55) opportunity to look at it, but we disclosed the last 10 quarters of the bifurcation of our revenue that way. So you can look at the historical patterns as well.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Got it. Thanks.

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

A

Thanks, Ashwin. We can go to the next question.

Operator: [Operator Instructions] The next question comes from Jared Levine of Cowen.

Jared Levine
Analyst, Cowen & Co. LLC

Q

Hello. This is Jared on for Bryan. With GE, understanding that you're not breaking it out, but is that account performing in line with how you expected it to in the first half of this year and any change in your second half view there?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

We're not really addressing GE specifically as we move forward. As Tiger alluded to, it's less than 9% of our business. But no, nothing has changed from what we've communicated earlier when bifurcated GE versus global client. So from that perspective, no.

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

A

And the way to think about GE now is, it's incorporated within our manufacturing and high tech segment as we report. And as Mike referred to in his prepared remarks, that segment grew in the quarter 13%. So we've had a good overall growth in that segment and GE is now incorporated into that segment as one of our clients.

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Michael Weiner
Chief Financial Officer, Genpact Ltd.

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Yeah.

Jared Levine
Analyst, Cowen & Co. LLC

Q

Okay. Great. And then in terms of wage inflation, has that improved at all following that stabilization you saw in 1Q?

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

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Yeah. I think the best way to answer that is, it's stable. It has remained stable. Has it improved meaning, is inflation down? The answer is no, it hasn't. But it's not gone up, which is a good news. And the typical skills and cohorts where we have seen the most pressure are the usual suspects that we talked about last time as well, which is digital technologies, data science, data analytics, specific supply chain services, some technology services, all the usual areas where our clients and everyone has a lot of demand going on. You can go to the next question, please.

Operator: [Operator Instructions] There are no more questions in the queue. Okay.

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

Okay. Well, thank you very much for joining us today and look forward to speaking to you again next quarter. Thanks so much.

Operator: Thank you for your time. This concludes today's conference. You may all disconnect.

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