THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

G - Q1 2017 Genpact Ltd Earnings Call

EVENT DATE/TIME: MAY 04, 2017 / 8:30PM GMT

CORPORATE PARTICIPANTS

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

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

Roger Sachs

CONFERENCE CALL PARTICIPANTS

Anil Kumar Doradla *William Blair & Company L.L.C., Research Division - Analyst*

Ashwin Vassant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

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

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

Edward Stephen Caso *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Francis Carl Atkins *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

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

Keith Frances Bachman *BMO Capital Markets Equity Research - MD and Senior Research Analyst*

Steven Jason Schneiderman *BMO Capital Markets Equity Research - Associate*

Tien-tsin Huang *JP Morgan Chase & Co, Research Division - Senior Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2017 Genpact Limited Earnings Conference Call. My name is Michelle, and I will be your conference moderator for today. (Operator Instructions) We will expect the call to conclude in an hour. As a reminder, this call is being recorded for replay purposes.

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

Roger Sachs

Thank you, Michelle. Good afternoon, everyone, and welcome to Genpact's first quarter earnings call to discuss our results for the quarter ended March 31, 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 today will be as follows. Tiger will provide a high-level overview of our results as well as update you on some of our strategic initiatives. And will then discuss -- Ed will then discuss our financial performance for the quarter in greater detail. Tiger will then come back for some closing comments, and then we will take your questions. As Michelle just said, we expect the call to last about an hour.

Please note, the year-over-year growth rate 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 will refer to certain non-GAAP financial measures, which we believe provide additional information to 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 2017 first quarter earnings call.

We delivered solid first quarter results, highlighted by continued momentum for our transformational services revenues in consulting, digital and analytics that drove our Global Client BPO growth. In the current volatile and uncertain macro environment, we are off to a very good start to the year.

Specifically during the quarter, total revenues increased 3% on a constant currency basis. Global Client revenue increased 6% on a constant currency basis. Global Client BPO revenue was up 9% on a constant currency basis.

Adjusted operating income margin was 14.1%, and adjusted EPS was $0.31. Global Client revenue grew 6% year-over-year on a constant currency basis. This was driven by 9% constant currency growth in our core Global Client BPO business that more than offset a 4% Global Client ITO year-over-year decline as we cycle through the impact of the reduction in discretionary spending on legacy IT projects during the second half of 2016 in the capital markets and health care industries.

Our unique and differentiated lean digital approach continues to gain increasing traction in the market as our digital transformation engagements grew approximately 20% during the quarter and currently represents about 20% of the total company revenue.

Global Client growth was broad-based across most of our targeted verticals, including CPG, manufacturing, high tech, life sciences and banking. Along with the strong growth I just mentioned for our transformational services, our finance & accounting and core industry vertical operation service lines also grew nicely during the first quarter.

GE revenue declined 17% in the first quarter, in line with our expectations as we continue to feel the impact from the phase out of the work we do for GE Capital corporate related to GE's divestiture of a significant portion of the GE Capital businesses.

We saw growth in our pipeline during the first quarter as a number of new deals with potential new and existing clients were teed up. A majority of these have a significant digital and analytics transformational flavor to them and are broad-based across most of our targeted verticals, service lines and geographies.

Clients continue to view today's world as being very volatile, with digital disruption being top of mind in boardrooms and C-suites. Everyone is looking to leverage digital and real time predictive analytics to find new ways to drive growth and run their businesses.

We are seeing 4 key trends cut across our clients and the way they are thinking. First, companies increasingly want to adopt digital ad scale, going on the offensive from experimentation to industrialization of digital within their businesses. Management teams want to use digital to drive a step change in customer experience by dramatically scaling up automation of operations and deploying predictive analytics-driven decision-making in many parts of their businesses.

Second, there is significant interest in experimenting with specific artificial intelligence-driven solutions, allowing companies to redefine what work is and how it gets done and extract new sources of growth and productivity.

Third, management teams are increasingly realizing the value of implementing full end-to-end transformation from the front office, where significant investments have already been made, all the way through the middle and back office. This one office solution results in significantly enhanced end user experiences that has become mission-critical in today's environment.

And finally, companies are beginning to see the problems are simply employing digital tools out of context. They are now realizing that the deep domain expertise, combined with knowledge of specific client processes, are critical factors to understand how work can be reimagined with the right set of digital tools and technologies.

Our pivot to Lean Digital, which encompasses the intersection of domain knowledge and digital technologies, puts Genpact in the enviable position to be able to capture the value of these 4 secular trends and take advantage of the large opportunities in a fast-growing market. Our clearly-differentiated offering reimagines and then transforms existing client processes by embedding the power of digital technologies and analytics. We are having great success with these engagements, and we will continue to invest to further partner with clients, along their transformation journey, and subsequently run these reimagined operations for them.

As we discussed at our recent Investor Day, we have 2 core engines of growth that are extremely complementary to each other. The first is the one I just described, intelligent operations, representing our BPM offerings in which we integrate and embed new digital technologies, thereby automating and completely changing the way client businesses are run.

The second engine of our growth is digital-led solutions, such as designing, implementing and managing robotic process automation or dynamic workflow implementations or mobility solutions across clients' end-to-end operations. It also includes using artificial intelligence to extract insights and value. These digital-led solutions are highly differentiated as they embed our deep domain and process expertise that we have acquired over the last 15 years running numerous operations for more than 700 clients. These 2 growth engines feed into each other. The more we are engaged in digital-led transformations for our clients, the more we are finding opportunities to manage clients' operations and analytics on an ongoing basis. We also have a competitive advantage because of our access to one of the world's largest sandboxes of data and a deep experience set from years of cultivating our relationships with clients in both business and functional leadership positions.

Our investments over the last few years in domain, digital and analytics capabilities have cemented our reputation as a transformation thought leader. As I mentioned earlier, growing at approximately 20%, Transformation Services represent the driving force behind our industry-leading Global Client BPO growth rate. These engagements typically act as a tip of the spear for greater client penetration and are strongly resonating in the marketplace as 75% of our first quarter bookings have transformation components embedded in them.

Let me share a few exciting examples of how these transformation engagements are driving significant impact for our clients. First, for a global insurance company, using digital technologies, we managed a large-scale complex data migration of critical policy information from the ERP system of one of its recently acquired subsidiaries into the client's existing ERP. Implementing robotic process automation technology to significantly reduce manual-intensive work, the data was integrated with 100% accuracy at a dramatically faster pace, accelerating the time to market for new products. This deal included a material gain share component based upon outcome improvement. The core to this engagement was our deep understanding of all the data as it relates to insurance as a domain.

Next, for a leading global asset management company, we are transforming the way they target financial advisers and registered investment agents to help increase assets under management for their various funds. Our cloud-based solutions pulls data from multiple sources, including the client's internal system like CRM's and external sources such as social media, to develop predictive analytics for the client sales force to prioritize marketing efforts to various intermediaries.

And lastly, we are working with one of the largest global technology companies to transform their finance operations. Under this engagement, we will create a robotic center of excellence as well as digitized manual processes using RPA to improve accuracy, reduce turnaround time and also ensure regulatory compliance across many of their finance functions. While this was a highly competitive deal, our demonstrated deep digital domain expertise, high reference ability and innovative outcome and gain share-based commercial model led us to win this engagement.

Let me now spend a few minutes on M&A. It is a clear priority for us, and we are now focused on 2 broad themes: first is adding specific targeted digital and analytics capabilities; and second, to continue to add domain expertise in our targeted vertical and service lines where we see attractive growth opportunities.

We recently announced 2 strategic acquisitions. The first deal, RAGE Frameworks, adds tremendous capabilities in the rapidly emerging area of artificial intelligence. RAGE's leading AI platform significantly simplifies automation challenges for a range of mission-critical functions, including extracting data and insights from balance sheets, contracts, news and business reports. These automation capabilities are transforming work in areas such as commercial lending, insurance policy underwriting, financial statement analysis, contract reviews, supply chain optimization and supply risk management. Advanced technologies such as AI that combine the best elements of human expertise along with machine intelligence are becoming increasingly critical for clients to gain and sustain a competitive advantage. This acquisition builds upon our prior successful partnership with RAGE, where we worked together on a number of transformational client engagements.

The second deal is the acquisition of BrightClaim, which we announced yesterday. It is a leading U.S. domestic provider of end-to-end claims solutions to the property and casualty insurance market. This transaction adds new insurance capabilities to round out our insurance value chain and expands our U.S. onshore presence with new locations in Georgia and Texas. The enhanced domain depth, coupled with our digital analytics capabilities, will create a highly differentiated offering to drive value for carriers by increasing their customer satisfaction and retention. We can not only reduce cycle times for claim processing but also provide transparency throughout the process life cycle.

Digital penetration within the insurance industry is in early stage, and there is a fantastic opportunity for us to help clients disrupt this industry. Importantly, both of these deals add great leaders and talent into our organization.

As discussed during our recent Investor Day, we are in the midst of evaluating our IT portfolio to determine where to double down and increase our focus as we drive long-term growth and create shareholder value. Directionally, we are moving more towards streamlining our ITO business into areas that connect with our domain expertise such as platforms related to risk and commercial lending and leasing. Additionally, we plan to invest in a few select areas where there is strong market demand and we can leverage existing capabilities, including data engineering, to extend our strength in the analytics value chain.

Our objective is to refocus our ITO portfolio to areas where we can offer differentiated solutions that are complementary to our BPO, digital and analytic strategies.

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

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 first quarter results followed by key balance sheet and cash flow highlights.

We generated total revenues of $623 million in the first quarter, an increase of 2% year-over-year or 3% on a constant currency basis. Revenues from Global Clients, which represent 89% of our total revenue, increased 5% year-over-year or 6% on a constant currency basis.

Within Global Clients, our BPO revenues grew 7% year-over-year or 9% on a constant currency basis, while Global Client IT services revenues declined 5%. As Tiger mentioned, Global Client growth was led by our transformational services, which represent the fastest-growing area of our business.

GE revenues, which represent 11% of total revenue, declined 17%, largely in line with our expectations. Overall business process outsourcing revenues, which represent 82% of our total revenues, increased 5% year-over-year, while total IT services revenue declined 7%.

We continue to expand relationships within Global Clients across a range of our targeted industry verticals. In the 12-month period ending March 31, 2017, we grew the number of client relationships with annual revenues over $5 million to 110 from 106. We also grew the number of global clients with more than $50 million in annual revenue from 4 to 6 over the same period.

Adjusted income from operations for the quarter was $88 million, up 3% year-over-year with a corresponding margin of 14.1% compared to 14% during the first quarter of 2016. Our gross margins remain relatively stable during the quarter at 38.5% compared to 38.8% during the first quarter of last year.

SG&A expenses totaled $161 million, in line with the first quarter of last year. Our sales and marketing expense as a percentage of revenue was approximately 6.4% compared to 7.3% in the same quarter last year due to operating leverage and timing of marketing expenses. Total G&A expense as a percentage of revenue this quarter increased by approximately 40 basis points year-over-year, largely due to ongoing investments in digital and domain capabilities but partially offset by cost management and leverage in G&A spending.

Our adjusted EPS for the first quarter was $0.31 per share, including a $0.02 per share loss from foreign currency balance sheet remeasurement. EPS was flat year-over-year as the benefit of higher operating income and share repurchase activity of $0.01 and $0.02, respectively, was offset by $0.01 each from higher interest expense and higher balance sheet related to FX losses. As a reminder, our prior EPS outlook for the year did not include balance sheet-related FX gains or losses.

During the quarter, we executed on our capital allocation plans that we outlined during our prior earnings call. First, we successfully tapped the investment grade corporate bond market and secured an attractively priced $350 million bond, providing us greater flexibility to engage in strategic M&A opportunities, support our organic growth initiatives and return capital to shareholders.

On the M&A front, as Tiger has already discussed, subsequent to the end of the first quarter, we closed on 2 acquisitions: RAGE Frameworks and BrightClaim. The total cash paid for these acquisitions was approximately $180 million. We expect these acquisitions to add roughly 1 point to our total revenue growth for the current year and to be neutral to current year EPS but become EPS accretive in 2018 and beyond. It is our expectation that these businesses will align with the overall company margin profile near term.

During the quarter, we utilized approximately $220 million for share repurchases, including $200 million under our accelerated share repurchase program. The average price of these shares was approximately $24.33 per share. Since the final price we will pay for the ASR-related shares will depend on the average price of our shares over the next 6 to 8 months of the program, we assume the number of shares we ultimately repurchase may change depending upon potential fluctuations in our stock price over that time frame. Any necessary changes to the assumed shares to be retired to the ASR program will be made on a quarterly basis. Lastly, we returned another $12 million to shareholders in the form of our first regular quarterly dividend of $0.06 per share that equates to a current annual yield of approximately 1%.

Our effective tax rate for the first quarter was 18.7%, up from 17% in the first quarter of last year. The increase in the effective tax rate reflects changes in our jurisdictional mix of income. Both periods included discrete benefits that are not recurring in nature, and therefore, this quarter's rate is below our full year rate expectation of 20% to 21%.

Now let me turn to our balance sheet and cash flows. Our cash and cash equivalents totaled $388 million compared to $423 million at the end of the fourth quarter 2016. With undrawn debt capacity of $334 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy.

At the end of the first quarter, our net debt-to-EBITDA ratio for the last 4 rolling quarters was approximately 1.6x. After taking into consideration the impact from our recent acquisitions, our net debt-to-EBITDA ratio is expected to be approximately 1.9x in the second quarter of 2017.

Our days sales outstanding were 87 days versus 89 days in Q1 2016, in line with our expected year-over-year improvement. Recall that in the prior year, DSO metric was impacted by certain larger contract rollouts that adversely impacted DSOs. We expect DSOs to improve as we progress throughout the year.

We generated $31 million of cash from operations in the first quarter of 2017 compared to utilizing $10 million during the same period last year as we benefited from improved DSOs as well as the timing of certain tax payments during the first quarter of 2016.

Capital expenditures as a percentage of revenue were 2.5% in the first quarter of 2017 compared to 3% during the first quarter of 2016. 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. We now expect total revenue for the full year to be between $2.63 billion and $2.7 billion, which includes the revenue contribution from the recent acquisitions as well as the adverse foreign exchange impact of approximately $33 million. Additionally, we now expect Global Client growth to be in the range of 6% to 9% on a constant currency basis. The Global Client BPO growth now expected to be approximately 11% on a constant currency basis.

Our adjusted operating margin expectations remain at approximately 15.7%, ramping throughout the year as our investments are absorbed by higher revenues.

As I mentioned earlier, we continue to expect our effective tax rate to be approximately 20% to 21%, higher than 2016's rate of 18.7% that benefited from nonrecurring discrete tax items in the fourth quarter.

Finally, despite the $0.02 per share negative balance sheet FX impact during the first quarter, we continue to expect adjusted earnings per share to be between $1.53 and $1.57. 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.

We all know that digital disruption is the top of mind for boards and CxOs. We are in a world where agility, flexibility and nimbleness in building new innovative solutions, leveraging new digital technologies and using AI-driven breakthroughs wins the day. Our deep foundation in vertical and horizontal domain, our reputation for outstanding client Net Promoter Scores, our natural affinity and relationships built over many years with business and functional leaders in our client organizations positions us really well to be their trusted adviser in these times.

We have, over the last few years, invested and acquired domain capabilities, digital talent and specific technologies and scaled up our front-end client-facing teams. This has allowed us to grow our Transformation Services revenues just in the last 2 years, with Lean Digital becoming a very well-established industry-recognized approach.

At the same time, our growing onshore operating delivery footprint in more than 10 cities in the U.S. with more than 4,000 people and similar relative footprints in the U.K., Continental Europe, Japan and Australia allows us to provide a great flexibility and value for our clients' varied needs.

We continue to add to our global talent and leadership depth, and we are using our balance sheet thoughtfully to do very targeted strategic acquisitions. All of these give us tremendous confidence about our business in these times.

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

Roger Sachs

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ashwin Shirvaikar with Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

So my first question is with regards to the complexity of deals. Is that rising because of the digital transformation-type contracts that you're signing? And then the resulting productivity gains obviously are higher when you apply AI and such. What does that do to your expected long-term growth?

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

Great question. The answer is yes to all of the above. Deals have been becoming complex, actually not now but over the last -- quite a few years. And that included the transformational capabilities, which now has a lot more digital components to it. A lot of our deals have multi-location delivery. A lot of them have always had, particularly in the last 4 or 5 years, onshore delivery components. Those continue to undergo changes. And all of that lends the complexity that we just described, so the answer is yes. And some of that also ends up elongating, particularly the last leg of decision-making, which includes contracting. And then with digital technologies available, including AI, productivity expectations, productivity that can be driven and value that can be driven also changes. Our contracting commercial terms often now include gain share in them. I gave a couple of examples where that's exactly the way those contracts are constructed. Obviously, the growth that we are seeing has incorporated into it, what we call, net growth. Because there is, what one can call, gross growth and then productivity and all of that gets driven and then you get net growth, so what you see ultimately and the plan that we have incorporate all of that productivity. Remember, we've always driven productivity. We just have more tools to drive it and probably drive it faster, better and earlier.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Understood. Understood. The second question I have is with regards to -- you have these 2 deals that you signed, acquisitions that you made post the quarter. That signal an acceleration in dealmaking? And if so, eventually, what sort of leverage ratio are you comfortable with?

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

I'll answer the first part of your question. I'll have Ed respond to the second. I just think it's a little bit of timing that have -- that brought both those deals together almost next to each other. The reality is that, over the last 12-plus months, we've been talking about an increased and really focused effort around specific M&A. And the 2 themes that I laid out have been the 2 themes that we've been working on, which is analytics and digital capabilities. Think about the PNMsoft acquisition dynamic workflow that we did, the endeavor mobility solutions acquisition that we did. And the second themes has been around specific domain capabilities in the areas of our deep interest, given growth trajectories and so on. Insurance has been one of those areas that we have been focused on for quite some time. And we've actually circled through many, many opportunities before zeroing in and doing the BrightClaim acquisition. So one part of the answer is yes, we are very focused on acquisitions for those 2 themes. Just the fact that 2 happened so close to each other is a little bit of coincidence in timing.

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

And I would add, Ashwin, we intimated that we will likely be doing more M&A, right? Our funnel was better. It was more focused on what we were looking for. So -- and we talked about it at the Investor Day, so you shouldn't be surprised to see that we're doing more. We're pleased with the level that we've done. On the levels, the ratios, EBITDA, we said, hey, we think we could stay between 1 and 2 -- and below 2 and maintain that investment grade rating. If we go over 2 at a certain point in time, our long-term goal to kind of stay back within that range of 1 to 2. But we feel comfortable with where we are, and we have plenty of liquidity to get after the assets that we think we need to get after to continue to drive that growth that we just talked about.

Operator

And our next question comes from the line of Joseph Foresi with Cantor Fitzgerald.

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

I was wondering if we could get an update on the outlook for ITO and GE in light of this quarter's results. I know you've given some color in the past. I'm just wondering if anything had sort of changed in the outlook for this year or next year.

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

Yes. No, change there, Joe. Same as the prior.

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

Yes. No change, Joe. Joe, no change either for GE or for ITO. GE, we expected exactly the first quarter to be the way it has turned out, and we expect the full year to be in the range that we had given for GE and for ITO.

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

Okay. And then my second question, just on the quarter. It seems like you beat a couple of million here, at least, versus Street expectations. But then it looks like the guidance was raised in kind of accordance with what the revenues are coming in from acquisitions. So I was just hoping you could reconcile those 2. Are you being conservative with the outlook at this stage? Was there some other piece of the business that's maybe not performing as expected? Maybe you can just give a little color around that.

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

Now Joe, I mean, as you know, the quarters can be -- can vary a bit. So I -- we're pleased that we got off to the start that we get off to. But the full -- and really no change in our full year outlook as the quarters can ebb and flow a bit as we go here. So...

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

Yes. And Joe, I already said this. I think for many, many years, our business is not a quarter-by-quarter business. So we had a very good quarter 1. We're very pleased with the first quarter. But I don't think that necessarily changes the range we've given, and we've given a broad range. And clearly, the acquisitions add to that, and that's what we've done. Right now, I think the range that we've given is a good range.

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

Okay. And then the last one for me. On the digital side, how much are you using that internally for the process that you're doing for the customer versus selling it as a product to a customer cross-selling it? I'm just trying to get a sense when you talk about that digital growth rate. Is that the amount that's in the current business that you're selling? Or is that a new offering that you're selling out to new customers?

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

So Joe, it's a combination of both. I would say that it depends on the type of process. Most of the time, digital implementations require end-to-end process implementation. You cannot do it to a small piece of process, so therefore, it requires deep engagement to the client around that end-to-end process. Some parts of the process, obviously, the client runs. The other parts of the process, we run. And unless that engagement comes through and the project gets ratted and implemented and sponsored by the customer, we really can't digitize and apply some of the digital technologies to our operations for the client. So that actually constraints the speed and cadence with which you do that into our operations. So to that extent, a significant and material proportion of Transformation Services and digital implementations are implementations in a lot of new deals, implementations in a lot of client-driven processes. And that's why we get separately paid for it and, it gets recognized as separate revenue.

Operator

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

Anil Kumar Doradla - *William Blair & Company L.L.C., Research Division - Analyst*

Good job on the Global Client BPO business. So a couple of questions, Tiger. You talked about transformations being one of the fastest sub segments there. What proportion of that Global Client BPO business would you attribute to transformational projects today?

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

So the 20% is for Global Clients, right? Yes, so 20% of our -- broadly about 20% of our Global Clients revenue is transformational services. And it is growing at obviously close to 20% rate, so therefore, it's growing at higher than Global Client total rates.

Anil Kumar Doradla - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. So that was 20%. It was not the growth. It was 20% of the Global Client BPO?

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

Right, yes.

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

Yes, that's right.

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

Global client population, yes.

Anil Kumar Doradla - *William Blair & Company L.L.C., Research Division - Analyst*

Right. Now so, Tiger, your commentary around your IT portfolio, you used the word streamlining your IT portfolio. So do I take it that the divestiture is not on cards and you're ruling that out for now?

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

I -- let me answer the question. I don't think we ever rule it in to rule it out. So the first step in the journey is to make sure that we identify those areas that we double, triple down on that we know connect back very well to our domain, our BPO, our analytics and our digital. And we're actually pretty clear about what those are. We are at a stage where actually we are beginning to align our force within that direction. If you actually parse some of the IT growth, interestingly, capital markets and health care is actually the IT portion that has declined more than the noncapital markets and health care. I mean, you know the GE numbers in any case. And a lot of the growth we're getting is on the commercial lending, commercial leasing, risk, analytics connected to data engineering, all the stuff that we talk about as doubling, tripling down. So I think that's more important the way we see it than the question on divestiture. I think it's actually a reflection of what we did. If you remember 4 years back when we said we're going to double, triple down on some verticals. If you remember, we talked about a vertical like telecom, where we said we are not going to add anymore, and we're not going to invest and we're not going to add salespeople, et cetera, et cetera. We think we can undertake a similar journey on IT, and that's exactly what we're doing.

Anil Kumar Doradla - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. And finally, Tiger, if you don't mind me sneaking one more. The pricing environment at GE, a lot of moving parts at GE both on the IT side as well as the BPO side. So how is GE behaving in terms of the pricing with you? Is it getting more aggressive? Or it's pretty much the same?

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

I'll start by saying, Anil, actually, the pricing environment in general, and that includes GE, but everyone is being aggressive on pricing when it comes to legacy, the broader IT landscape. Because all of them understand that they would like to do that much more efficiently in order to be able to extract that -- those dollars and invest it in digital technologies. That's the journey every client is on in every industry. I don't think it matters which industry you're in. It applies to GE as well. So GE is going down the same path and has been going down the same path. And at some level, GE is probably, in many instances in these kinds of things, no surprises, ahead of the pack on many things.

Operator

Our next question comes from the line of Edward Caso with Wells Fargo.

Edward Stephen Caso - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

I was curious what you're hearing from your clients around the whole sort of isolation and strong agenda? And are they asking you to do things differently? I noticed that you've called out you have 10 U.S. centers, 4,000 people. I don't think I've heard you say that before. So is that in line with sort of pressure you're getting from clients?

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

So Ed, I just want to tell you that you sound really distant, but I heard the question. I heard the question. So I would say clients come in, in -- with all kinds of requirements. For quite some time now, we have seen -- and this got nothing to do with the current environment. For quite some time now, we've seen our processes and our relationship with clients include a lot more onshore component than it used to have. It's a driver of why we are with an operating delivery footprint of more than 10 centers and more than 4,000 people. That happened over the last 5 years. Is there some more reason to have some clients have their conversation? The answer is yes. Do we have all the firepower to be able to bring different permutations and combinations of global delivery, onshore delivery, onshore delivery from different parts of the U.S. and digital transformation prior to onshore delivery, digital transformation prior to global delivery or vice versa? The answer is we can do all of the above and different permutations, combinations depending on the client. And there are probably more such conversations used to be. But interestingly enough, the wide vast proportion of them still go down the path of: I want to get the benefit that I'm looking for; I want to get the transformation of looking for; these are the various levels I need to pull; I may sequence the level differently in my case, but in some cases, they don't change any sequence. And that comes through in the total growth that we have seen. So I would expect us to continue to grow onshore maybe a tad bit higher, but we've been growing that over the last 5 years.

Edward Stephen Caso - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Does that have -- sorry about the mic before. Does that have implications, therefore, for your margins? My understanding is your India-, Philippine-centric margins are dramatically higher than what you could do in the U.S. So we're going to have a little bit more U.S. footprint. Is that sort of an anker on your ability to sort of raise margins over time?

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

So Ed, here is the way I would think about it. First of all, again, we've been navigating this actually for the last 5 years. And as our onshore delivery proportion to the total business has grown, we managed our margins. And our expectation will be to continue to do that within the construct of the way we manage our overall margins. The reality is that often onshore work is higher value-added work. Often onshore work has a higher degree of sensitivity, regulatory components, components that have -- you need to be closer to the customer. And by the way, the use and impact of AI and digital has a significant impact on those types of services provided onshore with digital and transformation attached to it. So I would not expect it to have any different margin impact than it had over the last 5 years.

Operator

And our next question comes from the line of Tien-tsin Huang with JPMorgan.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I was going to ask one, just quick. First, on sales and marketing. I guess, that came in a little bit lower than what we had. I think you mentioned something about timing. But anything else to read into there? Any possibility maybe that bookings came in a little bit slower, for example? Just curious.

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

No, Tien-Tsin, No, not at all. In fact, our sales team grew quarter-by-quarter comparison, first quarter to first quarter comparison exactly as on plan. This is classic marketing. You decide when you want to run your marketing campaigns. And as we entered the year, we actually have a significant marketing campaign ramp as we go into the second half of the year. It's really marketing expense-related. It had some components of very nice set of efficiency that we drove around travel. And in our business, professional services business, travel is a significant component of all expenses around people, and that also had a good impact. And that impact, you would continue to see through the year. But we're going to use that for investing, continue to invest in the front end. But the marketing one is more -- it's very deterministic specific timing first quarter to the other parts of the year.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. I just wanted to make sure. And then just my follow-up on the M&A side. It sounds like you're going to be doing more in capability-driven acquisitions. Thinking something like a BrightClaim, for example. Is it -- how much -- how are you going to integrate those assets? Are you going to do things differently? I'm trying to think about maybe they have a very attractive client list on P&C, and it's going to be more you cross-selling into that versus integrating the asset and moving it in the other direction. Just trying to understand how important integration versus cross-selling, if that makes sense, Tiger.

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

No, it does. It does. So let's take BrightClaim as an example. It's very focused on the insurance P&C space. So that makes it, in some respects, very easy for us to think about integration. So it becomes part of our insurance vertical. So the insurance team, which already had some onshore operations, now has a significant materially larger onshore operations with a center in Georgia and a center in Texas and has an end-to-end proposition to go to clients with on claims. So we will take those capabilities to our clients. We will take our capabilities, particularly digital and analytics, into their existing operations, into their clients. And we will take the combined capability to new clients. And therefore, you can see that all 3 are very important. All 3 are components that we are very excited about, and all 3 will be owned completely by insurance vertical. So we see this as a very classic integration around both the front end and cross-sell in both directions as well as bringing end-to-end capabilities that are integrating digital and analytics into the solutions.

Operator

And our next question comes from the line of Frank Atkins with SunTrust.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

I wanted to ask a little bit about the sales force productivity. Are you still seeing increases in the productivity of your salespeople? And then any visibility on the pipeline going forward that give you confidence in the kind of new revenue range? How confident are you in that in terms of visibility?

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

So Frank, on the first one, we don't expect -- we don't monitor and measure productivity and expect productivity on a quarter-by-quarter basis. Again, the nature of our business, it doesn't make sense to do that. Plus first quarter is very different from other quarters. If you look at an annual basis, I think the steep ramp in productivity happened in the early years, post our addition to the sales team. As that sales team has become more steady-state and mature and as our addition to the sales team has now become more steady-state, one would expect that productivity to cap off. And we are seeing that, and that's our plan, and that's our expectation.

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

On the confidence in the outlook, I would just say we're another quarter in. So the unsold amount shrinks a bit, so the confidence will build with each quarter as we go here. But I think the range we'd given is appropriate.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay. Great. And wanted to ask, are you seeing more traction with native digital customers? And any changes in client base in terms of the types of companies interested?

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

Native digital...

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

More technology-based companies, is that what you're referring to?

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

Is that your question, Frank? Are you talking about companies who are actually digital technology companies themselves?

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

That's correct, yes, clients.

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

Yes. So good question, Frank. Clearly, one of the verticals -- one of our chosen verticals is High Tech. It is actually one of our fastest-growing verticals. No surprise. It is a small vertical for us in comparison with some of our more mature verticals. But we are seeing fast growth there. We are also seeing growth in jobs and types of jobs and skills that are a little different. As an example, think about machine learning and AI with a number of these new technology companies are using in their business. I think what you'll find is going to happen over the years is a lot of talent and human talents has to get aligned to those businesses in order to teach the machines to do what they're supposed to do and learn what they're supposed to do better. And that comes from understanding the domain that those technologies are focused on understanding the datasets they are using. And we have seen growth there. We see growth where we are aligning teams to those technology companies in those domains to help the machine learning and AI tools that they have to become better at what they're learning and actually learn more. And so in some respects, you have human beings partnered with machines to teach the machines.

Operator

And our next question comes from the line of David Koning with Baird.

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

And I guess, first of all, just as we think sequentially this quarter, I'm not sure if you get too much impact from the acquisition in this quarter. Just I'm not sure if they're going to close towards the end of the quarter. But how should we think normally -- you get some nice sequential ramp in Q2. Should it be pretty normalized this quarter? Or is there anything moving away relative to normal as we come to Q2?

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

Well, when we talked about sequential growth on the last call, we talked about first quarter being the worst. Maybe a little bit better second quarter, which is still the case. We should be a little better now, a little better in Q3, and probably just slightly better in Q4. So most of the growth was more second half versus the first half. I think that's still going to be the case, probably more so now with the M&A coming through. So you'll only have partial months for Q2, so they'll be muted. But more of that should flow through in Q3 and Q4.

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

Okay. And when we think of acquisitions, you're getting a 1% benefit from the 2 acquisitions you announced for the year. If you only get half of your contribution, that's really means annualized, you're getting about 2% from those. And then I think the Pfizer, I'm just looking at the Pfizer 10-Q, I don't think that closed with either of you guys, so that should all a little more. I mean, is it the back half get pretty nice contribution? Is it 3% from acquisitions?

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

So you see the numbers for the acquisitions, I'll lay the comment on the math on that. But on the Pfizer piece, Pfizer is in, but that's directly offset by the disposition of Atyati, not necessarily so on a quarterly basis. On the full year, it will be. We didn't really speak about the impact of Atyati in the current quarter, but it was about a 1% negative impact on the quarter. We didn't talk about it because we talked more full year related flow-through. So on a full year, they offset each other, Atyati and Pfizer. So make sure you're aware of that.

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

Okay. And when we put it all together, though. It just seems like between acquisition, between probably getting some of the toughest comps in the first half it, you'll be exiting this year with a pretty nice rate as we look into next year, it seems like.

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

I mean, I think we're happy with the inorganic additions. And obviously, we said we're going to get after this in a more meaningful way, and we have. So pleased with that. And probably more so, you heard Tiger talk about what it's bringing to the table for us. So just really pleased with the domain expertise and what RAGE is bringing from an artificial intelligence perspective.

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

Yes, but you're right. We have a good trajectory going forward.

Operator

And our next question comes from the line of Keith Bachman with BMO.

Keith Frances Bachman - *BMO Capital Markets Equity Research - MD and Senior Research Analyst*

I wanted to ask 2 questions. One, a short-term focus to follow on, Ed. When you think about margins, you're adding M&A, the digital acquisitions, but you're keeping kind of margin neutral. Indicated that'll be accretive next year. And so as you step back, on the previous comment was as you have more onshore headcount, can you keep growing margins? I just want to turn the question around a little bit differently. As you add -- grow your digital percent of total, how is that going to impact your margins? And then correspondingly, I assume this ITO gets to be a smaller portion, and that actually helps your margins. But I was just hoping if you could clarify a little bit, and then I have a follow-up.

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

Yes. I don't think we disagree with any of your hypothesis. I think you're right. I think with the RAGE piece of it, it's kind of early days, right? And we're just ramping that up, right? So that -- the revenue contribution, not yet to a level where it's going to start moving operating margins. Although we did say that we'd get 2 company margins near term, so I think we're there. On the digital side, we do think that the more compelling the solution, the better the solution. The more complex that we -- the solution that we provide, the better the margins will be. With that said, we're not going to guide you towards any kind of, "Okay, here's our new operating margin as a result." We'll play that out -- we'll see how that plays out over time. The good news is it is moving in a direction that we like. We think it's more complex and more compelling solutions for our clients. So we'll update you on operating margins as we get closer on a year-by-year basis. And as we already told you, we do expect to improve margins over time. So Tiger, anything to add?

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

No, I think it's the combination of all the above that gets us to being able to manage that portfolio. It includes everything that you said, as I pointed out.

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

And you're right. The IT mix, the IT, we talked about that being a bit -- particularly the legacy IT, being a bit lower in terms of operating margin. And if that is growing at a slower clip, naturally you should see that natural improvement operating margin over time. You're right.

Keith Frances Bachman - *BMO Capital Markets Equity Research - MD and Senior Research Analyst*

Okay. Tiger, I wanted to ask a question [of you]. My follow-up is a bit different, and it's a more strategic or reflective longer-term comment. You guys are adding, call it, 1 to 2 points of growth through M&A. Accenture has been adding 2 points. I think, recently, probably closer to 3 points. Cognizant has the same objective. So there's a lot of demand for all the digital assets. As you think about the next couple of years, is there enough pipeline to keep fueling what sounds like more demand than supply, at least, from, I don't want to call it start-up community, but the younger services companies? Is there enough supply out there to feed all the demand? Or how do you think this shakes out even amongst the larger companies? Do you think we might see consolidation as growth rates have been lower to, call it, half of what they were a year or 2 ago? How does this shake out, you think, on the M&A cycle?

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

So the -- let me answer the second part first, which is one would typically expect in the classic expectation, as growth rates slows down in an industry, people do start thinking about bigger consolidations. The one thing that one should remember is there is a transformation that is happening in our industry as well as in our client industry, meaning that some of the legacy IT work, there may not be an appetite to combine 2 businesses who are both trying to deal with a declining, old work and trying to accelerate growth on new work. So I'm not so sure in that conceptual theory that consolidation is going to happen. Necessarily, it plays out. It could play out. On the digital one, I think there is enough brainpower and ideas out there across the globe. There are -- there is enough venture capital and other capital that is available for people to experiment, for people to build. Not -- we all know the ratio of success versus failure in these startups. And acquisitions of the kind that you described, as someone else like us doing, typically don't tend to be acquisitions where the cases have not been proven out. So I would say there's still quite a few out there available. What you are also seeing is early appetite that needs to be filled. And over time, I don't think any one company will acquire similar assets of the same kind and replicate those. So lots of reasons why. But the reality is new technologies are going to born be about every day. People are going to experiment with new things. So that engine will keep going.

Operator

And our next question comes from the line of Bryan Bergin with Cowen.

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

Could you give us an update on just client behavior with respect to the policy and regulatory uncertainty, their approach on sequencing as far as the cases you noted in the prior quarter commentary?

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

So Bryan, it is -- unfortunately, I'm going to say it's all of the above, permutation and combination. So let's start with -- there are a whole range of clients, who really basically stepped back and said, "Okay, what does this mean?" And then having spent 3 or 4 or 5 or 6 or 8 weeks, debating it, internally came back and said, "We still have the same goals, so let's now continue." The sensitivity, and et cetera, et cetera, has always been part of our industry. So yes, it is raised. But is that any different? I don't think so. In the end, the actions are similar. There are a few other clients who said I want to change my sequence, and why don't we actually first do digital transformation? And here is that -- what that means. And then let's sequence that, following that into outsourcing, or whatever. And then there are other clients who said why don't we actually increase the pace and the acceleration of global delivery in, for example, Europe or Asia? And in the U.S., I want to change the cadence to why don't we actually leverage one of your U.S. delivery footprints and then, over time, drive digital transformation into that? And then over time, we'll decide whether global delivery is needed and how do we do it, et cetera. So the reality is it's all of the above. It's different permutations and combinations. There is no industry pattern here. It's actually a pattern that is more: here is the customer, here is their situation, here is what they like to do, and it's customized to that customer. I think the people who have the variety of capabilities available with them and all of them fully mature and sophisticated and loaded are the ones that actually, I think, participate in these discussions more nimbly and more agile than ones who are less -- have less of these capabilities and end up being a -- in a worst-case situation, if you're a one-trick pony, then I think it's a problem.

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

Okay. Okay. Just my follow-up then. Just an update on digital assets. How are you finding the ability to scale those in commercial applications?

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

So Bryan, the specific choices that we made in terms of the 12 technologies that we'd like to go after and either build capabilities or partner or acquire were very carefully chosen. And we actually parsed them into those 3 buckets: build, partner, acquire. And whether it was intelligent BPMS, PNMsoft acquisition or it's the mobility solutions acquisition around Endeavour or it's the RAGE acquisition around AI, they had all been put in the bucket of -- at some point in time, being part of Genpact would be a good thing to have as a core capability through an acquisition. In the case of RAGE, we specifically partnered for 1.5 years. We thought coming together between the 2 teams was a great opportunity to actually build even more value for our clients. And I would see that's the way it'll play out. It'll be all 3. And once we bring them in, the real opportunity is to integrate them into the solutions that we have: intelligent operations. I described that in my prepared remarks. And then parallel to that, we actually take those as, what we are now calling, digitally-led solutions, where you actually take those to our clients, for example, AI, and say, "Here are the specific area where we can apply AI to actually extract new value that hasn't been yet extracted." Because human beings couldn't extract it.

Operator

And our next question comes from the line of Steven Schneiderman with Bank of Montreal.

Steven Jason Schneiderman - *BMO Capital Markets Equity Research - Associate*

You can withdraw my question.

Operator

We have no more questions at this time, and I will now turn the call back over to Mr. Sachs for any closing remarks.

Roger Sachs

Thanks, Michelle, and thank you, everybody, for joining us today. We look forward to speaking to you again next quarter.

Operator

Zladies and gentlemen, that concludes today's conference. Thank you so much for your participation. You may now disconnect. Have a great day.
