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G - Q3 2018 Genpact Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2018 / 9:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2018 Genpact Limited Earnings Conference Call. My name is Dulem, and I'll be your conference moderator for today. (Operator Instructions). As a reminder, this call is being recorded for replay purposes. The replay of this 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, sir.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, Dulem, and good afternoon, everyone. Welcome to Genpact's third quarter earnings call to discuss our results for the quarter ended September 30, 2018. We hope you've had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer; and Ed Fitzpatrick, our Chief Financial Officer.

Our agenda for today is as follows: Tiger will provide a high-level overview of our third quarter results and update you on our strategy; Ed will then discuss our financial performance in greater detail and provide an update on our outlook for the year; Tiger will then come back for some closing comments; and then we will take your questions. And as Dylan just mentioned, we expect the call to last about 1 hour.

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 can 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. We believe these non-GAAP measures provide additional information to enhance the understanding of management's views of the operating performance of the business. You can find a reconciliation of those 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.

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

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our 2018 Third Quarter Earnings Call.

Overall, Genpact delivered solid third quarter results, and we are on track to meet our 2018 full year outlook. More importantly, the momentum we continue to see in our pipeline and bookings sets us up on a trajectory to drive strong top line growth in our Global Client BPO and GE businesses in 2019 and beyond.

It is very clear that our deep domain and process depth, coupled with our expertise in digital and data analytics is differentiating us in the marketplace. And it is the key reason why clients are increasingly choosing Genpact as their strategic transformation partner.

Looking at our third quarter results on a constant currency basis, total revenues increased 6%.; Global Client revenue increased 8%; and Global Client BPO revenues increased 9%. In addition, adjusted operating income margin was 16.6% and adjusted EPS was $0.48.

Over the past several years, we have been clear and consistent on our long-term strategic journey. Our razor-sharp focus concentrating on a set of chosen industry verticals and investments in digital data analytics, domain and process are coming together to allow us to capture an increasing share of an expanding large underpenetrated market. Clients tell us that our approach of bringing digital to life at the intersection of deep domain and process expertise is different. In fact, with every client success, as our reputation grows, we are receiving more and more direct inbound inquiries from both new and existing clients who are looking to solve complex business challenges that go way beyond cost savings. Our pipeline, therefore, continues to scale to new high levels. At the end of the third quarter, 60% of our pipeline has transformation services deeply embedded in the deals, up from the mid-40% range a year ago. We also remain pleased with our win rates that continue to be steady across our verticals.

Our 2 highly synergistic routes to market, digitally embedded Intelligent Operations and digitally led Transformation Services, continues to drive growth. The domain and process acumen harvested from running Intelligent Operations for more than 20 years leads to new Transformation Services deals. At the same time, Transformation Services opens many new doors for large, long-term complex Intelligent Operations annuity engagements, having digital and predictive data analytics solutions embedded in them.

We believe our two-pronged approach, which pivots around domain, is highly differentiated and is the reason we have many more large complex deals contributing to our pipeline and bookings than ever before.

Year-to-date, we have signed 11 new deals with TCVs greater than $50 million, actually, in many cases, significantly higher, including 4 new engagements during the third quarter. Many of these Intelligent Operations deals began with a digital consulting blueprint exercise that also leverage our understanding of the many changes that are necessary to help clients navigate through their digital transformation journeys.

Let me bring this to life with a few examples. For a large global equipment manufacturer, an initial blueprint consulting engagement to identifying defined areas of redesign across the clients finance organization led to a multiyear finance transformation engagement to develop and implement a program using advanced digital tools and data analytics to standardize and transform the clients' finance and accounting operations, leveraging RPA, Cora accounts payable flow, Cora accounts receivables flow, machine learning and our cloud-based dynamic workflow solution, Cora SeQuence. We are developing and implementing solutions to automate manual processes across invoice processing, journal entry reconciliation and overall financial planning and analysis to improve the clients' working capital management and cash flows as well as controllership. We will also provide predictive insights to drive better and real-time business decisions.

Next, for a leading global financial institution, we are designing from scratch a world-class new age operations for their retail credit card business. Leveraging the power of Genpact Cora, we are strategically linking several advanced digital technologies, such as design thinking and customer journeys, using Cora 360, dynamic workflow using Cora SeQuence, RPA and machine learning to manage originations to improve customer service and collections and reduce fraudulent transactions. The goal is to achieve industry-leading customer experience, driving new card members and higher card usage while, at the same time, dramatically reducing cost of operations through faster agent training, decreased need for supervision and increased automation. This relationship represents a great example of how an initial transformation service consulting engagement around user experience with journey mapping led to a long-term intelligent operations annuity deal of scale.

I also want to point to a very different example, where our depth and core banking and our specific knowledge of the clients' operations through the processes we have been running for 10-plus years, led to a significant increase in Transformation Services penetration with a strategic Tier 1 global bank. In an expanded scope of our current long-term annuity engagement, we are reimagining and redesigning many of the bank's internal core processes that span a vast array of operations within the client's consumer banking, institutional banking and wealth management units. We are leveraging our domain expertise and end-to-end loan processing, client onboarding, KYC AML, core finance and accounting work, et cetera. We are incorporating advanced digital technologies that help reduce cycle times dramatically, eliminate processing errors and improve end user experiences that then drive top line growth. As a result, digitally lead Transformation Services has grown from single digits to almost 20% of the annual revenue from this strategic relationship.

We are seeing digital technologies unlock new opportunities, which has significantly increased the total addressable market for us. And much of this is hugely underpenetrated. Instead of contracting the total market, we believe digital is in fact increasing our market size, driven by 2 main factors. First, we are seeing an increasing number of new clients who want to partner with us for the first time. Many of these organizations had completely resisted changing the way they operate. But due to the risk of being disrupted, they are now looking to leverage new advanced technologies as well as data and predictive analytics to reimagine and redesign their business models. They now understand that sitting still and doing nothing is no longer an option and are embracing partners like Genpact to help them transform.

Second, many of our traditional intelligent operations relationships based around bespoke BPO engagements are now ready and willing to co-innovate novel solutions, encapsulating digital and predictive analytics to reimagine their operations, extending to areas beyond the initial work we perform. In fact, many of the large deals we have won over the last 12 months are the direct result of companies increasing their digital spend, opening opportunities for us to capture these revenue streams. Leveraging the power of Genpact Cora, our automation to AI platform, we are delivering significant value to the market by offering completely redesigned and disruptive solutions that appeal to new clients as well as help us expand the work we do with many of our existing relationships. Some examples include the work we are doing for a commercial lender to drive profitable and sustainable portfolio growth by implementing Cora BPaaS for commercial lending, a cloud-based solution that leverages natural language understanding for intelligent automated credit decisioning. This solution enables lenders to completely automate loan origination and servicing operations. As a result, expert credit risk officers can spend more time generating high-quality loans.

Also our clean sheet approach to automation and AI allows new market entrants to go to market in minimal time. In another example, we're now leveraging AI-based computer vision technologies to provide real-time auto claims estimates by analyzing images of damaged vehicles against a repository of millions of images we have, all using mobile apps. As a result, we believe our insurance clients will see much higher customer satisfaction and insurance renewal rates. This should also be able to reduce a number of fraudulent claims leading to higher profitability.

A final example, we are automating the end-to-end contract administration process for CPG, retail, pharma and health care companies. Leveraging Cora Contract Assistant that incorporates natural language understanding and machine learning to extract a normalized contract terms pull from thousands of documents, we are facilitating quick execution of deals and validation of terms and conditions against invoices. This mitigates contract compliance risks while reducing revenue leakage.

We're also growing new service lines by opening up adjacencies to where we have existing deep domain expertise. For example, leveraging our expertise in regulatory affairs for Big Pharma companies allowed us to build and implement our Genpact Cora Pharmacovigilance AI solution. Just a week back, we announced a large relationship with Bayer, a top global pharma company and are in advanced discussions with others for the same AI-based solution.

Further, as I discussed last quarter, we are seeing great traction in our supply chain management service line for the CPG and manufacturing industries. I'm thrilled with the recent addition of the Barkawi Management consulting team, their expertise significantly enhances our capabilities in this service line, and it is off to a strong start. We just announced a partnership with Kinaxis, a new technology cloud-based player in this market, and our pipeline has some great new potential clients. Just for context, the addressable market for supply chain is similar in size to finance and accounting and is even less penetrated.

We are increasingly being recognized by the C-suite and boardrooms as thought leaders and true partners who can lead clients through a long-term transformation journey in our chosen verticals. As part of our long-term strategic direction, we are leveraging these deep relationships to co-innovate with our clients and build new cutting edge technologies, keeping us relevant as the world continues to change.

Let me update you on our GE business. The revitalized GE pipeline we discussed in our last -- in our call last quarter has resulted in a large new deal that expands our relationship. We are extremely proud to announce that GE has selected us among all of their potential partners to take on a new scope of more complex work and, over time, digitally transform them. The scope of new services includes very exciting pieces of higher-value services, bundled with cloud-based technology solutions in our core focus areas of supply chain, sourcing and procurement, sales operation support and finance. This is a fantastic opportunity to deepen our long-term relationship across multiple GE businesses globally and leverage some of our newer digital and analytics solutions that we have implemented for our global client base. As a result of this, we expect our GE revenue to increase significantly next year. We will provide our 2019 outlook for GE during our year-end call in early February. Ed will provide more color on the impact for 2018 revenues in his prepared remarks.

Lastly, strong year-to-date global client bookings momentum, pipeline and inflows give us confidence that we can also improve our global client growth rate in 2019 and beyond. We are continuing to deepen and grow our strategic relationships in all our verticals, and we expect more of them to eclipse the $100 million level going forward.

With that, let me turn the call over to Ed to review our third quarter results.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Thank you, Tiger, and good afternoon, everyone. Today, I'll provide you with more detail on our third quarter operating results as well as update you on our full year 2018 financial outlook.

Beginning with our top line. During the third quarter, we generated total revenues of $748 million, an increase of 6% year-over-year, both on an as-reported and constant currency basis. Overall, business process outsourcing revenues, which continue to represent 83% of total revenues, increased 7% year-over-year. Total IT services revenue were $125 million, flat year-over-year. At $683 million, total Global Client revenue, representing 91% of total revenue, increased 7% year-over-year or 8% on a constant currency basis. Performance in the quarter was primarily driven by strong growth in our high-tech and life sciences verticals with CPG, manufacturing and health care also contributing.

Within Global Clients BPO revenue was up 8% year-over-year or 9% on a constant currency basis, and IT services revenue increased 2% during the quarter.

Transformation Services grew at a high teen rate, improving sequentially from the second quarter, largely due to the ramp of some of the large complex deals we recently won and discussed with you during the last few quarters. We continue to expand relationships with our global clients across a range of our targeted industry verticals. In the 12-month period ending September 30, 2018, we grew the number of client relationships with annual revenues over $5 million to 123 from 116. This includes client relationships with more than 15 million in annual revenue increasing to 46 from 39 and client relationships with more than $50 million in annual revenue increasing to 9 from 7. GE revenues were flat sequentially at $65 million or 9% of total revenue.

Adjusted income from operations was $124 million with a corresponding margin of 16.6%. This represents 160 basis point sequential improvement and 20 basis points of growth from the third quarter last year. Our initiatives to drive G&A leverage, combined with the impact from a $5 million earnout reversal from a prior acquisition and a recurring benefit of the India export subsidy offset lower gross margins during the quarter.

Gross margin was negatively impacted during the quarter, largely due to an incremental development cost associated with the wealth management platform as well as exit cost related to certain nonstrategic accounts. Excluding these items, gross margin would have increased slightly from the second quarter level, due primarily to improved performance in Transformation Services. We expect to drive continued improvement to our gross margin levels in the fourth quarter as we scale both our transformation services and managed services volumes.

SG&A expenses totaled $168 million compared to $172 million in the third quarter of last year. Sales and marketing expense as a percentage of revenue was approximately 6.7%, down from 6.8% during the same period last year. Total G&A expense as a percentage of revenue declined 170 basis points year-over-year to 15.7%, due primarily to focused cost optimization initiatives across all of our support functions.

We are expecting similar full year savings of approximately 160 basis points in comparison to the prior year of G&A spending, which incorporates $10 million of estimated incremental R&D spending.

Adjusted EPS for the quarter -- for the third quarter was $0.48 compared to $0.46 last year, driven by higher operating profits of $0.03 and higher foreign currency exchange re-measurement gains of $0.01, partially offset by an approximate $0.03 tax impact related to the recent changes to the U.S. tax laws.

During the quarter, we returned approximately $14 million to shareholders via our quarterly dividend of $0.075 per share that equates to a current annual yield of approximately 1%. Our effective tax rate for the third quarter was 24.7%, which includes the impact related to the U.S. tax reforms I mentioned earlier. On a normalized basis, our effective tax rate during the quarter would've been approximately 20%.

We do not anticipate an ongoing impact related to the new U.S. tax law, and there is no change to our estimated full year tax range of 21% to 22%. However, given the current quarter charge and other small charge expected next quarter related to the new U.S. tax laws, we now expect our tax rate to be at the high end of this range for the full year and instead of at the lower end of the range.

As we have stated previously, we believe the new U.S. tax laws are a net positive for the company as we continue to ramp our U.S. intellectual property development and onshore services delivery.

Now let me turn to our cash flows and balance sheet. During the quarter, we generated $153 million of cash from operations compared to generating $148 million during the same period last year. DSOs improved sequentially from 85 to 84 days. There is no change to our full year outlook for cash from operations to grow at approximately 8% to 9% in 2019.

Our cash and cash equivalents totaled $401 million compared to $440 million at the end of the third quarter of 2017. Our net debt-to-EBITDA ratio for the last 4 rolling quarters was 1.99. With undrawn debt capacity of $168 million and existing cash balances, we continue to have ample liquidity to pursue growth opportunities and execute on our capital allocation strategy. Capital expenditures as a percentage of revenue was 5.2% in the third quarter of 2018 due to higher investments related to our digital solutions, including our new Cora Pharmacovigilance solution that Tiger referred to earlier and delivery capacity supporting large deal ramps. We expect CapEx to return to a more normalized level during the fourth quarter.

For the full year, we see CapEx a bit higher than 3% but likely below 3.5%.

Now let me turn to our full year outlook for 2018. We continue to expect total revenue to be between $2.945 billion and $3.01 billion, representing year-over-year growth of approximately 8% to 10%. This is essentially the same range we started the year with, adjusted only for the impact of the acquisitions we closed in the third quarter. For Global Clients, the expected growth remains in the range of 9.5% to 11.5%.

Based on our current assumptions of the new GE agreement, we now expect our GE revenue to decline by 4% to 6% year-over-year compared to our prior outlook of the lower end of an 8% to 10% decline. This includes a one-month contribution of approximately $8 million from initial phase of this deal. We continue to expect adjusted operating margins to be approximately 15.8% for the full year. We now expect full year adjusted earnings per share to be at the high-end of our prior $1.72 to $1.76 range. This is driven by foreign currency re-measurement gains outpacing the higher expected tax rate. There is no change to the approximate $0.01 to $0.02 benefit from the expected share repurchase activity during 2018.

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

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

Thank you, Ed. In summary, we are seeing our focused long-term strategic journey playing out really well in the marketplace. Every new deal we are engaged in now has significant domain-led consulting, digital and data analytics deeply embedded in them. And we believe it is a key reason why we are winning. Most importantly, we are seeing digital technologies unlock new opportunities which has significantly increased the total addressable market for us and much of this is hugely underpenetrated. Our strategic relationships are growing in size in every industry vertical. We are building industry-defining solutions that drive significant outcomes beyond cost to include top line growth, cash flow improvement and loss reduction. We already partnered with or are in the process of establishing long-term partnerships with the most iconic names in every industry. Every one of these are broad multiyear transformational journeys and are at the C-suite level across functions. The acquisitions we closed over the last 3 years across digital analytics and domain capabilities with a consulting-led front end have been successfully integrated and have added great talent to the company to take us into this exciting future. We expect to end the year strong, setting the stage for 2019 and beyond. With that, let me turn the call back over to Roger.

Roger Sachs - *Genpact Limited - Head of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ashwin Shirvaikar of Citi. Please go ahead.

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

Thank you. Thanks for that. Hey, Ed.

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

Hi Ashwin.

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

I want to start with the last comment you had, Tiger, which was specifically about ending the year strong and taking it into next year, right? Could you perhaps -- I'm not asking for guidance. But could you kind of break that down with regards to how you see your pipeline developing, what kind of revenue visibility you have into next year? Does this mean a step-up in growth expectations?

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

Thanks, Ashwin. I'll start by saying that our guidance for the year is pretty much the same as we started the year with, $2.945 billion to $3.01 billion, except for, it obviously includes the adjustment we made because of the Barkawi acquisition. And as we look at the balance of the year, which is the fourth quarter, it clearly means that we are stepping up growth in the fourth quarter. And in our business, when that happens, that carries the momentum into next year. So I'll start by saying that gives us the confidence about how 2019 is shaping up. The second thing I'll say is that we've been talking about a very strong inflow pipeline and bookings and, obviously, fourth quarter and then getting into 2019, start seeing the translation of that into revenue. And then the final statement I'd make is I did say in my prepared remarks that Global Client growth -- BPO growth, we would expect to actually be moving up versus this year as we look at '19. And that's driven by the visibility that we have in our business as we look at next year. And then we compare that to prior years. And I'm not talking GE separate, and we already talked about what the GE growth would look like given the deal that we just talked about.

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

Right. No, I was hoping to get like the extent of the step-up that you might expect. But the second question I had was with regards to you're not doing a lot more of these larger transformational deals. Many of them are consulting-led. As these ramp up to sort of full-size, what should we expect from the margin profile, meaning, as we look forward?

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

So Ashwin, in general, our margin profile for large deals, which include digital and analytics and consulting embedded in them, Transformation Services embedded in them, have reasonably similar profile to what our BPO deals have always had, which is it's a profile that starts with lower margin as we start to ramp. And then when it gets to full ramp and full steady state, which sometimes could take 18, 24 months, you start generating incremental margins. That overall profile hasn't changed. What does change is that if it's only a Transformation Services engagement then, obviously, those have a different margin profile, and there is no ramp-up to that margin profile as long as, obviously, we run those Transformation Services business with good utilization, et cetera. And I think as you heard us talk about the last couple of quarters, we actually went through a learning curve on that. And I think we are in good shape and making good progress on that.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. I think you've heard us talk about driving profitable growth, so top line as well as managing to show delivered improvement in AOI over time. And that's kind of the -- that's the model that we're looking to and making sure we're investing in R&D as we continue to do this year incrementally so as we move forward.

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

Right. But I just wanted to clarify that we don't come to fiscal '19 guidance in 3 months and find that there's a slug of investment yet to be done because of these ramps.

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

No. We would obviously continue to invest in the business, Ashwin. I don't think we would not. But if the question is will that have a margin change? Our expectation is, as I had said, continue to drive Global Client BPM growth, continue to drive Transformation Services growth and now GE growth as well. And step up margin in a systematic steady way.

Operator

Our next question comes from Dave Koning from Baird.

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

Yes. Hey guys. Thank you. And, I guess, first of all, we've had 4 quarters now in a row of about 300 basis points on average of gross margin decline. And I know that's from investments, et cetera. Are we at a point now though where we anniversary those 4 quarters and we get back into a period where gross margins could also kind of tick higher?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

So I'll take that. On a gross profit level, we do expect actually even in Q4 for gross profits to improve. As you know, we actually started out the year lower, right? So we did see improvement sequentially each quarter in 2018. A bit of it was masked in Q3 because of some of those charges you heard me talk about. But the underlying ongoing gross profit levels are improving due to the things that we talked about before, FX getting a little bit better. That continues to get better next year to the fact that it -- to the point where it's no longer a headwind. It's a slight tail wind, which is good. We're also seeing Transformation Services utilization improve and the margins there improve sequentially. And we expect that to continue in Q4 and also as -- beginning the next year, right? So for the full year, you remember me talking about gross profits being down 75 to 100 basis points when we began the year. That worsened a bit to closer to 200 basis points year-over-year. A big piece of that was the Transformation Services utilization that didn't quite meet the expectations that we had. That's improving. We're getting after that. I think we're making good progress on that. You should expect those continue to improve as we get into 2019.

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

Okay, great. And then, I guess secondly, we've had Global Clients decelerate a little bit. You had been growing mid-teens for a while. The last couple of quarters have been more like 9% to 10%, which is still good. What gives you confidence? It's pretty encouraging to see -- you must have a good pipeline to know that it's going to accelerate next year. But maybe what gives you that confidence?

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

It's exactly what you said, David. It's the pipeline but it's also the bookings. So pipeline is a little bit more upstream than bookings. The nature of our business being long cycle outside of Transformation Services is still very true. When we do a booking, it takes time to ramp up. We had called out the fact that quarter 3 and quarter 4 will have a very different cadence to it as compared to normal. And that's exactly played out. And one of the reasons for that was we knew that in quarter 3, we were going to exit a few of nonstrategic, particularly banking vertical, customers. And we executed on those. We are glad we did those. And those are all planned at the beginning of the year but we knew quarter 3 is when it's going to happen. And you see the step-up happening in Q4. And as I said, the combination of pipeline as well as bookings gives us the confidence as we get into next year on growth.

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

All right. Great. Well, thank you, guys.

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

Thanks, David.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Thanks, David.

Operator

Our next question comes from Joseph Foresi from Cantor Fitzgerald. Please go ahead.

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

I guess I'm wondering just from a practical perspective, how come utilization in the Transformation Services can't mirror pipeline and bookings a little bit better? And is that something that might improve? I guess what I'm getting at is conversion rates seem to have slowed. And you can see that in the gross margin utilization. So I'm wondering why they can't mirror each other a little bit better? And if that's -- might improve next year?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Let me take the utilization piece first. The utilization situation we found ourselves in was largely because of what -- of the significant ramp we saw in the latter part of last year and then a drop off in Q1 of the following year, what we're calling Q5 now. So as we go forward, our job is going to be ensure that as we go Q4 into the current Q1 of 2019 that we continue to address that and ensure that utilization is more -- is a little more linear. And we don't see quite the drop-off that we've seen. So that was a lot of what was causing that. And our Transformation Services work is typically more short cycle in nature. We have talked about it elongating a bit, the tenor increasing a bit. But it is still more short cycle that you have to continue to get after those bookings on a quarterly basis. So the visibility to that is lesser as you might expect than the BPO long-term engagements.

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

Got it. And then I think you talked about in your prepared remarks GE picking up next year. Those, I guess, a bit of a surprise. Any -- can you give us a little more color on why that's taking place and any initial thoughts on order of magnitude?

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

So Joe, I mean, that's basically because of the increased scope of work that we just signed. It actually kicks in, in the last month of this year. That increased scope of work, which Ed referred to, would probably approximately contribute $8 million this year. That's classic BPO work at annuity long-term contract for supply chain, for sourcing and procurement, for high-end finance, for sales support. All higher-end services in the kind of services that we do. And our objective there is to actually transform those using some of the digital and analytical tools and technologies that we've used with Global Clients. That obviously adds significant piece of incremental work and revenue to the scope that we already have with GE, with all the GE businesses. So I mean -- and that's great news for us.

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

Got it. And then my last one. I guess I wanted to go back to something Ashwin asked about and ask it a different way because we've seen some lumpiness this year and the transformational business has been down on the utilization side. You talked about price pipeline. I think it was 60% versus 40% being up in transformation side. You said that the win rates are pretty much static. You talked about digital expanding the market for GE. And you talked about pipelines and bookings providing optimism? Would that translate into an acceleration in the business? And how would it not? I guess, if I'm reading that correctly.

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

So Joe, actually, both in the prepared remarks as well as in, I think, in response to an earlier question, I had said that our visibility into 2019, given everything that you just described, which is basically what we described, gives us the confidence that we will step up growth in GE. And we will step up growth in Global Clients BPO. And the expectation that we have is that, that is going to happen as we look at 2019 and beyond.

Operator

Our next question comes from Puneet Jain from JPMorgan.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

So how large some of these large transformational deals are? And as you need more technology and consulting capabilities, should we expect more M&As and partnerships in those areas?

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

Puneet, the Transformation Services deals that we are referring to can be as large as $40 million, $50 million by themselves often embedded inside of $100 million larger BPO annuity deals. And obviously by definition, because it's a $30 million, $40 million Transformation Services deal embedded in a BPO deal, it has an annuity long-term nature to it. All of that doesn't happen in a very short cycle. So we are seeing what I would call scaled up digital engagements, scaled up analytics engagements, scaled up consulting engagements. We still think it's early. It's in the early innings of a long journey on that trajectory for a number of our clients. But we feel very confident that that's the way it's going to be. We've added significant talent and capabilities through the acquisitions we've done over the last 3 years. As I said in my prepared remarks, we are really happy with the way those have got integrated into our business, into our services and the way they have been taken to the market. Part of the confidence that we are talking about as we end the year and think about 2019 is driven by those types of capabilities and that talent. We continue to look for the right opportunities in the specific service lines and the specific domains in digital and analytics capabilities. And of course, if we find those in the right areas, we will continue to bring them in as acquisitions. But we're also signing up pretty significant partnerships. We do believe that an ecosystem of partners is how solutions get built and delivered these days. And we have significant partnerships with a range of digital and technology and analytics providers in the marketplace.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

Got it. And while it's clear like clients need to do something to transform their legacy, but could geopolitical risks or macroeconomic weakness have an impact on those deals and pipeline?

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

Puneet, the simple answer is yes, they could. But what we are saying is that some of the trends new are seeing are independent of political and those types of macro trends because we are talking about the need to change the way the business runs. We're talking about companies and different industries responding to competitive disruption, either by a significant competitor of theirs or by a new competitor standing up and completely disrupting the marketplace. Those do not necessarily have anything to do with other macro trends. So I would say, any macro trend would have an impact on any business. And our objective would be to have agility in the business, which we think we have. So, I hope that answered the question.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

But you'd expect it -- by the way Tiger talked about, you'd expect something like that not to be a nice to have but a have to do with -- has concrete benefits not just financially but also competitive to our customers. So that's why we do believe that our services are more sticky even in bad times, in bad times and in good. So I think that's the benefit of what we're doing.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

And it's fair to say you have not seen any of those impact at all in any part of your business yet?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

No.

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

No.

Operator

Our next question comes from Maggie Nolan from William Blair. Please go ahead.

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

Hi, Tiger. Hi, Ed.

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

Hi, Maggie.

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

You've talked for several quarters about the strong pipeline and especially about a lot of large deals in the pipeline. And that's obviously really positive commentary. But I'm also thinking the large deals take a little bit longer to ramp up. So I wanted to ask about a little more detail on the demand for some of those -- the more short-cycle work and the contribution to revenue growth as some of those large deals ramp.

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

Maggie, it's a great question. The way you asked the question itself is part of the answer, which is we have been talking about a very strong pipeline for some quarters now. And then we also talked to the last couple of quarters about strong bookings. And as I -- and then I described, some of that is coming through into revenue, particularly towards the end of the year. So part of the answer is that nature of long cycle which then takes a longer time to ramp is actually the way it is playing out. And it will continue to play out that way as we look into 2019. We do have a segment of the business, which is parts of Transformation Services that are not directly connected to Intelligent Operation and BPO deals that do have a short cycle nature to them and that do have a fast decision cycle. And those, obviously, tend to behave differently. We went through a period in the first half of the year where a lot more of our Transformation Services versus the past started getting embedded in longer cycle deals. That had an impact on both Transformation Services growth as well as therefore utilization. I think that's beginning to even out now. And as we finish the year and go to next year, we think that the ratio and the mix, we kind of have a good visibility to, and we should be able to manage that through.

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

Okay, understood. And then I wanted to dig into your recent announcement in the pharmacovigilance space. Is this win with Bayer in addition to the win that you announced last quarter or is it another win? And then how leverageable are these solutions across other companies in the space? Or maybe coming at it a different way, are these deals in pharmacovigilance particularly higher margin for Genpact?

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

Again, great question, Maggie. The Bayer deal we announced, we actually announced only probably 10-plus days back. So it is a new relationship. And it builds off a co-innovation that we had done with another pharma company to actually build out the original pharmacovigilance artificial intelligence solution. We believe that the solution solves a pretty significant industry need around patient safety and around regulatory reporting in that space. It is a requirement. It has to be done. Every pharma company deals with it. What we have built and what we are continuing to build leverages data in the pharma space, leverages data that cuts across multiple pharma companies and, by definition, therefore, is highly leverageable, probably more leverageable than many other services solutions. And that gives us the confidence that actually we'll have many more clients who are in discussions with us who will get into the same solution. And every client who gets into the solution actually gets the benefit of all previous clients. But all previous clients also get the benefit of the new client jumping in. Classic data and AI-based solution. And as you can imagine, Maggie, these solutions tend to have higher gross margins. Over time, those gross margins do then translate into higher margins at the adjusted operating income level. And as we scale that solution, it will flow through that thing.

Operator

Our next question comes from Edward Caso from Wells Fargo. Please go ahead.

Justin Micahel Donati - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Hi. This is Justin Donati on for Ed. Thank you for taking my questions. The first one, can you comment on the pricing environment? And if you're getting any pushback from clients to pass along some of the benefits from a weakening rupee?

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

Jeff, right?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Justin.

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

Justin. Justin, hi. the pricing environment is pretty stable. A lot of our conversations with clients these days, given the technologies in digital and analytics, et cetera, are actually as much about pricing as about driving outcomes, trying to drive, gain share on those outcomes, intense productivity conversations, driven by things like RPA and AI and machine learning and so on. So the pricing environment has changed in its complexity. So it's not straightforward. Just simple commodity pricing. As it relates to foreign exchange, as we've already maintained, our business we run with significant hedges that we take on when we sign contracts. These are long-term contracts with long-term hedges. Therefore, the impact of changes in the rupee is not felt in our contracts immediately. It takes time to flow through. And I think all our clients understand that, particularly in our long-cycle BPO end of the business.

Justin Micahel Donati - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. And then just one last one. Can you clarify -- are you done with the export subsidies this year?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. So we're not done with it. There's no -- all the years that had been approved by the Indian government are now factored into our outlook. I think our full year outlook is somewhere between $35 million to $36 million for the total, which is 2 years' worth of benefit that we're recording this year. But we're recording it over the quarters now. So there's -- we'll have another benefit in Q4. Something around -- it stepped up a little bit. I think we thought it was 3 or 4 now closer to 5 per quarter. We took some of that benefit this quarter, and there'll be another benefit in Q1 of next year. That's the last of the approved export subsidies that are out there. Now with that said, we do think that this will continue but we'll have to say it'll have to be approved by the Indian government before it will be able to continue to accrue. So we'll see how that plays out next year.

Operator

(Operator Instructions) Our next question comes from Bryan Bergin from Cowen. Please go ahead.

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

I wanted to ask on gross margin, Ed. Can you size some of the various factors there on a year-over-year basis just to give us a sense of the scale of some of these onetime items?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

In the -- during the quarter?

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

Yes.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

So I'd say about half of the impact was related to the platform development cost that we incurred during the quarter. It's a platform that goes live, expects to go live in the fourth quarter. And this piece of it was expensed as incurred. That's a piece of it. There was also probably another quarter of it related to certain exit cost associated with 1 or 2 clients that was incurred during the quarter. And you heard -- we also talked a little bit about -- we knew about certain accounts that we were going to exit. It just so happened that a lot of it happened during the third quarter, which is why we guided to growth being 2 percentage points lower in Q3 than we expected to see in Q4. So that was the lion's share of those costs.

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

Okay. And then as you move into the final quarter this year, and we start to think about early 2019, can you just talk about what specifically you're doing to ensure there's more consistency in the consulting and Transformation Services business?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes, I think it's -- so we've been through a process, right? This business has been growing at a pretty fast clip over the past several years. It's gotten to a point now from a materiality and scale perspective that we knew we had to put more and more robust procedures around it, including automated timesheet reporting. That was not the case just 1.5 years ago, right, so -- and integrating that with our ERP. So that's now in place. I think some of the things that we're now looking to do to put -- to strengthen the controls around this and to run this business more effectively is to look at our resource planning and management systems to ensure that we not only know what we're doing in the actual results by customer, by type of service, but then also we could see into the future in terms of what those opportunities are and then also compare that against the resources that we have and the skill sets that we have to deploy for the multiple engagement. So I think to that level, we're getting much more sophisticated. And I think we're going to be at a much better place as we get into 2019 in that regard to do it. So I think it was -- I think part of it is -- it's just incremental discipline, frankly. We need to make sure that the opportunity is there in front of us, and I think we're prepared to do that as we get into 2019 in a more meaningful way.

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

Okay. Thank you that was helpful. Tiger, last one. Any change in your view on the medium-term trajectory of the Global Client BPO business?

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

No. I would say the increase in total addressable market that we are clearly seeing in a range of our services and industries of focus, driven by digital, and I explained the 2 drivers of that, actually gives us great confidence that we will be able to continue to drive our medium-term, long-term growth rate in our Global Client BPO business. It's opening new doors. It's opening new clients up, and it's expanding the range of services and the speed at which some of these clients want to drive change. So that gives us great confidence as well as our competitiveness in those chosen areas and our differentiation in those chosen areas is beginning to clearly be recognized.

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

Thanks, Bryan.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Thanks, Bryan.

Operator

Thank you. I show no further questions in the queue. At this time, I'd like to turn the call back to Roger Sachs, Head of Investor Relations at Genpact, for closing remarks. Please go ahead.

Roger Sachs - *Genpact Limited - Head of IR*

Thanks, everybody, for joining us on the call today and look forward to speaking to you again next quarter.

Operator

Thank you, ladies and gentlemen, for attending today's conference. This concludes the program. You may all disconnect. Good day.
