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PRESENTATION

Operator

Good day, ladies and gentlemen, Welcome to the 2020 Third Quarter Genpact Limited Earnings Conference Call. My name is Michelle, and I will be your conference moderator for today. (Operator Instructions)

As a reminder, this call is being recorded for replay purposes. The replay of the call 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. Sir, please go ahead.

Roger Sachs ***Genpact Limited - Head of IR***

Thank you, Michelle, and good afternoon, everybody, and welcome to Genpact's third quarter earnings call to discuss our results for the quarter ended September 30, 2020. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

Speakers on today's call are Tiger Tyagarajan, our President and CEO; and Ed Fitzpatrick, our Chief Financial Officer. Today's agenda will be as follows: Tiger will provide an overview of our results and an update on our strategic initiatives; ed will then walk you through our financial performance for the quarter as well as provide our updated outlook for 2020; Tiger will then come back for some closing comments; then we will take your questions. We expect the call to last about an 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 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 that we believe provide additional information to enhance the understanding of the way management views (inaudible) our business, 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 2020 third quarter earnings call. Our better-than-expected third quarter results continue to demonstrate the resiliency of our business, providing essential nondiscretionary services and solutions. We are partnering even more closely with our clients to reimagine and transform their operating and overall business models to deal with the new normal, driving growth in our digital transformation services.

Our existing strategic relationships are expanding and new logo wins have accelerated through the quarter. We continue to invest in capabilities in the growing experience economy, including our recent acquisition of Something Digital, that builds on our ability to deliver end-to-end digital commerce solutions at scale with customer experience being front and center.

We have realigned our costs and discretionary expenses to deliver our margin performance for the quarter. All of this has been on the foundation of tremendous execution by our global teams.

Specifically during the quarter, Total revenue was $936 million, up 5% on a constant currency basis. Global Client revenue was $824 million, up 7% on a constant currency basis. We also delivered adjusted operating income margin of 17.1% compared to 16% during the third quarter last year and adjusted diluted earnings per share of $0.56.

Global Client revenue growth was broad-based, led by our consumer goods retail, life sciences, health care, high tech and insurance verticals. With less than 10% of our Global Client revenue coming from the industries hardest hit by the crisis, approximately 90% of our Global Client portfolio grew at an almost double-digit rate year-over-year during the quarter. The current business environment remains highly uncertain.

Facing this reality, clients are focused on pursuing digital transformations. This is opening up many new opportunities for us since clients now more than ever, need partners to help them design agile business models to not only overcome new challenges but also position them to compete more effectively in today and tomorrow's world.

This has led to a healthy pipeline fueled by new inflows with an increasing mix of large complex transformation deals that interlink multiple areas. For example, finance and accounting, with supply chain and sales operations, or financial risk and Crime with customer service and collections in banking. In many of these engagements, we are reimagining processes connected to multiple buying centers, driving holistic change throughout an entire organization.

We continue to see 5 trends that are part of every CXO conversation: First, a significant shift from off-line to online across every industry; second, the virtualization of all technology services and solution delivery; third, an accelerated consumption of cloud-based services and solutions; fourth, and exponential growth in real-time predictive analytics; and fifth, the move to human-centered design that creates superior experiences for customers, users and employees.

These trends are driving demand for our transformation services solutions, which includes consulting, digital analytics and the Rightpoint experience business, representing approximately 30% of Global Client revenue that grew at more than 20%.

Analytics, once again, was a key contributor to our Transformation Services growth and is deeply connected to services in our focus areas, such as supply chain, financial crimes and financial planning and analysis. These Transformation Services solutions are relevant to our clients today and help drive the change they need to improve both short and long-term outcomes in their businesses. Let me share a few examples.

For a leading personal care products company, we improved sales forecasting accuracy by more than 40% and enhanced demand fulfillment to drive growth through predictive insights from relevant social media digital data combined with traditional inventory data. For multiple clients, We leverage AI, RPA and proprietary risk algorithms in our new post-payment audit solution to minimize and recover over payments to suppliers.

For our health care client, we use our deep understanding of our clients' domain and technology to run 200 applications on a cloud-based platform, which includes AI and machine learning-driven models that process huge amounts of unstructured data to produce insights to drive better health care.

One of the most exciting updates I want to share is our recent launch of Genpact Cora Consumer Banking solutions. These solutions use AI and advanced analytics to drive superior customer service interactions through multiple channels, including calls, e-mails and chats. The solutions also automate many parts of the end-to-end customer collections process, resulting in faster and more convenient resolution of delinquencies, driving customer satisfaction up and losses down for banks.

Last quarter, we had referred to the elongation of decision cycle times, particularly for large deals that are more complex in nature. As some of these deals mature in the pipeline, we are seeing decision-making return to normal. Just in the last few weeks, we have been awarded 3 large deals as well as several medium-sized deals where we see a great path to an expanded scope over time.

We're also seeing great momentum with new logo wins. Year-to-date, the contract value of new logo wins is up more than 80%. This demonstrates the demand for our new solutions, particularly in Transformation Services, which has historically led to subsequent conversion to longer-term annuity-based intelligent operations engagements that expand these relationships.

While cumulative bookings are still lower than last year, we are encouraged That pipeline conversions are now picking up. At the same time, our pipeline remains at near record levels with a greater-than-normal bias towards early-stage deals. If you combine this with a healthy number of maturing deals in the pipeline, we believe we are well positioned to return to double-digit Global Client revenue growth rates by the fourth quarter of next year, as I had shared last quarter.

Additionally, the need of our clients in every industry vertical to accelerate change in their businesses, which is also expanding our total addressable market gives us confidence in returning to double-digit to low teens growth for Global Client over the medium-term horizon.

Our focused strategies, investments and expanding partner ecosystem continue to prove increasingly relevant for our clients as they deal with challenges in the business environment. Four areas that are particularly relevant and in demand today are cloud solutions and services, supply chain services, financial crimes and risks and end-to-end digital commerce services.

Let me give you some color on these. First, we have doubled down on our cloud solutions and services, helping our clients develop and implement strategies using our deep domain and operations expertise to more effectively replatform solutions to the cloud. In all our core areas of strength, we are helping clients implement their cloud strategies at speed and scale.

Just this quarter, we have reorganized our cloud solutions and services under a new cloud leader to help scale our offerings in the marketplace. As an example, for our global asset management firm, we built an analytics ecosystem and developed a visualization interface on the cloud, providing field sales reps with a 360-degree view of their clients, enabling them to provide superior customer engagement that drives retention and growth for them.

Second, we are seeing great momentum in supply chain services with our pipeline up more than 30% since 2019. The dramatic shift to online, combined with rapidly-changing consumer preferences, have driven clients to build significant agility in their end-to-end supply chains.

Not only is there a need for much more, better demand forecasting, planning and fulfillment, but the current environment has required businesses to reevaluate supplier diversification and risk as well. For example, for a global CPG company, we have completely redesigned the end-to-end information flow from sales and orders through manufacturing, fulfillment and cash. We deployed robotic process automation and utilized advanced predictive analytics to develop new models to optimize supply chain network planning, which drove improved order fulfillment and customer satisfaction.

Third, we are seeing the increasing importance for our clients to address fraud and financial crimes beyond just financial institutions to almost every industry, as digital commerce becomes more pervasive. With deep domain risk expertise, our team of industry experts and data scientists are developing as-a-service solutions in the areas of fraud, anti-money laundering and transaction monitoring to address these growing needs.

For example, for a global bank, we improved the accuracy of their financial crime detection models using AI and machine learning to enhance regulatory compliance and customer experience. And fourth, in the shift to online and growth in digital commerce, we're also helping clients connect supply chain planning, order fulfillment and online payment solutions to deliver great digital experiences.

With the acquisition of the experience consulting firm, TandemSeven, followed by our acquisition of digital consultancy firm, Rightpoint, we enhanced our capabilities and customer experience, commerce and mobile application development. With the recent acquisition of

Something Digital, we have added significant capabilities in digital commerce.

The powerful combination of Something Digital's front-end design capabilities, with Rightpoint's experience innovation, embedded with Genpact's deep domain and operations experience in the middle and back office, enhances our already strong ability to bring end-to-end digital commerce solutions to the marketplace.

In a world where a work-from-anywhere model is a necessity for many organizations, we are seeing clients not only adapt but embrace this change. Our own delivery models were disrupted and through early and decisive actions, we successfully transitioned our 90,000-plus global workforce to a remote work-from-home model, maintaining productivity and service level performance. This is no longer a short-term business continuity solution but a more meaningful long-term flexible delivery model.

We envision the future of work to be a hybrid of offshore, onshore, near-shore and remote working. Based on the type of service, client needs, employee preferences and regulatory considerations, this just opens up many more degrees of freedom in business models. We continue to take a very deliberate approach to returning to offices across our global operating footprint. Our decision framework has always been based on the dual objectives of ensuring the health and safety of our global teams and continuity of service for our clients.

Currently, less than 10% of our workforce has returned to the office, most of them in China. I'm very proud of the unwavering commitment our global teams have demonstrated to help our clients navigate the extraordinary challenges of these past several months. The resiliency of our business model has been pressure-tested through these times. Not only have we come back to full delivery capacity, won new deals, including new logos and taken new solutions to market that have helped us grow our Transformation Services revenue at more than 20%.

But we've also energized our inflows leading to a historically high pipeline that gives us confidence that we will continue to drive future bookings and top line growth. With this better visibility, we've started to reinvest in sales and marketing and R&D to capture the many long-term opportunities ahead of us.

We also lifted the freeze on compensation increases that we put in place earlier in the year, recognizing the tremendous efforts of our employees. I'm incredibly pleased with our year-to-date performance and that we are now raising our 2020 full year top line adjusted operating income margin and adjusted EPS outlook.

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

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Thank you, Tiger, and good afternoon, everyone. Today, I'll review our third quarter results as well as provide our full year financial outlook. Total revenue was $936 million, up 5% year-over-year, both on an as-reported and constant currency basis. This growth exceeded our expectations and was driven by better-than-expected performance in both our Global Client and GE businesses.

Global Client revenue, which represented 88% of total revenue, increased 7% year-over-year both on an as-reported and constant currency basis. Performance in the quarter was driven by better-than-expected growth in Transformation Services, driven in large part by demand for our shorter-cycle transformation services solutions in areas such as FP&A and supply chain. I'm really pleased to see our analytics revenue continue to grow at more than 20% clip.

During the quarter, we continued to expand the size of our Global Client relationships, for the 12-month period ended September 30, 2020, we grew the number of Global Client relationships with annual revenues over $5 million from $124 million to $129 million. This included clients with more than $50 million in annual revenue growing from 9 to 11, and clients with more than $100 million in annual revenue expanding from 1 to 3 since the third quarter of last year.

GE revenue declined 8% year-over-year, a bit better than we expected. The year-over-year decline was primarily due to reduced project IT spend resulted from the uncertain macro environment. Adjusted operating income margin was 17.1%, expanding 90 basis points from the second quarter level of 16.2% and up from 16% during the third quarter of 2019.

The sequential improvement was largely due to better gross margin in the current period, driven by efficiency and utilization improvement initiatives we started last quarter as well as the improved banking margins that were adversely impacted last quarter due to the onset of COVID-19.

During the quarter, we recorded a $5 million restructuring charge that is excluded from our adjusted operating income. This is the final set of actions related to the 2020 COVID-related restructuring plan.

Gross margin for the quarter was 35.2%, 30 basis points lower year-over-year but up 120 basis points sequentially. The sequential improvement was primarily driven by the impact of moving beyond the challenges we felt earlier in the year related to client approvals for remote work within our banking and capital markets vertical, as well as improved transformation services utilization driven by higher revenues and reduced staffing as a result of our cost reduction actions.

As a percentage of revenue, SG&A expenses declined 70 basis points year-over-year, largely driven by cost containment initiatives and the impact of lower travel expenses related to COVID-19. On a sequential basis, total SG&A expense increased 50 basis points as we dial up investments to be able to take advantage of long-term growth opportunities.

Adjusted EPS was $0.56, flat year-over-year or up 7%, excluding the negative net impact of FX remeasurement. To give you a quick year-over-year bridge, adjusted operating income drove a $0.07 increase and was offset by an FX remeasurement loss of $2 million during the quarter compared to a $7 million gain during the third quarter last year, or a net $0.04 negative impact as well as higher tax of $0.02 and net interest expense of $0.01.

Our effective tax rate during the quarter was 22.6% compared to 20.5% last year. The current year rate was largely aligned with our expectations. The prior year rate was lower than our normalized rate due to a more favorable jurisdictional mix of income and certain discrete benefits.

Turning to our balance sheet and cash flows. Cash and cash equivalents totaled $803 million compared to $867 million at the end of the second quarter as our free cash flow of $235 million was offset by a $250 million revolver repayment, share repurchases of $29 million and our $19 million dividend payment.

Our net debt-to-EBITDA ratio for the last 4 rolling quarters was 1.29x compared to 1.63x at the end of the second quarter. Given our strengthening liquidity and more stable capital market conditions, we repaid another $150 million of the balance outstanding on our revolving credit facility in October. We now have approximately $95 million outstanding on this facility.

During the quarter, we generated $252 million of cash from operations compared to $220 million during the same period last year. The increase was driven by higher adjusted operating income, improved DSOs and lower tax payments during the quarter. DSOs improved sequentially to 83 days compared to 87 days during the second quarter due to improved collections and a reduction in billing cycle time. The reduced cycle time was due to an initiative we kicked off earlier in the year. We expect to exit the year with the DSO level in the low 80-day range.

Capital expenditures as a percent of revenue was 2.2% in the third quarter, compared to 1.8% during the second quarter of this year due to higher investments to support our COVID-19 work-from-home capabilities, including information technology and related information security. We now expect capital expenditures for the full year to be approximately 2.5% of revenue.

During the quarter, we returned $48 million of capital to shareholders. This included $19 million in the form of our regular quarterly dividend of $0.10 per share. We also repurchased approximately 740,000 shares at a total cost of $29 million at a weighted average price of $38.59 per share during the quarter.

We repurchased 2.9 million shares, totaling $116 million at a weighted average price of $40.18 per share year-to-date through October 31, including the 1.1 million shares we repurchased at $38.41 per share or $42 million in October.

Since we initiated our share buyback program in 2015, we have reduced our net outstanding shares by 18%. Over this period, we repurchased 40 million shares at an average price of approximately $27.10 per share, for a total of $1.1 billion. We have approximately $158 million of authorized capacity remaining under our share repurchase program.

Let me now provide you with an update to our full year 2020 outlook. We now expect full year 2020 revenue to grow approximately 5% to 5.5% on a constant currency basis, up from our prior range of 3.5% to 5%. This reflects stronger than initially anticipated results from both our Global Client and GE businesses.

For Global Clients, we now expect revenue growth to be in the range of 6.5% to 7% on a constant currency basis, up from our prior expectation of 5% to 6.5%. We expect GE revenue to decline approximately 5% for the year compared to our prior expectation of a decline of 6% to 8%.

Given our strong third quarter results, we are now expecting full year adjusted operating margin to be approximately 15.7%, up from our prior estimate of 15.5%. As you have mentioned earlier, we are dialing up our R&D and selling and marketing investments in the fourth quarter to more normalized levels. We expect to return to our path of deliberate margin improvement in 2021 and beyond.

Given this outlook, we're now estimating adjusted earnings per share for the full year to be between $2.08 per share and $2.11, up from our prior estimate of $2.03 to $2.07.

We've often talked about the resiliency of our business model. This year clearly demonstrates the nondiscretionary and recurring nature of our services. In comparison to the overall business climate with U.S. and global GDP expected to shrink approximately 3% to 5%, I'm really pleased with how our business is performing, not only in terms of generating top line growth while many in the industry are seeing declines, but also the decisive steps our teams took to drive improved utilization and contain costs.

As a result, our adjusted operating margin is expected to drop only 20 basis points year-over-year, and we are well positioned and fully focused on continuing to drive attractive adjusted EPS growth going forward.

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

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

Thank you, Ed. Our performance this year demonstrates our agility and our culture of embracing change. We have a reputation of being a trusted transformation partner who leads with client centricity, innovation and operational excellence. We believe our full year constant currency Global Client growth outlook of approximately 7% will be among the best in the industry.

At the same time, we have flexed our cost structure to better align to this year's growth trajectory, allowing us to achieve an adjusted operating income margin close to our original expectation, while bringing back investments in the front end and R&D. I'm pleased with our step-up in innovation, particularly given the changing environment as evidenced by our increased patent filing activity year-to-date. As we look towards the future, we see our medium- to long-term Global Client growth expectations continue to be unchanged at a double-digit to low teens rate.

Our confidence stems from 4 signals we are seeing: one, a heightened level of CXO conversations to drive change; two, an increase in new logo wins with great brands; three, continued momentum in Transformation Services, driven by an acceleration of digital transformation journeys for our clients; and four, large deal closures beginning to come back after a pause of a few months.

The continued growth of our strategic relationships greater than $50 million and $100 million is a testament to the strength of our business model, the differentiation we have and the value we drive for our clients. The strategic choices we have made over the last few years through our organic investments and acquisitions such as supply chain, financial crimes and risk, digital commerce and experience are proving to be hugely relevant in today's world. We feel extremely well positioned to compete in 2021 and beyond.

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

Roger Sachs ***Genpact Limited - Head of IR***

Thank you, Tiger, And I like to open up our call for your questions. Michelle, can I ask you to 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. Exchange Research - MD and lead Analyst***

Great. Good quarter, congratulations. I had a question about the outlook for this year, though. I know you brought up the full year outlook, but it does seem like 4Q is, at least, at first glance, quite conservative. What am I missing? It seems as though you're assuming a decel in the top line and also lower margins. Are there factors that we should consider that are not apparent right away.

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

No. Let me just kick it off, Ed, and then you can add to it. I would say, Ashwin, we are in an uncertain environment, it doesn't take much to come to that conclusion. So partly, it is a reflection of the environment we are in and the environment our clients face.

Number two, I think as we looked at quarter 3, We had some of the benefit of some surge work that we did for a set of particularly banking clients, which we don't want to assume is going to repeat.

And number three, GE and clients like GE and other clients that had a ramp down driven by some of the environment through COVID-19. Some of that gets completed in Q4. So in any case, I think the most important thing, Ashwin, is that we really don't think about our business quarter-to-quarter. We really think about our business more in a 12-month cycle, an annual cycle, a rolling 4 quarters. So I wouldn't necessarily draw too many conclusions between Q3 and Q4. Those numbers move around quite easily.

Ed, do you want to hit on -- anything to add to that as well as...

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

I just think also the growth in Q4 of last year, too, was robust, too, right? So the year-over-year compare is also tougher.

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

And on margin we have started dialing back or dialing up our sales and marketing as well as R&D, both of which we had stopped as we went through the early days of COVID-19. And we've brought back our regular salary and compensation increases that again, we had paused for the 2 quarters in the middle.

Ashwin Vassant Shirvaikar ***Citigroup Inc. Exchange Research - MD and lead Analyst***

Understood. Understood. Got that. And then the other thing is, maybe cash flow from ops, pretty strong. And I wanted to kind of, first of all, call that out, but also ask you if there were any onetime type factors that affected it? Or Is this kind of reflective of where you can be on a sustainable basis from a revenue conversion standpoint and so on?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

I think our growth year-to-date and likely for the full year is going to be outsized to normal, right? Even in a normal quarter for Q4, we're likely going to be over 20% cash flow growth, right, for the year, which is tremendous. I'd like to take full credit for that. But I think part of that is based upon the working capital impacts, right, just the macro for that right now, pleased with, obviously, the teams improving DSO, which happened in the quarter. So that is terrific progress. I'm happy with that.

But a bigger picture would also lead to indicate that working capital is much less of an impact to cash flow growth this year than it would be in a normal year. So typically, we ought to be growing in line with net income, as I said, right, in and around a double-digit clip for cash flow. So we're well in excess of that year. The biggest part of that is related to working capital, the biggest part of that being receivable balances driven by the growth year-over-year comparisons.

Ashwin Vassant Shirvaikar ***Citigroup Inc. Exchange Research - MD and lead Analyst***

Got it.

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

But Ashwin, we will take some credit for execution as well. We're very pleased with the flow performance.

Operator

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

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

Yes. Great job. So maybe first of all, now that we're 7 to 8 months or so into the COVID crisis, What have you been able to observe kind of about this? And kind of -- really, I guess the question is, what do you see the long-term benefits and headwinds to revenue and margins that you're starting to pick up, just seeing yourselves kind of work through this off?

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

So, Dave, the -- I think it will be wrong to say that there are benefits of COVID-19, and I guess that's not what you're asking. I think we've all I think the world and the businesses have learnt a number of things. One, the leverage of technology, both for doing business for information flow and for work flow, digital transformation, collaboration using technology, all of which has been available.

I think the part of change on that has accelerated dramatically, and I think that would be a great lesson that the world has learnt and every -- our clients have learnt, we have learnt. And I don't think that's ever going to change.

So we are now on an accelerated path of digitization of moving services and solutions to the cloud of being able to access information and do transactions from anywhere at any time on any device, the demand for predictive insights and analytics. All of that is change that has happened that normally would have taken 5 years, and we are in the middle of an accelerated change. And how can that not be good? But let's not make the mistake of assuming that the businesses that we serve, the clients that we serve are not staring at an uncertain world and are going through pain. So I think the -- it's a little bit of a tale of 2 cities.

As we get through the crisis and, let's say, there's a vaccine and it comes out. I think the world would have learned so much that really one is looking forward to the world where you can actually take all the learnings from years, come back to a more normal way we used to run businesses and mix and match all of that.

Hybrid delivery, hybrid collaborative pools, the ability to actually do so much more and with so much more speed of decision-making, so lots of things that are learning that I'm sure the world will find an opportunity to mix and match. And that impacts our ability to deliver great value to our clients. It impacts the ability to leverage technology. It impacts the extent to which online is going to be successful, again, an acceleration. So lots of things like that.

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

Great, great. And maybe just one quick one just on how much were acquisitions in Q3, I think it was just Rightpoint contributing. And then how much do you expect in Q4 as Rightpoint, I think anniversaries and Something Digital comes on?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes, the impact of Rightpoint consistent with what we talked about before, I think we said about 200 basis points roughly of growth for the full year. No change, right? The company was impacted as Rightpoint, both kind of almost equally. So that percentage hasn't changed at all. And you're right, that anniversaries end of November, I think, is when they -- is when Rightpoint came in. So you're right.

Operator

Okay. Great. And our next question comes from the line of Tien-Tsin Huang with JPMorgan.

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

This is Puneet sitting in for Tien-Tsin. So Tiger, with many countries ready to go back in lockdown again and cases rising everywhere, what would you attribute improved deal activity this time around versus, somewhat of a shock that we saw in March and April. Are enterprise clients not delaying decision making now given continued uncertainty, like you mentioned earlier.

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

No, Puneet, the world is very different, right? If you go back to March, that was the first time we, or our clients, and I'm talking about everyone in the world, had to, let's call it, rush home in order to find a way to set up infrastructure and transactions and the ability to actually deliver services to each other and to their clients from home.

Since then, we've been running our business as well as our clients' businesses, predominantly working from home. As I said, 90% of our work continues to be delivered from a remote environment. So when you now -- when the world now deals in many countries, as you described, to the second wave, there is no new action needed in order to deal with it other than continuing what you have been doing, and maybe push out any chances of coming back to office if people had plans for this year.

Other than that, there's no change. So therefore, leaders and our client teams have not been distracted with, "how do I deal with going into home and doing work from home", because they're already working from home. So I would say that's a huge difference, and that's what significantly impacted decision-making.

The other thing that impacted decision-making was a lot of things in our pipeline at that time with clients belong to an era that I would call, the pre-COVID era. Now we're sitting in the pipeline, it's tough that people have discussed with us, it's things that they want to drive change on, and that continues. So I think it's a very different situation we are in now as some parts of the world deal with wave 2 as compared to wave 1.

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

Got it. That makes sense, it does. And were there any margin benefits this quarter that are not expected to continue over the medium term? Assuming like in post-pandemic world, there'd be higher mix of work from home. How should we think about like the margin profile like when someone is delivering service from home versus from office?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Look, everyone's initial thought was, oh, you're going to be saving money working from home and not working from the office. But as we looked at it, all the different costs, including connectivity, information security, information technology and the like, we haven't seen a big difference in the cost structure work from home versus what work from office.

We'll see how that plays out, maybe there are opportunities going forward in that regard, but we don't see a big impact on that going forward in terms of kind of near-term benefits, in profitability. I think it's -- the big one that everybody knows about is travel, where we -- no one has been traveling for the most part, for the last couple of quarters. So that's something that we'll return in for us, it's almost 100 basis points roughly of lower spending year-over-year. So that's the one that will come back, not to the extent that it was in 2019, but we expect that it will come back partially in 2021.

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

Yes, Ed. Thank you.

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

The other thing I will mention is I talked about utilization in my prepared remarks. Utilization is at really high levels, right? We saw revenue growth, while at the same time, we took down the sizing of the transformation services delivery team. So we saw getting to a point where some of them are at the point where almost too high utilization levels, places like analytics, where you heard me talk about really, really terrific growth in the quarter. And there is -- that's a place where we don't want to be penny wise, pound foolish. So we got to make sure we have the people to deliver as we drive growth going forward. So we're looking at that. But that is at a level that we're pleased with, maybe almost too good, if you will, in certain areas.

Operator

And our next question comes from the line of Maggie Nolan with William Blair.

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

Nice quarter. Tiger, you had mentioned a pickup in pipeline conversion. Can you talk about what's driving that? And then do you expect that trend to continue over the next few quarters?

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

So Maggie, what's driving that is, as I said, there was a pause when a number of clients almost, I would say, without exception, particularly on large deals, basically said, "wait, let's make sure we know how to deal with this new world." Once that settled down and people could close the books, people could actually transact, people could make sure that credit card fraud, if that's what you're watching for, you could actually do that in a work from home environment. You make sure that supply chain work, et cetera, et cetera.

Once that was all done and settled down, then people went back to the conversations that they were having and as long as they were valid conversations in today's world and needed to be prioritized, those continued in many cases, actually, in some cases, accelerating through the pipeline because now people say, "okay, now I want to get this done faster." In a few cases, people actually, I don't want to do this, I want to do something else. So it's a little bit to the earlier question, no more is it how do I deal with this world? It is, okay, I've dealt with it. Now what do I need to do to run my business better.

And by the way, I just decided that I'm going to accelerate digital transformation. That's a decision that I would say, let's take a number, 75%, 80% of our client base have taken, irrespective of industry. It has its different forms depending on the industry, but digital transformation is here to stay, and that means change. And that does mean requiring partners like us and others to actually help in that change because now you need capability, you also need to accelerate rather than wait for a 5-year change journey.

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

And then I think you said you were awarded 3 large deals in the last couple of weeks here. Are these new clients? Can you talk about the long-term opportunity for these or how meaningful these accounts may become?

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

Yes. I would say one of them is a new client. Two of them are existing clients. And if I go back to the previous quarter, we had another client who was a new client. So as I said, we've had new logo wins through the pandemic, including on large deals. In fact, deals started during the pandemic and ended, and we are in virtual transition and virtual hiring and so on. So both new deals as well as existing relationships, we have large deals making progress.

Now, as I described, our pipeline does have a higher bias to early-stage deals that have come in after COVID-19. And those, by definition, because they are less mature, will take their time to mature as they progress through the pipeline. And they basically ended up replacing some of the deals that actually didn't make sense, either because they belong to companies that are in distressed industries, thankfully, only about 10% of our overall client base belongs to those types of industries, but also things that didn't make sense because something became higher priority.

Operator

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

Bryan C. Bergin ***Cowen and Company, LLC, Research Division - MD & Analyst***

Wanted to ask on the recovery slope in fiscal '21. So Tiger, obviously, more positive commentary here on the large deal progression in the pipeline. But you maintain that double-digit Global Client growth returned by, I think it was 4Q. Is this a function of the pace of some of these deal ramps that you're assuming? Is there greater confidence maybe in this recovery? Or could this come sooner?

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

No. Actually, it is very natural mathematics, unfortunately, Bryan, of our business. So I'll start by saying our business is a long-cycle business. Deals mature through the pipeline, I already called out the fact that because of the pause, you had -- let's say, close to 1.5 quarters to slightly more than 1.5 quarters where deals were paused, now when the pace comes back to normal, you can't replace what was paused. In that period, whatever was supposed to happen, didn't happen. What is now happening is kind of getting back to normal, that obviously flows through into revenue impact over a 12-month period. So that's one.

Two, some of the new deals that have then come in, as I said, early stage. So those take time to mature. So that's the natural mathematics of how this works. And the last thing I'll say is Q1, we had an amazing quarter 1, 2020, before COVID-19. And as we get into next year, that comparison is going to be the first quarter when we will have that kind of a comparison, which is a post-COVID or the true COVID and then compared to one of our best quarters before COVID happened.

So Ed, maybe you can describe the cadence next -- next year, but obviously, we'll give more detail, obviously, as we -- Bryan, as we get to February. But, Ed?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes, Tiger, that was good color. And just providing more color to what Tiger said last quarter and what we added this quarter. We do expect it to ramp -- we expect GC growth to ramp throughout the year, each quarter sequentially. Year-over-year growth to ramp sequentially up to about 10% by the time we get to the fourth quarter. How do we progress and the year-over-year growth rates are interesting as you look at that in comparison to the prior year because of the way 2020 is going in terms of growth and revenue, right, so Tiger mentioned it.

Q1 is a terrific growth quarter, not just for GC, but also the high watermark for GE, right? So as I'm looking at it, we're doing our bottoms-up planning now in the plan process, but we're doing the modeling, we're looking at the pipeline, looking at historical unsold percentages, so I'll give you kind of a preliminary view of thinking, and we'll come back to it in our February call with more specifics. But in general, we'll see -- we're expecting to see a traditional sequential decline from Q4 to Q1 as we typically see it. Somewhere in the 2% or 3% to 5% reduction sequentially from Q4 to Q1. That's not going to change, and then we are expecting to build each quarter from Q1 through Q4 up to that 10%.

So what does that mean for Q1? Q1, given that we had about a 15% increase last year. We're expecting GC to be roughly flat to maybe down single-digit in Q1, now just based upon where we are in Q4 this year and the sequential decline that is typical. We then expect to increase each quarter going forward. Q2 is an easier compare, right? Q2, we grew, I think, 3% or 4%. So we'll expect to improve on that as we go from Q1 to Q2 and then get up closer to double digits, not quite get there by Q3. And then in Q4, we're expecting to get to that double digit.

Again, that's all based upon the pipeline that we have, the wins that you heard Tiger talk about, how they ramp up. Still get into the details by the time we get to February with more color and more specificity.

On GE, GE is similar to GE is expected to -- will likely be down a bit more next year than this year. I think we're going to be down mid-single digits this year, just mathematically based upon where we are with GE. We'll expect next year to be kind of at around the end of this year, Q4, roughly flat at that level. What that means is GE will be down more meaningfully in Q1 because we had a high watermark for GE in Q1 of 2020.

So that will be down somewhere in the double-digit range and then each quarter going forward. That will improve to the point when we get to Q4 of next year, we expect to be roughly flat because I said it'd be at the run rate for Q4 2020.

So I gave you a lot of detail there. What does that mean for Global Clients? It means we're kind of largely aligned with growth this year. I think we said we'd be 6.5% to 7%, we'll likely be in that space next year, but a totally different trajectory, right? We'll begin the year a bit lower growth because of the year-over-year comparisons, we should end the year at higher than that roughly 6.5% to 7.5% in the second half of the year. based upon the way I just described it. I think that's -- anything more to add to that could, Tiger, provided a lot of color there.

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

No. And basically, Bryan, in the end, what it says is, we are -- from a medium-term perspective, we have our line of sight still set and we have deep confidence in back to Global Client double-digit to low teens growth. And a return back to a very deliberate, steady margin cadence as we deliver that. So we feel really good about where we are. In fact, some of the solutions we now have is so relevant for today's world. It's pretty amazing that we actually made some of these choices before COVID-19.

Bryan C. Bergin ***Cowen and Company, LLC, Research Division - MD & Analyst***

Okay. Just want to follow up on analytics. So this has certainly been a good growth engine for you. Can you just talk about where are you most penetrated with that? And where you think you can cross-sell that across other areas in the business or other verticals where you haven't really gotten into yet?

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

So actually, it's pretty pervasive, Bryan. That's one of the most interesting things about analytics for us. So first of all, for us, it's a scale business, and it has been a scale business for many years now. What we are seeing is the demand for analytics, for predictive analytics that helps real-time decision-making in the world we are in today. And that's true across a range of, let's start with supply chain, better demand forecasting and better ability to forecast supply. And then match those two up.

Better working capital management that starts with inventory, better receivables management, better prediction on credit quality of receivables, better prediction of supplier risk. And then you move into financial services, the ability to actually manage transactions, money laundering, fraud, both in the consumer space as well as the institutional space.

You move to insurance, the ability to actually predict which insurance deals are worth closing faster because you have a better chance of getting a better price. So space after space after space and then you get to finance. And as one of the leaders in finance and accounting in the world, more and more CFOs and business leaders are realizing that there is a plethora of data that they can use from both within the company and outside the company through the financial planning and analysis group along with the help of digital technologies to forecast better, to plan better, to just run the company very differently.

And digital technologies are going to help all of that. So we really feel very bullish about the intersection of digital technologies and data and analytics to provide real-time insights. But with a deep understanding of the business and domain, and that's where we shine.

Operator

(Operator Instructions) And our next question comes from the line of Mayank Tandon with Needham.

Kyle David Peterson ***Needham & Company, LLC, Research Division - Associate***

It's actually Kyle Peterson for Mayank. I just wanted to touch a little bit on I think you guys mentioned about 90% of the delivery right now is remote versus, I think 10% is more on site. How quickly between laptops and just client approvals, if we were to see like a second wave of additional like lockdowns and restrictions of movement, do you think you guys be able to shift that last 10% to remote delivery versus what we saw in kind of March and April?

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

No, that's an easy one, Mayank (sic) [Kyle]. As I said, a predominant portion of that in the office work right now is in China, and let's start with China. We dealt with China going to work from home as the first group that went to work from home. That's now well established.

The playbook is established and methods are established, the technology footprint is established. So for us to react and shift to work from home as well as for our clients whom we serve from China to deal with it, is way, way easier than anything we dealt with in March.

And then the balance of the work from office right now is scattered between India, Philippines, some Latin America, some U.S. Again, our ability to flip that to work from home is very easy. Now there are some portions of work, particularly in the India, U.S. Latin America and Philippines footprint, where we do that work in the office because the client, particularly banking requires that work to be done in the office, given certain regulatory considerations that they have. If that were forced to be done from home, it might not be possible.

So it's less about can we do -- can we move it to work from home. It's more about, will the client allow that to move to be moved to work from home. But it's settled down into a good rhythm. I mean, if you look at India, as the case count in India rose a month back or 2 months back, we had a protocol well set up, almost like a well-oiled machine that allowed the people who came to the office with very good social distancing, with temperature checks with all the protocols that you would expect, an action plan is well laid out, and it's been working well.

Kyle David Peterson ***Needham & Company, LLC, Research Division - Associate***

Great. That's a helpful color. And then I guess just switching over to capital allocation, particularly on the M&A front. Maybe if you could just describe how the pipeline is looking right now and just how you guys are kind of going about identifying, vetting and integrating some of these transactions in a more virtual environment.

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

So I'll start with the pipeline, and I'll have Ed add color on capital allocation strategy itself. Look, we've been very clear for many years now that our identification of M&A pipeline and choices are driven by a very good understanding of strategically what capabilities do we want? What kind of capabilities do we want to bring in and integrate with some of the services, the solutions that our clients are looking for, where we see the market going in terms of where the puck is going.

And I think some of the choices we have made seem to have been good choices, and that's how we're focused on even today. So we continue to have a pipeline that's very robust, driven by specific choices around specific services and specific industry verticals that will bolster our capabilities around some of the things that we already talked about, data and analytics, data engineering, cloud capabilities, things that you would expect given where the world is going and given all the discussion that we've already had.

And those continue to be great discussions. They're all virtual. And I think it's fair to say that virtual conversations, virtual due diligences are possible. They take effort and planning, but we did that with Something Digital. And now we are doing integration of Something Digital into the Rightpoint business. All virtually, we are our teams, our Genpact teams are virtual, Rightpoint teams are virtual and Something Digital teams are virtual, and it works. You just need to have discipline. You have to have the execution. You have to have a playbook, and we have all of that. One of the good things about it is that, we approach all of these with a systematic execution mindset that seems to help. Ed?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes. The only other thing I'll add is, look, we're -- our net debt-to-EBITDA levels are at the lowest levels they've been in a few years now. So there's plenty of dry powder for us to execute to M&A attractive M&A and/or share repurchases. So I think we're in a pretty good place, and we'll play this forward.

Operator

And I'm showing no further questions at this time. And I would like to turn the conference over to Mr. Roger Sachs for any further remarks.

Roger Sachs ***Genpact Limited - Head of IR***

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

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.