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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth-quarter and full-year 2013 earnings -- Genpact Limited earnings conference call. My name is Celia and I will be your operator for today. At this time, all participants are in listen-only mode, and we will conduct a question-and-answer session toward the end of the conference. We will expect the call to conclude in an hour. As a reminder, this call is being recorded for replay purposes.

I would now like to turn the conference over to Bharani, head of Investor Relations at Genpact. Please proceed sir.

Bharani Bobba - *Genpact Ltd - VP IR*

Thank you Celia. Welcome to Genpact's earnings call to discuss our results for the fourth quarter ended December 31, 2014. We hope you've had a chance to review our earnings release which you will also find in the IR section of our website, Genpact.com. With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer, and Mohit Bhatia, our Chief Financial Officer.

Our agenda today is as follows. Tiger will begin with an overview of our results that address most of his comments to a high-level view of how we are driving strategic change, followed by Mohit, who will discuss our financial performance in greater detail. Tiger will then have some closing comments. Finally, Tiger and Mohit will be available to take your questions post the call. We expect the call to last about an hour. Please note that we've also included slides which you can find on the webcast version of our call, and you will be able to download them after the call has concluded.

Some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks and uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include, but are not limited to, general economic conditions and those factors set forth in our press release and discussed under the Risk Factors section of our annual report on Form 10-K and other SEC filings. Genpact assumes no obligation to update the information presented on this conference call.

In our call today, we will office also refer to certain non-GAAP financial measures which we believe provide additional information to our investors and better reflect the way management views the operating performance of the business. You can find a reconciliation of those measures to GAAP as well as related information in our earnings release in the IR section of our website, Genpact.com. Please also refer to the Investor fact sheet on the front page of the IR section of our website for further details on our results.

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

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Thank you Bharani. Good afternoon, everyone, and thank you joining us on our earnings call today.

2013 marked another year of growth for Genpact. On today's call, we will address fourth-quarter and full-year results, but more importantly, we will also provide detail around our strategy and the investments we are making which we believe will further enhance our market leadership in key areas and, position our business for accelerated growth.

In the fourth quarter, Genpact revenues increased year-over-year and sequentially while adjusted operating income and adjusted operating income margins reflected our planned increase in client-facing investments. Revenues increased 10% year-over-year and 4% sequentially to $558.5 million with Global Client revenues increasing 13% year-over-year.

Adjusted operating income margins totaled 15.3%. Our sales and marketing spend increased to approximately 5.4% of revenue in the fourth quarter, up from 4.7% in the third quarter, as we continued to invest.

For the full year 2013, Genpact revenues, operating income, and earnings per share increased while we held adjusted operating income margins steady. Revenues increased 12% to $2.13 billion. Global client revenues grew 16% for the full year led by growth in the Banking and Financial Services, Insurance, Life-sciences and High-tech verticals. GE revenues declined approximately 1%, as expected. Growth across our service offerings was led by Finance & Accounting, Risk and Reengineering, and Banking and financial services core operations. Adjusted operating income increased 13% for the full year, with adjusted operating income margins holding steady at 16.5%. Adjusted earnings per share increased 17%, and cash flow from operations increased 17%, excluding the one-time client upfront payment in 2012.

As we moved through 2013, we faced a number of revenue headwinds that we have discussed on previous calls. These revenue headwinds included the reduction in our mortgage originations business related to US refinancing volumes, softness in our GE business related to a continuing shrinkage in GE Capital, and the adverse impact of foreign exchange. The increase in the value and proportion of large deals in our pipeline, which has materially extended cycle times, also contributed to headwinds this year. Although cycle time conversion to revenue in large transformative deals tends to be longer, these engagements are what we want to be and a positive trend for the medium-term. As we look at our revenue results in 2013, we estimate that these headwinds had approximately a three percentage point impact on our growth.

In summary, throughout 2013, we continued to deliver clear, measurable business outcomes for clients, differentiate our approach by building capabilities and domain expertise through both organic investments and acquisitions, and strengthened our relationships with existing clients. We also added many new clients on the strength of our continued high net promoter scores.

Our pipeline continues to be healthy. Clients are focused on improving their business models to adapt to a constantly changing environment. They have an increasing interest in longer-term more transformative engagements. These transformative engagements are global and multi tower, combing process, technology, and analytics, and often require signoff from the client's Board of Directors. We have been seeing this shift for over a year and as we pointed out in previous quarters, transformative deals have increased significantly, both in value and proportion of our pipeline. The investments we have been making in client-facing teams and capabilities have accelerated the number of discussions we are engaged in around transformative deals. While these deals have longer conversion time to revenue, they set us up to be true partners with our clients as we design, transform, and run their operations.

In order to ensure that we are the best partner for our clients in their transformational journeys, over a year ago, we commenced an extensive study of the market and our capabilities. We wanted to better understand how to get Genpact to the next level and where we should focus our resources and investments.

Our insights from the study, coupled with our successful journey over the last three years of increased client-facing investments in the European market, reinforce our belief the Genpact has significant opportunity to accelerate growth and expand market leadership.

By making strategic investments to capture underpenetrated opportunities in key areas such as Finance & Accounting and Core Vertical specific operations, we see the potential to grow Global Clients revenue at a rate in the midteens for an extended period of time. While we will discuss this in more detail at our upcoming investor day on March 6, we are excited to provide you with a high-level view of the next phase of our evolution and strategy to capture a bigger set of market opportunities.

This strategy is about running our business with a more targeted focus so we can drive faster growth in key areas and deepen client relationships.

The four pillars of the strategy are:

- Concentrating our investments on specific market leadership opportunities;

- Further differentiating our solutions;

- Strengthening our relationships with clients and moving closer to their core; and

- Enhancing our domain expertise.

For the first pillar, we are directing our investments towards achieving market leadership in select key industry verticals, service lines within these verticals, and enterprise services such as Finance and Accounting.

In terms of markets, we are concentrating these investments in large developed economies such as North America, Europe, Australia and Japan. These are areas where we see significant long-term market opportunity for Genpact and where we can differentiate to compete strongly and deliver unique value and insights to our clients. This refocusing will necessarily entail tapering of growth in non-core areas.

For the second pillar, we are differentiating our solutions by building capabilities that bring together our core operations, technology, and analytics offerings. These solutions will help transform our clients' businesses.

For example, in our Finance & Accounting service line where we are a well-established leader, clients across industries are increasingly looking to us for advice in designing and transforming their finance function apart from simply running finance operations for them. To do this effectively, we are investing in building Finance & Accounting consulting capabilities and frameworks to design effective and high-performing finance organizations and processes for our clients.

We are also investing in technology capabilities to take finance processes to the cloud, along with better analytics and visualization to improve decision-making.

The third pillar of our strategy is strengthening client relationships. It is our goal to continue to grow with our clients and help them transform to become more competitive. As part of this effort, we are adding a new set of senior client-facing leaders to deepen client relationships and play the role of trusted advisor while expanding onshore capabilities to enhance proximity to clients.

The final pillar of our strategy is expanding our team of subject matter experts and lead solution architects who bring extensive knowledge and domain expertise to clients. Not only are these domain experts and solution architects building new technology and analytics embedded solutions in our chosen service lines, they are also teaming up with our senior client partners to drive strategic conversations with our clients.

We are positioning Genpact for accelerated long-term growth in the best way possible, and we are making strategic investments in these pillars to do just that. These investments will be approximately $45 million, or 2% of projected revenue, in 2014. We expect to spend approximately two thirds of this on client-facing teams, representing an increase from 4.7% of revenue in 2013 to about 6% in 2014. We are investing the remainder in R&D to build key service line capabilities.

While we are funding a portion of these investments through productivity and cost discipline, the total of these strategic investments will have an impact on margins in the near term. We expect these investments to continue through 2016 with a diminishing impact on margins as our revenue growth accelerates. We firmly believe these investments are the key to best position us for long-term accelerated growth.

In carrying out this strategy, we are drawing on our experience and success in the European market for the past three years where broad elements of this plan, including significant investment in senior client-facing teams, were implemented and have produced strong results.

In summary, we are confident in this strategy and believe that now is the right time to sharpen our focus and invest for long-term growth. We have done this with a thorough analysis of our business and the market to identify the key opportunities where we have a competitive advantage where we are differentiated and where we see significant growth potential.

In addition, we continue to generate large amounts of cash that provides us flexibility. Our use of cash will include the investments we talked about and may include acquisitions in sharply defined areas of our business that are part of the strategic choices we have made. In addition, we regularly evaluate the best use of our cash to provide superior returns to our shareholders.

With that, I'll now turn the call over to Mohit.

Mohit Bhatia - *Genpact Ltd - SVP, CFO*

Thank you, Tiger. And good afternoon everyone. Today, I will review our fourth-quarter performance and full-year results, followed by a summary of key highlights on the balance sheet and statements of cash flow.

We closed the fourth quarter of 2013 with revenues of $558.5 million, an increase of 10% year-over-year and 4.4% sequentially.

Fourth-quarter revenues from global clients increased 13% year-over-year. Within global clients, business process management revenues increased 12%. Our global clients IT services revenues increased 18%. GE revenues declined by 0.1%.

Our overall business process management revenues increased 8%. Our overall IT services revenues increased 17% driven by growth in both global clients and GE, including the contribution from our Feb 2013 acquisition of Jawood.

We continued to expand relationships with current global clients in 2013 across a range of our industry verticals. In the fourth quarter, clients representing $5 million to $15 million in annual revenues increased to 52 from 43 in the prior-year fourth quarter. Clients in the $15 million to $25 million category increased to 13 from 11. And clients with more than $25 million in annual revenue increased to 13 from 11. This is evidence of our ability to deepen relationships as we partner with clients to design, transform, and run their business critical operations, resulting in better performance and outcomes for them over many years of engagement.

Adjusted income from operations totaled $85.7 million, an increase of $1.7 million from the prior year. This represents a margin of 15.3%, down from 16.5% in the fourth quarter of 2012. This was in line with our expectations and driven by investments in client-facing teams and domain experts.

Our sales and marketing expense this quarter was 5.4%, up from 4.2% in the same quarter last year.

Our gross profit for the quarter totaled $213 million, representing a gross margin of 38.1% compared to 39% last year. This margin decline was less than expected due to higher operating efficiencies that partially offset the impact of wage inflation.

SG&A expenses totaled $136 million compared to $119 million in the fourth quarter of last year. This represents 24.4% of revenue, up from 23.4%, primarily driven by investments in client-facing areas as I explained earlier.

Net income was $48.8 million, or $0.21 per diluted share, in the fourth quarter of 2013, down from $53.4 million and $0.23 per diluted share in the fourth quarter of 2012. The year-over-year reduction was driven by a foreign-exchange re-measurement loss of $3.9 million recorded below the income from operations line in the fourth quarter of 2013 versus a gain of $8.1 million in the fourth quarter of 2012.

I will now turn to our full-year financial results.

On a full-year basis, our 2013 revenues were $2.13 billion, an increase of 12% year-over-year.

Revenues from global clients increased 16% year-over-year. Within global clients, business process management revenues increased 15%. Our global clients IT services revenues increased 20%. GE revenues declined 1%, as expected.

Our overall business process management revenues increased 10%. Our overall IT services revenues increased 17%, driven by growth in both global clients and GE, including the contribution from our February 2013 acquisition of Jawood.

Adjusted income from operations totaled $352.6 million, up from $313.1 million in the prior year. This represents a margin of 16.5%, the same as in 2012.

Our gross profit for the year totaled $812 million, representing a gross margin of 38.1% compared to 39.1% last year. This margin decline was less than expected due to higher operating efficiencies that partially offset the impact of wage inflation.

SG&A expenses totaled $485 million, representing 22.7% of revenue, an improvement of 130 business basis points from 24% or $457 million last year. This improvement was driven by continued better utilization of resources and technology.

Net income for the full year was $229.7 million, or $0.97 per diluted share, up from $178.2 million, or $0.78 per diluted share, in 2012.

The year-over-year increase of $0.19 in earnings per share was driven by the following:

- Higher operating income contributing $0.11;

- Re-capitalization related cost in 2012 of $0.04;

- Foreign-exchange real measurement gain recorded in the income from operations line of $20.8 million in 2013 versus a gain of $13.1 million last year contributing $0.02;

- Lower effective tax rate and other savings contributing $0.04,

Offsetting:

- Higher financing cost of $0.02.

Our adjusted EPS for 2013 was $1.13 per share, up from $0.96 per share in 2012. The increase in adjusted EPS was broadly due to the reasons just stated.

Our tax expense for the full year was $71.1 million, down from $78.4 million in 2012, representing an effective tax rate of 24%, down from 31% in 2012.

This improvement was primarily driven by the growth of our operations in low-tax and tax exempt locations and the impact of some disputed items in 2012 relating to the recapitalization.

In 2014, we expect our effective tax rate to be in the range of 24% to 26%. Some of our tax holidays will partially expire in 2014, offset by continued growth in tax exempt and low-tax jurisdictions.

I will now turn to our balance sheet.

Our cash and liquid assets totaled approximately $571 million, up from $478 million in 2012. This 19% increase was after repayment of $80 million of our short-term debt and utilizing $49 million for capital expenditures.

With undrawn debt capacity of approximately $246 million and existing cash, as stated earlier, we continue to have ample flexibility to pursue growth opportunities. Our net debt to EBITDA for the last four rolling quarters was approximately 0.25 X.

Our days sales outstanding stood at 81 days, an increase of one day both over the fourth quarter of last year and sequentially.

Turning to operating cash flows, we generated $312 million of cash from operations in 2013 at similar levels as the previous year. After normalizing for the upfront client payment of $45 million in 2012 as explained in our earlier calls, our cash flows have grown 17% aided by lower cash taxes and certain statutory refunds.

We expect our cash flow from operations in 2014 to be between 10% of 13% lower than the 2013 reported cash flow from operations of $312 million, primarily driven by lower margins from our previously mentioned investments, together with certain one-time inflows in 2013.

Capital expenditures as a percentage of revenue were approximately 2.1% in 2013. These were at lower levels due to better utilization of existing infrastructure and technology. We expect 2014 capital expenditure as a percentage of revenue to be in the range of 2.5% to 3%. Please note that we have included ranges for a number of these metrics for 2014 in our Fact Sheet.

With that, I hand it back to Tiger for his closing comments.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Thank you Mohit. We expect 2014 to be a pivotal year for Genpact as we execute on the four pillars of our growth strategy I described earlier. The fundamentals of our business and our market opportunity have not changed, and we continue to have a long runway for sustainable, profitable growth.

As we look at 2014, we expect GE revenues to be down approximately 5%, reflecting the continuing shrinkage of GE Capital as well as GE's intense productivity drive, which includes eliminating work, an initiative we are helping them with.

Our global client revenues will be affected by continuing 2013 revenue headwinds and slower growth in non-core areas as we execute our focused growth strategy. Accordingly, our 2014 revenue guidance is $2.22 billion to $2.26 billion.

Our expectation for adjusted operating income margins in the range of 15% to 15.5% reflecting accelerated investments in our client-facing teams and solutions. Based on the opportunity in our attractive and underpenetrated markets, we believe this focused growth and investment strategy will position Genpact for accelerated global client revenue growth in the years ahead. We expect these investments will begin to pay off in 12 to 18 months with accelerating returns thereafter.

In closing, Genpact works with clients to help them design, transform, and run their business-critical operations. Our goal is to provide world-class service to our clients and to drive sustainable, profitable growth and value for our shareholders, particularly in our chosen industry verticals, enterprise services like finance and accounting, and in focused geographic markets.

I will now hand the call back to Bharani.

Bharani Bobba - *Genpact Ltd - VP IR*

Thank you Tiger. We would like to open it up for Q&A. Can you please give the instructions?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Joseph Foresi, Janney Capital Markets.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. My first question here is I guess you've laid out a plan for further investments. I believe you have been investing in the sales force probably for the last 12 to 18 months, yet the revenue guidance calls for a deceleration. So I guess the question is, first, how is this investment plan different than the one you instituted before to add salespeople? And the second one is how do we have confidence that this plan is going to pay off when we've been seeing a deceleration in revenues beginning with the first investment phase?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Let me start by first talking about deceleration. I would characterize the deceleration into two buckets. One is GE, and we already talked about GE separately, and then Global Clients. In Global Clients, as we've talked both in 2013 and the continued impact into 2014, the deceleration is attributable primarily both to the mortgage business, foreign exchange in emerging markets, and then a deceleration that we like because of the reason for it, which is large transformative deals where decision cycle times are long. And then if we juxtapose that with the investments we have been making, to your point, in sales teams, in the front-end teams, by industry vertical, some of the transformative deals we are in, in discussions, are driven by those investments. A number of those investments were made across our global markets with a concentration in Europe, particularly over the last couple of years.

Our learnings in Europe, coupled with the study that we kicked off the early part of 2013 with a global strategy consultant working with us, allowed us to come to the following set of conclusions -- one, the specific industry verticals we should further hone our investments into; second, the caliber of those investments is different as we go forward, given the seniority of some of the people we are bringing into the teams to work on some of these bigger transformative engagements; and third, we are building solutions that bring together technology, analytics and process operations in these specific chosen service lines. And the investment in our lead solution architects and subject matter experts fuels the sales team and the client-facing teams that they are bringing in.

The last thing I would say is a number of these investments are really learnings that we have drawn in the first phase of our investments which, as you can see, has been only partly in terms of the journey that we originally laid out, and then further bolstering it with infrastructure needs around accelerating those investments, such as sales coaches, people who understand how to work at a strategic level, driving sales compensation changes that are much more leveraged and so on. So, we think it's a combination of a study we have done, the focus and the learnings in the first phase of our investments.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. What do you think -- once we get past I guess the midpoint in 2014, what's the true run rate of this business? We've seen I think the last two analyst days, and I know you have another one coming up, the perception that this is maybe a low teens revenue growth business. What do you think -- and I'm not asking for guidance, but over the long-term, what do you think the true run rate of the business is?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

That is a great question. And the way I would think about the investments we are doing are expected to take the growth rate of Global Clients in our business to the midteens level. And that's a three-year journey if you want to lay that out. These investments, as I said, are a combination of the client-facing teams at the right levels, the solutions that we are building to further enhance the differentiation that we have, and the geographic markets that we are focused on. We think it's Global Clients midteens revenue growth, given the underpenetrated nature of these markets and the fact that there is a pretty significant restructuring that is happening in a number of our client conversations.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And the last one from me real quickly. Can you just give us any idea of how you're measuring sales productivity and win rates? I know that the larger deals obviously take longer to realize, but have those changed at all? Are you seeing any changes in the competitive dynamics as they refer to the IT services players getting involved?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So two different questions, as I hear it. We have a pretty significant detailed set of metrics that we have put in place to measure sales productivity, and as you can imagine, it's different by different service lines and different industry verticals and the kind of products that you sell. And we'll probably give some more visibility to how we continue to measure those and track those as we drive our sales investments going into 2014.

On the other question around who we are seeing in the competitive landscape, we've always competed a lot with the global majors, and that continues to be the case. In specific industry verticals, be it healthcare as an example, or some of the banking verticals as an example, clearly some of the IT players have always been competitive, and they continue to be there. In some of those areas, for example, in healthcare, technology and process does tend to get bundled. That's one of the reasons we did the Jawood acquisition in the early part of 2013, and that's beginning to come together very nicely in the healthcare vertical.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Great. Just to drill down on GE, are any of these investments going towards the GE relationship as well, and did you give the actual outlook for GE growth this year? I may have missed it.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Yes. Our expectation for 2014 is a reduction of 5% of the overall GE revenue. All these investments are across the board. So, when I am talking about people engaging in transformative discussions with clients, that includes investments where we are undertaking such transformative discussions with a number of the GE businesses. When we talked about driving elimination of work and productivity, that's a big initiative that we are driving for a number of our clients through solutions that we are developing. That includes GE as well. So these investments include all our clients, including GE.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Got it. So if we want to measure ROI payback of the $45 million, should we be expecting Global Client growth to return to midteens as early as 18 months from now? I know that you're still phasing in the investments, but just trying to understand the payback.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So, the way I would think about is in two ways. One, as we get into 2015, some of the macro headwinds, an example being mortgage, will go away because end-of-year comparison will be a natural comparison. So that goes away. And then in a 12- to 18-month timeframe, the investment payback starts kicking in. And it will take a total of three years broadly to come back to a full midteens Global Client growth rate because these are, as you can imagine, not only long cycle in terms of decision but, because they are complex deals, they tend to be longer cycle in terms of revenue conversion. But by definition therefore, they have a pretty significant long-term ramp by the nature of these deals.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Understood. Last one, just a modeling metric question, just the employee target growth this year. I'm trying to understand what the revenue deceleration with the implied revenue per employee would be. And obviously you're going to be hiring as well, but just thinking about where there's opportunity for productivity or changes in extents there. Thanks.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Actually, first thing, we don't model and talk about employee growth. If you look at our history over the last three or four years, we've always had pretty significant increase in revenue for headcount driven by higher value-added services that we typically tend to deliver over time. Transformational deals tend to have a higher component of those higher value-added capabilities. the kind of capabilities we are now building that bring in technology analytics and process will also tend to move in that direction. The global nature of our delivery that has a much higher proportion of onshore component in complex transformative deals, I think if you put all that together, I think you will continue to see lower growth in headcount as compared to growth in revenues. And that's been our history over the last few years.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Yes, definitely higher-yielding. Thank you.

Operator

Ashwin Shirvaikar, Citibank.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you. Tiger, I guess my question is, if you did not make these investments, what would happen to your win rate? In other words, is this a catching up that you're doing so that you are at the same -- on par with some of your competitors, or is this going to allow you to leap-frog?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So, the way I would answer that is clearly as we become bigger, we have to continue to drive investments to continue to drive bigger growth. And the other way I would think about it is this is clearly taking Genpact to the next level to compete in larger, more transformative, complex deals that are multitier, multi-geography, and multi-components and in terms of execution multi-year. So these investments will allow us to compete in those transformative deals.

As we grow in size, I think it's absolutely necessary for us to do that. That's one way I would respond.

And in our competitive set, given the type of competitors we are now dealing with as we continue to grow in size, it is the right thing to do. The great deals is that the market provides the opportunity, given the secular change that a number of our chosen industries clients are going through and the conversations we are in the middle of with those clients, that these investments are absolutely the right investments at this point in time.

Ashwin Shirvaikar - *Citigroup - Analyst*

That makes sense. But at the same time, asking investors for three more years of patience, which is what it seems like for the full cycle, is a big deal. And so can you provide us with let's just say six months or one year, how are you going to measure it? What should people look for? Any metrics that we can track externally to make sure you're on the right path?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

We will be sharing more detail on how we are going to measure ourselves along both the investments we are doing as well as the early returns on those investments, and we will be sharing those a month from now in our investor day. But clearly the first level of tracking would be the actual investments we doing and the progress along those investments. And then the early tracking would be how that is responding into our pipeline, and ultimately how it's responding into wins and bookings, and then subsequently the conversion of revenue. But again, because those take time, we will be talking about some early indicators of how we would like to think about both measuring it ourselves as well as sharing some of those with the investor base.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. I guess if I can sneak one last in, the fourth-quarter trends, are those a decent proxy for what's going to continue to happen in the next two or three quarters here in terms of GE being down? And obviously you quantified that. But in terms of what's going on with existing ramps and so on and so forth?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

As you can see, we had a great fourth quarter. And part of that is a typical fourth quarter where some of the technology spends, at least in our kind of client base, tends to improve. And normally when you move from the fourth quarter to the first quarter, we do have a drop in revenue, if you remember, and this has been true for the last eight years. So, I don't think that model will change.

Fourth quarter was also very good because our capital markets business did much better in the fourth quarter than it has historically done in the fourth quarter of the previous couple of years. And I think that's a reflection of the stability in the capital markets vertical.

And then the third reason why we feel very good about the fourth quarter is that some of the transformational discussions that we are having with clients converted into reengineering and helped me design and consult with new engagements. That tended to be one very short cycle, but also short engagements and therefore gave us a bump in the fourth quarter.

So the way I would think about the year is a more regular, steady distribution between the first quarter and the fourth quarter of next year that we normally have for the entire year with a couple of caveats. The mortgage business headwind will be more significant in the first half than in the second half, as well as the FX headwinds around emerging market foreign exchange will again be more significant in the first half compared to the second half given the comparators of year-to-year.

Ashwin Shirvaikar - *Citigroup - Analyst*

All right. Okay, thanks.

Operator

Paul Thomas, Goldman Sachs.

Paul Thomas - *Goldman Sachs - Analyst*

Thank you for taking my questions. Maybe just on the guidance, could you talk a little bit about the process of putting your full-year guidance together this year compared with last year? In the middle of last year, you were a little surprised about how some of the deals you anticipated were not closing, ramps were taking longer. How did you think about those this year and those types of situations when you were building your guidance compared with last year?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

A great question, Paul. And I would say the single biggest difference is the fact that we understood much better the decision cycle times, the time it takes to get approvals from clients on these larger transformative engagements. And given the significance of these deals in our pipeline, I think we were better prepared to model that better in our thinking around the operating plan for 2014, taking all our learnings of 2013 into account. We obviously also did not have to model in any new headwinds around mortgage because that was already with us and we modeled that back into our 2014. So I would say those are the two significant differences in the way we model 2014 versus 2013.

Paul Thomas - *Goldman Sachs - Analyst*

Okay. Thanks for that. And then looking at the margins, and you've talked about the investments that you plan to make for this year, I'm wondering, with the GE revenue being this much lower also in 2014, how much of an effect is that on margins? And should we be thinking about when GE revenue flattens out and we get to a normalized run rate, would you see structurally lower operating margins because of that, or what are your thoughts around that?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

I wouldn't attribute our margin change as much to the GE revenue change as to the fact that we are very deliberately and significantly putting investment dollars down for client-facing teams, for solution teams and all the other things I talked about. Given the scale and size of our relationship with a number of our Global Clients and GE, at the margin changes in revenue don't change margin profiles. It's really our investments that we are doing. And as you can see, it's about 2% of revenue, which is significant.

Paul Thomas - *Goldman Sachs - Analyst*

Okay. Thanks a lot guys.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Just looking at the guidance of 4% to 6%, obviously that's below industry average probably growth rate for BPO and also IT. So, I'm just trying to get a sense. With this big change in the business model that's taking place, obviously you guys must feel that you're losing business compared to the market, and that's why you're making all these changes? I just want to make sure I've got my head around exactly what's happening.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

No. I wouldn't at all say that. The changes we are making are because we are losing market share. We actually, as I said, started working on our strategy plan about actually more than a year back. And as we -- and the objective there was to really define the specific areas where we thought we have a real opportunity to further accentuate our leadership position where the run rate of growth was better than other places, and where our differentiation was the best. And as we went through 2013, those are the decisions that actually now we are in the process of executing.

In the meanwhile, as we have said, both in the last earnings call as well as this one, there have been macro headwinds that we faced. Let's keep our GE separately, and on the Global Client side, if you actually take all those macro headwinds out, then we are talking about a 7% to 9% growth on Global Clients. And if you will add the macro headwinds out, it's up to 9% to 11% for the year 2014.

So the way I would think about 2014, is absent the macro headwinds, it's broadly industry kind of growth, which is not where you want to be. Our objective in investment is to take our Global Client growth rate above industry average.

Bryan Keane - *Deutsche Bank - Analyst*

So you see the industry growing at kind of a 7% to 9% clip?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

We see -- it's very tough to define the industry and all its different permutations and combinations as you know. But we would see the industry broadly growing at about 10%. And if you add back the headwinds that we talked about, which is very specific and very 2014, then we are talking about Global Client growth rate for ourselves in this plan of 9% to 11%, which is kind of industry average in our view. But we would like to get through these investments cycles, to the midteens of Global Clients.

Bryan Keane - *Deutsche Bank - Analyst*

Right. And I think you mentioned 3 points of the headwinds that you outlined. Is it a similar, or do the headwinds actually grow the headwinds outlined for 2014? Does it actually grow more than the 3 points that you indicated for this year?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

No, it's about 3 points in 2014 as well.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. And then just last question on the costs, I guess two parts to this question. Are the costs spread equally over the next three years? And then secondly, is there any one-time investments, one-time costs in there that go away after 2016?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

I'm sure -- the 80/20 rule, 80% of the costs I would say are recurring costs; they wouldn't go away because these are passed around building subject matter experts, etc., etc. They are broadly spread equally with the following big difference -- while the costs are spread equally, its impact on margin is unequaled because as growth comes back through the investments, and as I said we will start seeing growth back to the investments in the 12- to 18-month period and it will accelerate back, the margin dilution changes and it comes back to regular margins.

Bryan Keane - *Deutsche Bank - Analyst*

So we'll see improvement in margins starting in 2015.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Absolutely yes.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. All right. Great. Thanks so much.

Operator

Tim Wojs, Baird.

Tim Wojs - *Robert W. Baird & Co. Inc. - Analyst*

Hey guys. I guess one thing I wanted to look at was you give a metric in the supplement about the five largest clients, excluding GE. And if we look at the growth of those clients relative to prior years, it's decelerated pretty markedly the last three or four quarters. And I know the composition of that metric can change. But could you just talk a little bit about maybe what's happening with, outside of GE, your other larger clients?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Tim, that is so dependent on every single individual client that I will have to go client by client. So here is the way I would think about it. The more penetrated one is with a client and the deeper the penetration with the client, then our growth becomes more and more dependent on the client's business performance and business growth. That's one way to think about it. So, you have a long ramp to growth with the client and once you reach a certain penetration level, then you are really growing at the pace at which the client is growing and the changes that the client is doing.

A lot of the clients where we have complete penetration would be of that nature.

The other thing that I would postulate that there are clients who sometimes sell businesses, split businesses and therefore one client could easily become two clients, in which case they would drop out of that category and become two different contracts or two different clients in a different category. So there's no significant change happening in any of those clients that is material. It's just that every client goes through a lifecycle of its own.

Tim Wojs - *Robert W. Baird & Co. Inc. - Analyst*

Okay. That makes sense. I just wanted to -- it all makes sense. And then I guess just a housekeeping question. Could you give us the revenue for Jawood in 2013?

Mohit Bhatia - *Genpact Ltd - SVP, CFO*

Jawood revenue contributed approximately 2.5% to our growth.

Tim Wojs - *Robert W. Baird & Co. Inc. - Analyst*

Okay, all right. Thank you.

Operator

Rahul Bhangare, William Blair.

Rahul Bhangare - *William Blair & Co. - Analyst*

Hi, thanks. With larger deals and longer cycles and maybe a higher component from IT, would you say that you have less fundamental visibility than you used to have?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Not at all for a couple of reasons. We tend to do very well in large, complex deals. Remember our heritage. Remember what we learned through that journey with that heritage.

We tend to do better in large deals that have a very large global footprint. Our European delivery is 10-plus years old. Our Chinese -- China delivery is 10-plus years old. So the combination of global delivery in the kind of services that we are engaged in, in the verticals that we are engaged in, the capabilities around those services built over many years, we are actually very well positioned in a competitive landscape. There's no question that it's a competitive landscape. But we are better positioned in that competitive landscape, not less positioned. The investment we are doing will further accentuate our ability to bring those solutions to those clients in those large complex deals. And like everyone, we must continue to do that to continue to sharpen our differentiation.

Rahul Bhangare - *William Blair & Co. - Analyst*

Okay, thanks. And then could you just comment on the close rates that you saw in Q4 and maybe other trending in Q1?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

You're talking about close rates on large deals, huh?

Rahul Bhangare - *William Blair & Co. - Analyst*

Correct, and maybe just generally speaking as well.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Generally speaking, close rates are -- I don't think have changed much. Largely close rates continue to be slow. We saw some progress in Quarter 4. Obviously, we are expecting to see some more progress in this quarter. But they continue to progress slower than we would like them to. They continue to go higher up in the organization for buying and decision-making, again, given the intensity of change that some of these clients go through when they make these decisions.

Rahul Bhangare - *William Blair & Co. - Analyst*

Excellent. Mohit, I may have missed this, but can you give some metrics around Smart Decision Services in the quarter in terms of growth?

Mohit Bhatia - *Genpact Ltd - SVP, CFO*

Sure. So our Smart Decision Services for the full year grew just over 5%. Within this our Smart Decision Services of Global Clients grew approximately 8%. That's for the full year.

And for the fourth quarter, the Smart Decision Services were again around the 3-ish% with Global Clients ahead of about 6%. Like Tiger alluded to earlier, the analytics business continues to be flattish, but our Reengineering and Risk and Consulting part of the Smart Decision Services is in fact growing extremely well.

Rahul Bhangare - *William Blair & Co. - Analyst*

All right. Thank you.

Operator

Keith Bachman, Bank of Montreal.

Keith Bachman - *BMO Capital Markets - Analyst*

I wanted to just understand philosophically how you are undertaking or investing in the process side of the business versus just pure technology side of the business and how we should be thinking about that embedded in your guidance over the next 12 to 18 months.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Actually, our investments are not necessarily segregated into process investments separate and technology investments separate. The way we are doing these investments is along if I were to say service lines and solutions that solve big problems or deal with big issues or opportunities for a number of our clients in a number of verticals. So, if the solution we're trying to solve for an insurance client is to reduce frauds in claims, then it will be a combination of fraud claims processing combined with the technology that is needed to process those claims effectively and efficiently, as well as very strong analytical modeling to identify frauds and do predictive modeling on frauds and claims. And bringing that together into the solution are the investments we are doing, which is the people, sometimes the platform, the modeling tool, as well as the modeling capability of the people who can do that, and finally being able to talk about that at a strategic level to the client and then drive that change.

So, our investments are along these key service lines that we have chosen. Some of them, enterprise service lines and Finance & Accounting, Procurement, etc., and a number of those in specific chosen industry verticals service lines.

Keith Bachman - *BMO Capital Markets - Analyst*

I guess then that's fair enough. But I want to understand that because Smart Decision Services sounds like your first foray into a solution value. And I think investors would characterize it as being relatively disappointing over the last few quarters. You just talked about growth, say, in analytics being flattish, and I'm not sure the market -- I'm pretty sure the market isn't flattish in the broader analytics and user community. So, what changes if you're going to go further down the road of Smart Decision Services? It doesn't seem to be gaining traction now. Why would you gain traction as you invest more into similar solutions over the next two years?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

I think the characterization of those two situations is actually very different. In the case of Smart Decision Services, through 2013, there were a specific set of two clients who actually decided to move their work into their own operations because they considered it to be too core to themselves. And a number of the solutions that we had built was standalone solutions. Actually, what we are now building and what we are now beginning to take to customers is bringing together those same Smart Decision Services solutions along with our ability to run, design, and manage the processes that underlie those analytical services, along with some of the technology, tools, and platforms that are needed. Once we are through with the decline of those two clients that we talked about as well as decline in analytics with some of the GE businesses, given some of the cuts in discretionary spend we've been through, we will be back to Global Client midteens growth rate in analytics. In fact, in 2014, Global Clients analytics will grow at midteens in our current plan. So, I don't think our investments and our strategy around analytics has not played out. It's just that a couple of events in 2013 change that number for 2013 and part of 2014.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. All right. Good luck guys.

Operator

Edward Caso, Wells Fargo.

Edward Caso - *Wells Fargo Securities LLC - Analyst*

I was wondering. I'm not sure I heard you correctly. But on your use of cash and cash flow, is buying back stock one of the scenarios?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

The way I would think about that is clearly acquisitions and finding the right acquisitions to continue to go down the path of building the capabilities, doing the investments we talked about, will always be our first avenue of a good use of cash. We obviously will continue to be as disciplined as we have been in terms of identifying those opportunities. In fact, I think one of the things that is interesting in this journey around the four pillars we talked about of our strategy is that we are even more sharply focused around where we would like to do acquisitions to bring in capabilities. Having said that, the fact that we are a cash generating business allows us to think of other things over time. And I think the company and the board will continue to do its evaluation of the right capital allocation and cash allocation as we continue to grow the cash on the balance sheet. I mean that's the way I would think about it.

Edward Caso - *Wells Fargo Securities LLC - Analyst*

I guess my next question is as the compensation metrics that you have applied to top management by the board, are they different for the next year or two than they have been in the last few years?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

I would say the biggest difference would be client-facing teams where we have undertaken -- again I don't have a study, it is part of our strategy exercise and have actually changed for 2014 and beyond 2014 our compensation structure in two ways -- much more leverage and very directly related to growth, and growth related not just of the year but, in our business, growth related to longer-term deals.

Edward Caso - *Wells Fargo Securities LLC - Analyst*

And where does Bain Capital come out in all of this? Are they driving this process? Are they passive? How involved are they in the process? Thanks.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

The process has been driven by the management team and the Leadership team of the company. Obviously, as I said, with the expertise and engagement that we've gotten with large strategy consulting firms, but clearly drawing in on great resources from a significant shareholder such as Bain Capital who obviously has some great resources that helped us through this journey around defining our strategy. But the strategy exercise, completely driven by the management team.

Edward Caso - *Wells Fargo Securities LLC - Analyst*

Great, thank you.

Operator

We will now turn the conference back over to Bharani for closing comments.

Bharani Bobba - *Genpact Ltd - VP IR*

Thank you, everyone, for joining us on the call today. As always, we are available to answer further questions. We look forward to seeing you at our investor day on March 6. Thank you Celia. That concludes the call.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may all disconnect. Have a wonderful day.
