09-Feb-2023

Genpact Ltd. (G)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Welcome to the 2022 Fourth Quarter Genpact Limited Earnings Conference Call. My name is Justin and I will be your conference moderator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference call. As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

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

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

Thank you, Justin. Good afternoon and welcome to Genpact's earnings call to discuss the results for the fourth quarter and full-year ended December 31, 2022. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

Speakers on today's call are Tiger Tyagarajan, our President and CEO, and Mike Weiner, our Chief Financial Officer. Today's agenda will be as follows. Tiger will provide an overview of our results and an update on our strategic initiatives. Mike will then walk you through our financial performance in greater detail and provide our outlook for the full-year 2023. Tiger will then come back with some closing remarks and then we will take your questions. We expect our call to last about an hour.

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

During today's call, you will reference certain non-GAAP financial measures that we believe provide useful information to enhance the understanding of the way management views the operating performance of our business. We include reconciliations of these measures to GAAP in today's earnings release posted to the IR section of our website.

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

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our fourth quarter and year-end 2022 earnings call. We are pleased with our full-year 2022 financial results with revenue growth, adjusted operating income margin, and adjusted diluted earnings per share, all coming in at the high end of our expectations, highlighting the relevance of our Data-Tech-AI services and Digital Operations services for our clients. Transformation is a pervasive theme across most enterprises, with many of them calling out 2023 as a year of efficiency. We're therefore seeing a robust pipeline of continuous flow of Data-Tech-AI and large transformational deals.

In the fourth quarter of 2022, we delivered on a constant currency basis total revenue of $1.103 billion, up 6% year-over-year; Data-Tech-AI services revenue of $495 million, up 5% year-over-year; and Digital Operations services revenue of $608 million, up 7% year-over-year; adjusted operating income margin of 17%, expanding 260 basis points year-over-year and adjusted diluted earnings per share of $0.70, up 30% year-over-year.

For the full-year 2022, on a constant currency basis, we delivered total revenue of $4.37 billion, up 11%; Data-Tech-AI services revenue of $1.96 billion, up 18%; Digital Operations services revenue of $2.41 billion, up 6%; adjusted operating income margin of 16.5%, flat year-over-year; and adjusted diluted earnings per share of $2.74, up 12% year-over-year.

This performance during 2022 reflects the non-discretionary nature of a majority of our services and the full suite of services we provide our clients to drive cost, growth, mitigate risk and improve a variety of such outcomes. Our revenue growth was broad-based across all our industry segments, in particular, financial services and high-tech manufacturing services delivered strong double-digit growth.

Data-Tech-AI services where we design and build solutions to transform our clients' businesses grew 18% on a constant currency basis. This was driven by the ongoing momentum in our emerging services, including supply chain services, sales and commercial services, and risk services that collectively grew 20%-plus during the year. Digital Operations services where we digitally transform and run our clients' operations globally delivered steady results throughout the year, growing 6% on a constant currency basis.

Full-year 2022 bookings were $3.9 billion, up 6% year-over-year. We had a record level of deal inflows up almost 25% from the prior year, including a wave of large deal inflows in the last few months of the year. Win rate held steady at 51% and sole-source deals continue to represent approximately half our bookings. We also won 126 new logos during the year, up 30% year-over-year. These new logos include a number of companies that we believe will become priority accounts for us in the long term. Our average initial contract value with these new logos was up 10% to over $3 million.

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Entering 2023, we are excited by the recent momentum around large deals. Our late-stage pipeline has expanded nicely with a strong line of sight to closures over the next few months across all key industry segments. We are in a unique time in the market and I've seen a set of core themes across our clients in all industries and geographies. First, every enterprise is on a journey to transform their business, revisit their portfolio choices and set their business up for strategic long-term success. The transformation drivers vary from company to company, and include factors such as the desire to modernize their technology stack, supply chain volatility and risk management, the need to leverage real-time data and predictions, China concentration risk, and energy transition.

Second, at the same time, inflation is hurting. And that has led to a dramatic increase in cost being a huge agenda item for everyone. We are seeing cost become a prime motivation for our clients in more than 60% of situations versus 45% just six months back. However, an increasing number of clients are using this moment to not only reduce costs through consolidation, standardization, digitization and global delivery, but also to build out new operating models and deliver efficiency to redeploy towards long-term investment. Even the largest tech companies have declared that 2023 is a year of efficiency. To quote a client, I want to batten down for a recession and tool up for a transformation and do both at the same time.

There's a clear desire to work with fewer strategic partners in technology services. They are revisiting their choices of priority tech partners, and we are being told that we are differentiated in technology because of our domain process and data analytics depth. There is a heightened desire to have us bring our unique approach to building solutions and leveraging cloud-based technology, an approach rich in industry domain, process and data.

There has been a significant increase in spin-offs of businesses getting ready for separation as companies redefine their portfolios. We have seen such opportunities double in the last 12 months. There is an insatiable and rising appetite to leverage data and ensure real-time access, and the arrival of ChatGPT and other technologies in generative AI will only further spur that.

With structurally shrinking workforces in many countries, companies are unable to meet their demand for talent, particularly data, digital and technology skills. As always, we respond to these changing client behaviors in an agile way.

We are continuing to invest in our priority accounts, which represent a portfolio of select clients that are on a significant transformation journey that we believe have great potential to generate above-average company growth. The trust and client intimacy we are building with them across multiple buying centers allows us to drive value for them and growth for us. During 2022, revenue from our priority accounts grew 15% and represents approximately 60% of total revenue.

Next, we are expanding our large deal team to take advantage of the increasing opportunities we see in the market to drive more sole-source multistage engagements, given our positioning as a partner with the essential domain depth and suite of capabilities to be able to transform clients' operations end-to-end.

We continue to deepen our relationships with our partners where we design, implement and support technology and data solutions on AWS, Azure and Google Cloud platforms, specialized data platforms like Snowflake, enterprise applications like SAP and Oracle, cloud workflow technologies like ServiceNow, and specific micro platforms like Kinaxis, BlackLine, o9 and HighRadius in specific domain areas.

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Let me bring these to light with some examples. For a large tech platform provider in the automotive industry, we have been chosen to drive the complete modernization of their tech stack to AWS Cloud while, at the same time, consolidating all of their operations globally. Our domain depth is in the automotive industry, where we understand not just a vehicle, but its repair, maintenance, financing and insurance won us the relationship. For a large global medical technology company, we have been chosen to consolidate all functions, leveraging new technology on the cloud and deliver meaningful cost savings in the first two years that allows them to reinvest into strategic growth initiatives.

For one of the largest tech enterprises in the world, we will be implementing Kinaxis on their cloud platform to deliver better planning for the supply chain for their data centers. The exciting opportunity here is to then take this jointly as a solution, along with the tech partner to a range of other clients. For another large tech enterprise, we won a small engagement in sourcing and procurement operations for their cloud business. Another clear example of how efficiency is the mantra for 2023, even for growth-oriented big tech.

For a global life sciences company, bringing out the industrial domain and functional web to set them up for a spinoff of one of their divisions, this is initially a consulting and advisory relationship that we expect will lead to digital operations. And finally, for a leading provider of healthcare liability insurance, we are modernizing their data management practices, migrating their data infrastructure to the cloud, and ensuring broad availability of their data for business decisioning by their finance underwriting and claims teams.

Our attrition rates improved in the fourth quarter, declining to 31%, which is our lowest level since the second quarter of 2021. Adjusting for involuntary attrition and employees with less than three months of service, our attrition was even lower at 27%. The first five weeks of 2023 continues to show declining trends. We have seen this across the board across all levels, all skills, including data analytics, digital and technology skills and in every part of the globe. This augurs really well for delivering sustained value to our clients.

During the quarter, we welcomed more than 9,000 new team members across the globe and almost 50,000 for the full-year 2022, reflecting Genpact's powerful brand and reputation as an employer of choice, providing many opportunities to learn and advance one's careers across the globe. For the third consecutive year, our global workforce completed more than 10 million training hours, leveraging our Genome online on-demand platform.

Despite the ongoing macro uncertainties, we have a healthy pipeline, which includes several large deals. We believe many of these will close over the next few months. This gives us confidence in our ability to deliver total revenue growth for the full year of 2023 of 6.5% to 8% on a constant currency basis. We also plan to expand our adjusted operating income margin to 16.8%.

With that, let me turn the call over to Mike for a detailed review of our results and our outlook for the year.

Michael Weiner

Chief Financial Officer, Genpact Ltd.

Thank you, Tiger and good afternoon everyone. Today I'll review the fourth quarter results and then discuss highlights of our full-year 2022 performance and provide you with our current outlook for 2023. Beginning with our fourth quarter results, total revenue was $1.103 billion, up 3% year over year or 6% on a constant currency basis. Data-Tech-AI services revenue, which represents 45% of total revenue, increased 2% year-over-year or 5% on a constant currency basis, largely driven by continued growth in our cloud-based data and analytics solutions across our focus areas including supply chain, sales and commercial, and risk services. As a reminder, Data-Tech-AI services revenue grew in the mid-30% range during the fourth quarter of 2021, reflecting a higher level of

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short-cycled revenue. Digital Operations services revenue, which represents 55% of our total revenue, increased 3% year-over-year or 7% on a constant currency basis, primarily due to deal ramps from existing and recent wins.

From a vertical perspective, financial services increased 17% year-over-year, largely due to continued strong demand for our risk management services, leveraging data and analytics. Consumer and healthcare declined 1% year-over-year, largely driven by the impact from lengthening large deal cycles and lower Data-Tech-AI services revenue. Hi-tech and manufacturing increased 7%, primarily driven by sales and commercial, sourcing, procurement, and supply chain engagements with both new and existing clients.

We successfully divested the business that we previously classified as held-for-sale. Given a lower-than-anticipated net realized value, we recorded an $11 million charge during the fourth quarter that is included in the other operating expense line in our P&L. Our adjusted operating income margin expanded 260 basis points year-over-year to 17%, largely due to operating leverage, the positive impact of off-cycle COLA adjustments, and cost-containment initiatives.

As a reminder, our lower-than-normal adjusted operating income margin level in the fourth quarter of 2021 largely resulted from higher investment activity deferred from the first half of the year and notably increases in transaction (sic) [a notable increase in transition] costs related to deal wins and the impact of wage inflation. Our performance in the quarter excludes the negative impact of the business that was held for sale and the related charge I referred to a moment ago.

Gross margin in the quarter was 34.9%, an increase of 40 basis points year-over-year. The expansion was largely due to higher utilization and the benefit of off-cycle pricing adjustments. Investments we made during the fourth quarter in supporting new deal activity led to the 50 basis point sequential decline in gross margin from the third quarter.

SG&A as a percentage of revenue was 21.5%, down 140 basis points year-over-year, largely due to cost containment initiatives and overall G&A leverage. Adjusted EPS was $0.70, up 30% year-over-year from $0.54 in the fourth quarter last year. This $0.16 increase was primarily driven by higher adjusted operating income of $0.13, the impact of lower outstanding shares, $0.02, and higher FX remeasurement gains of $0.02, partially offset by higher net interest expense of $0.01. Our effective tax rate was 27.1%, down from 29.6% last year, primarily due to higher level of discrete benefits in the quarter compared to the same period a year ago.

Now let me provide you with some color around full-year 2022 performance. Total revenue was $4.37 billion, up 9% year-over-year or 11% on a constant currency basis, coming in at the high end of our full-year 2022 outlook and above our 10% long-term revenue target. Data-Tech-AI services revenue, which represents 45% of total revenue, increased 16% year-over-year or 18% on a constant currency basis, largely driven by continued growth in our cloud-based data and analytics solutions across our focus areas including supply chain, sales and commercial, and risk services.

Digital Operations services revenue, which represents 55% of total revenue, increased 3% year-over-year or 6% on a constant currency basis. During the year, we grew the number of client relationships with annual revenue greater than $5 million from 145 to 158. Clients with more than $15 million revenue increased from 59 to 63, and clients with more than $50 million in revenue increased from 12 to 15.

Outcome and consumption-based commercial models now represents 14% of full-year revenue on our path towards 20% by 2026. Adjusted operating income margin came in at the high end of our outlook at 16.5%, despite absorbing the impact of wage inflation and higher attrition. Gross margins were 35.1% compared to 35.6%. The

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50 basis points decline was largely due to elevated attrition during the year, wage inflation, and higher year-over-year travel cost, partially offset by off-cycle COLA adjustment and better utilization.

Our full-year gross margin includes a negative 20 basis point impact related to the restructuring charge for strategic actions we took in the second quarter of 2022. As a percentage of revenue, SG&A remains flat year-over-year at 21.5%, largely due to the absorption of higher investment activity that incurred in the latter part of 2021, offset by overall G&A leverage. Adjusted EPS was $2.74, up 12% year-over-year from $2.45 in 2021. This $0.29 increase was primarily driven by higher adjusted operating income of $0.22, and the impact of lower share count, $0.07, reflecting our capital allocation strategy, and foreign exchange remeasurement gains of $0.01, partially offset by higher taxes of $0.01. Our full-year effective tax rate was 24%, up from 23% (sic) [23.5%] last year, primarily due to lower level of discrete tax benefits taken during 2022 compared to the prior year.

Turning to cash flow and balance sheet, for 2022, we generated cash flow from operations of $444 million, reflecting clients reverting to historical patterns instead of paying us in advance to take advantage of the elevated interest rates, resulting in DSOs expanding to 81 days from 74 days last year. For example, we received payments from a few accounts of approximately $100 million in the early part of January that negatively impacted our year-end DSOs by 2 days. The aging of accounts receivable has remained in line with prior periods, and we have seen no deterioration in credit.

At year-end, our cash and cash equivalents totaled $647 million compared to $899 million at the end of fourth quarter 2021 as we reduced our total debt by almost $230 million and returned capital of more than $300 million to shareholders during the year. During the fourth quarter, we refinanced our bank debt that was set to mature in the second half of 2023. Given the uncertain market environment, we were pleased that our facility carries a similar interest rate spread as our prior borrowings. We ended the year with net-debt-to-EBITDA ratio of 1.2x, in line with our preferred 1 to 2 times range. With the undrawn debt capacity, existing cash balances, we continue to have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy of reinvesting back in our business, pursuing capability-based acquisitions, and returning capital to shareholders. Capital expenditures as a percentage of revenue equated to 1.2% for full-year 2022 compared to 1.3% in 2021.

During the fourth quarter and full year, we returned $55 million and $306 million of capital to shareholders respectively. This includes dividend repayment of $23 million in fourth quarter and $92 million for the full year. We also repurchased 700,000 shares with a total cost of $32 million at a weighted average price of $45.03 during the quarter and 4.8 million shares at a total cost of $214 million at a weighted price of $44.79 for the full year. Our buybacks during 2022 reduced our net share count outstanding by 2.5%. We remain committed to returning capital to shareholders through our quarterly dividend, as well as a regular cadence of share buybacks. We currently anticipate a minimum of 30% of our cash flow from operations to be allocated to share repurchases during 2023.

Our Board of Directors approved an increase of $500 million to the company's existing share repurchase authorization, providing us with a total of $625 million of availability for future stock buybacks. Additionally, our board approved a 10% increase to our dividend to $13.75 per quarter or $0.55 on an annual basis. Our dividend has increased at a compounded growth rate of 15% since we began paying dividends in the first quarter of 2017.

Finally, we will provide you with our full-year 2023 outlook. We expect total revenue to be between $4.64 billion and $4.71 billion, representing a year-over-year growth of 6% to 7.5% and 6.5% to 8% on a constant currency basis. This outlook reflects our expectations of existing client revenue and the risk weighting of bookings we expect to win during the year. This all is against the backdrop of the current macroeconomic environment. We currently expect our full-year 2023 adjusted operating income margin to be approximately 16.8%, along with our

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strategy to drive margin expansion at a faster pace than we've done historically. This 30 basis point improvement is primarily driven by the continued scaling of data tech and AI services and operating leverage.

Our 2023 effective tax rate is expected to be approximately 24% to 25% compared to 24% we reported in full-year 2022. Given the outlook we just provided, we are estimating adjusted earnings per share for the full-year 2023 to be between $2.92 and $2.99. This represents year-over-year growth of 7% to 9% and includes the positive impact related to lower share count of $0.02, offset by the impact of higher expected taxes of $0.02 and the negative year-over-year FX impacts of $0.06 per share due to the $15 million of remeasurement gains recorded last year.

We're forecasting cash flow from operations of approximately $500 million, primarily driven by the expected growth in our adjusted operating income during 2023.

Capital expenditures as a percentage of total revenue is expected to be approximately 1.5% to 2% in 2023, as we expect to invest in new operating centers related to our hybrid delivery model and continued investment in digital solutions.

Lastly, let me provide you with some perspective on how we see revenue growth progressing through the year. With the expected ramp in recent new deal wins, we currently expect the seasonal first quarter sequential revenue decline to be less than typical. Therefore, we expect to see low-single digit quarter-over-quarter growth throughout the remainder of the year.

From a year-over-year perspective, we expect growth during the second half of the year to be at the higher end of first half of the year related to ramp of new deal wins and easier comparisons year-over-year. We currently expect our adjusted operating income margin to follow our typical pattern of being lower in the first quarter and expanding through the year.

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

N. V. Tyagarajan

President, Chief Executive Officer & Director, Genpact Ltd.

Thank you, Mike. We are pleased with our 2022 results. As enterprises respond strategically to this macro environment, we are seeing the benefit of that with increased conversations, inflows and pipeline. There is no debate that data has become the most valuable asset for all businesses. We are seeing this with the increased demand in our focused service areas of supply chain, sales and commercial, and risk, all deeply connected to data and analytics.

Our intelligence platform, Genpact Enterprise360, enables clients to harness the power of data-driven insights derived from running client operations and using our proprietary metrics and benchmarks. This powerful tool empowers clients to take action themselves or through our work with them to deliver outcomes today and discover transformation opportunities for the future.

We continue to be recognized for our ESG initiatives, with Genpact being included in the 2023 Bloomberg Gender-Equality Index for the second year in a row. We were also named as one of the best performing companies in ESG by Sustainalytics. In summary, we have a growing top line primarily made up of sticky long-term global relationships, with the inherent operating leverage to help drive long-term margin expansion. We also have the ability to take advantage of opportunities in our large and growing under-penetrated market that is getting unlocked by our Data-Tech-AI and Digital Operations services. In fact, 70% of accounts that start out as Data-Tech-AI engagements end up expanding into larger Data-Tech-AI or Digital Operations relationships. The

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126 new logos we signed in 2022 are the seeds from which future priority accounts will be born. Our 2023 outlook is very much aligned with our long-term growth and profitability goals.

Before I close my prepared remarks, our thoughts are with those that are affected by the devastating earthquake in Turkey, including the approximately 50 Genpact employees who are there and their families.

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

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Puneet Jain from JPMorgan. Your line is now open.

Puneet Jain Q
Analyst, JPMorgan Securities LLC

Hey. Thanks for taking my question. It's great to see, like, that you're seeing like strong momentum for large deal? Could you also talk about demand environment you're seeing for short-term project-based work, and whether the annual guidance assume for that?

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

Puneet, overall we are seeing good demand for both short-term specific engagements, because everyone as I said is on a journey to reevaluate their portfolio and protect their strategic journey around digital transformations and changing their business. And then, of course, you already and I already referred to the large deal environment being good. The one thing I would call out is towards the end of the third quarter of last year and the fourth quarter and continuing into 2023, we saw and we expect front end digital marketing and experience-driven short-term consulting and advisory kind of engagement slow down. We saw that in the fourth quarter. We expect that to continue to be slower through the year.

Puneet Jain Q
Analyst, JPMorgan Securities LLC

Got it. And are you also seeing higher mix of employee rebadging deals as your clients look to cost? And what's the typical profile of such deals that you would pursue?

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

So, Puneet, I don't know whether I would say from a longer term, if you take a bigger timescale of three years, I wouldn't necessarily say that there is a material difference in more rebadge deals. Having said that, we are going to see probably a little bit more of that in our profile for 2023, because, as we said, we didn't close too many large

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deals in the fourth quarter and we have a strong pipeline that we are working on now. As we close those, some of them will have a rebadge component. So, if you take a longer-term trajectory, not that different. If you just shorten that to a couple of quarters, you will see a bump in that.

There is no question that as companies reevaluate their own long-term trajectory, as they reevaluate how do they get cost efficiency in order to reinvest back in those strategic initiatives, captive centers, existing global business service operations absolutely come into play as part of the overall transaction, and we've become pretty much one of the leading global experts at doing that. So we feel very good every time that happens.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you.

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

A

Thank you.

Operator: And thank you. And one moment for our next question. And our next question comes from Keith Bachman from BMO. Your line is now open.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Yes. Thank you. Tiger, my first one for you is similar to the previous question, but how do you think about the growth algorithm for CY 2023 and really looking at new logos versus existing customers? And I know you said you signed up 126 new logos this year. How do you think about that in CY 2023? And in particular on the existing customers, are you seeing more pressure on the existing business? I'm really wondering on the difference between, say, gross retention and net retention. In other words, are you finding the renewals more challenging in the economic cycle? Are you seeing lower mix or less volumes? But just any – love to hear you comment a little bit more on the growth algorithm.

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

A

Yeah. So the growth algorithm is a great phrase. I'd start by – let's talk about renewals. Renewals are always contingent completely on what's the value we have been driving for our clients over, let's say, in a five-year relationship we've had, we start those conversations with our clients well before any renewal comes up, let's say 18 months, and our objective and our clients' objective and all those conversations when we talk about renewal is incremental, the next slug of value creation, and often that leads to expansion of scope, it leads to more digital intervention, it leads to technology stack getting added, more movement to the cloud, more data analytics and prediction engines being built. So, we see the renewal process and our focus on renewals over the last 18 months to be really strong and having paid off, and this economic environment, we see that actually as a big benefit because clients are looking for fast payback. So that's on renewals.

On new deals, you talked about – your other question was – just remind me, Keith.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

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New logos, how do you see new logos and more big deals which may be – which could be different?

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

A

Yeah. So, Keith, if you look at our new logo history, I talked about 126 for 2022, I said 30% higher than the prior year. So if you look at again a three-, four-year trajectory, it's been in the ballpark of 80, 85 new logos to this 126, which is clearly a high. We don't see that changing in 2023, because everything that I described about the environment, I would say, applies to every enterprise in every part of the globe in every industry verticals. It's a question of which of those are they picking up, are they picking up a journey on technology stack? Are they picking up journey on consolidating tech partners? Are they picking up a journey on moving apps to the cloud? Are they picking up a journey on extracting costs by consolidating functions in order to reinvest back in growth initiatives, which we know is very important these days given the environment around where growth is not easy?

So we see that growth algorithm being not that different between existing clients and new clients. Our focus on priority clients continues, and our focus on those 126 new logos just to pick them would be to sow the seeds of future priority clients, let's say a couple of years from now, and that's the business model longer-term if you play this out over the 5-, 10-year horizon.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Okay. All right. My follow-up question then is similar. And, Tiger, are you seeing more risk of competition from technology? And what I mean by that, if you focus on, say, AR collection, there's actually more software companies springing up to try to enhance doing AR collections in an automated fashion and/or if you want to just go to a lot of the AI announcements that occurred in the last couple of weeks, how do you think about the maturation or advent of new technologies potentially offering new opportunities or placing incremental risk on some of your practices?

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

A

It's a very simple answer, Keith, because we've been on this journey now for about seven to eight years of leveraging new technologies. And we've always said that our role in that is to find the right technology, incorporate it into this end-to-end service that we offer our clients, or bring it to our clients so that they can incorporate it into their operations because they don't give us the digital operations to run.

In both cases, our deep belief has always been that technology adds value only if you know how to use it, if you know how to implement it, if you understand the industry, if you understand the domain and if you understand the data. What's happening around us and our clients is that there is a real belief in our client base that that's exactly what needs to be done, which is why we are beginning to see real traction in technology, real traction in incorporating technology with us as a partner.

Our relationship with some of the ARs, the examples you gave is, HighRadius is a great example of that, and it's not new. It's more than four years old that we've been working with HighRadius and incorporating it into our solution if that's what is the right thing for the client. So we see these technologies coming in as a real opportunity because the client has to find a way to leverage them. They need us and people like us to help them leverage them. It's not a threat, it's actually an opportunity.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

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All right. Perfect. Thank you, Tiger.

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

A

Thank you, Keith.

Operator: And thank you. And one moment for our next question. And our next question comes from Dave Koning from Robert W. Baird. Your line is now open.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hey, guys. Thank you. And maybe to piggyback a little on Keith's question about new technologies. I know you've been in the press, even talking about ChatGPT and stuff. And as you said, you've done a nice job integrating technology into your processes and that's actually an accelerator of growth. Do you have any examples yet of clients coming to you saying, hey, on this process, could we try to integrate ChatGPT? And have you seen either examples of it being a benefit or do you see any examples where it could be a headwind?

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

A

Great question there. I just think it's too early. Do you expect a full integration? So the answer is no. I don't think our client would expect a full integration. No, and we wouldn't expect that to happen. Having said that, it's very clear that there's real opportunity to actually bring technologies like that, not just ChatGPT, but other generative AI technologies, into a number of our operations and services. But to do that, the first step that has to happen is that particular generative AI must get steeped in the data and the domain that it needs to address. It's not generic, it's specific.

So there's a whole back-end training that, that ChatGPT needs to undergo, and actually it's going to create a whole slew of data operations jobs to train the ChatGPT on specific domains. And who best positioned to do that? People like us, because you need the specificity of what does an insurance claim for an automotive in the State of Michigan look like? And that needs to be part of ChatGPT's data infrastructure for it to be able to answer the question that is needed to be answered in order to incorporate ChatGPT into a claims process. So we see a real opportunity. We just kicked off a major hackathon across the company of 90,000 people participating to figure out use cases and pilots and ideas on where it can get incorporated.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

All right. Thank you for that. And then maybe a second question and my follow-up, I would imagine the Data-Tech-AI business, you expect that to grow faster than the Digital Operations business this year and probably have more of a hockey stick acceleration through the year whereas the Digital Ops business will be more stable. Is that a fair way to think about it through the year?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Absolutely. So when you think about the business and the cadence of the earning or revenue pattern associated with it, that low-single digit growth rate that we have in the Digital Operations be much more consistent than the Data-Tech-AI business.

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David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. All right. Great. Well, hey, thanks, guys.

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

A

Thank you, Dave.

Operator: And thank you. And one moment for our next question. And our next question comes from Jesse Wilson from William Blair. Your line is now open.

Jesse Wilson
Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon. This is Jessie on for Maggie. I wanted to follow up on Puneet's question earlier. So what is Genpact's exposure to those types of digital marketing experience, short-term consulting engagements you mentioned earlier?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So, our exposure, and I think that we have a growing and emerging business there. We don't really talk about it in the notional size of it. It's not a tremendous percentage of our total revenue in the business. But kind of building on what the commentators said earlier, we've seen the revenue performance of that almost indexed with incredibly large marketers in this general macroeconomic environment as you've seen. So, as general demand has pulled back from that, our revenue goes accordingly to it. It's very well indexed to it, but again, not a huge piece of the business. But I don't think it's going anywhere. I think it's going to come back particularly relatively strong in the second half of the year.

Jesse Wilson
Analyst, William Blair & Co. LLC

Q

Got it. That makes sense to me. And then, Mike, a follow-up question for you on margins. Obviously, guidance is for expansion this year. So how are you thinking about the medium term? Should we be thinking about kind of steady state or the potential for a normal cadence going forward?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

No. I mean, if you think about how we talked about our margin at our June Investor Day, right, when we looked at it and looked at the drivers of margin, particularly the increased scalability of our data tech and AI business becoming more and more meaningful to the company, right, as well as a number of other factors, our goal has been to grow that margin at a greater clip than historically. So I think we're showing now within our guidance, we think that's going to continue to drive it through our 2026 strategy, if you think about it from that perspective. Is it going to be 30 basis points per annum? Don't know, we'll see how it goes on an annual basis.

Jesse Wilson
Analyst, William Blair & Co. LLC

Q

Okay. That's helpful. I appreciate it.

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

A

Thanks, Jesse.

Operator: And thank you. And one moment for our next question. And our next question comes from Bryan Bergin from Cowen & Company. Your line is now open.

Bryan C. Bergin
Analyst, Cowen Inc.

Q

Hi, guys. Good afternoon. Thank you. What is it that...

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

A

Hi, Bryan.

Bryan C. Bergin
Analyst, Cowen Inc.

Q

...demand – hey. What is that demand based on client location? Are you seeing any different activity in the US versus Europe? Is that really any different behavior you're seeing based on client location right now?

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

A

Actually, no, Bryan, we are not. It is actually interesting. You know, even in my prepared remarks, I talked about the fact that a number of the themes that I called out seem to be pretty global themes cutting across the US, Canada, Europe, as well as, global companies headquartered in Asia, so that doesn't seem to be that distinctive a strand that I can pull out and say this is different in this geography.

Bryan C. Bergin
Analyst, Cowen Inc.

Q

Okay. And then a follow up on margin, so just wanted to dig into the 30 basis points of expansion for this year. How do you anticipate the attribution between potential gross margin improvement in 2023 versus SG&A leverage? And I asked because I'm hearing the optimism about large deal pipeline, so I'm not sure if investments there could potentially work against you in gross margin initially as things like that ramp.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. You got it exactly right. So, disproportionately as large deal ramp-ups happen, we'll have investments on them early part of the cycle. Remember, our revenue and expense cadence is in line perfectly, right. So that those investments early on which will dilute our gross margins as we grow, we will get the SG&A leveraged and that's much more linear. That's 100% correct way to think about it.

Bryan C. Bergin
Analyst, Cowen Inc.

Q

Thank you.

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Operator: And thank you.

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

A

Thank you.

Operator: We'll move on with our next question. And our next question comes from Mayank Tandon from Needham and Company. Your line is now open.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Thank you. Good evening. Tiger, I just wanted to get some thoughts on the sales force. Where are you today in terms of the head count? And just given your optimism on demand, what are your expectations in terms of ramping up the sales force to hit your revenue growth targets?

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

A

Mayank, it's a great question. And actually, it's very timely because we just finished a good assessment of our entire sales force, as you would expect any good enterprise to do towards the end of the year and beginning of the year. We think we have really good coverage, size, and scale of the sales force across our various industry verticals. We also are very nimble at moving that sales force from where we see demand to where we see less demand. A great example of that was about 18, 24 months back where we reallocated sales force literally in two weeks into the semiconductor space and got the big benefit of that as the world and the semiconductor space went through supply chain challenges. So in terms of total these numbers, I think we are well positioned.

What I would say is given the nature of the type of services, including technology intensity of those services, the technology partnerships that we talked about and incorporating those into our services, some of the people in those client situations, we are changing around and we continue to do that. And I expect that to continue to happen as we go through the year. And, of course, we have a number of training programs and immersion programs that get a number of the people ready on the new technologies, on the different partnerships, on the different solutions, which has always been one of our strengths.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

That's great to hear. Then just as a quick follow-up, I wanted to ask you about your exposure to the large tech companies that are announcing layoffs. Does that have any implications for your Data-Tech-AI revenue? And just in general, do you see this as a positive where they might rely more on you for digital investments or do you think it might actually be working against you in the short-term, any exposure there and implications of that?

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

A

Yeah. Mayank, great question actually. It's a tale of two cities. It has always been, no surprise, a fast-growing sector and industry, and therefore, a fast-growing segment for us for many years. Having said that, there are still many, many enterprises there that are just about waking up – I guess waking up is the right word to use, to 2023 being a year of efficiency and productivity. That language is new for probably the entire sector. That language is throwing up a bunch of opportunity for us. Having said that, the reason I called it a tale of two cities is that there

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are a few situations where we would have a very high intensity in terms of a relationship where we do a lot of digital marketing support, sales support, and obviously those undergo changes, that time may shrink with one or two of the players. In the net, it's actually a benefit for us. And actually one of the things we have done over the last six months is, again, back to the sales force conversation, realign some resources into that space, and we are getting the benefit of that.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Great. Thank you so much for taking my questions. Congrats on the quarter.

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

A

Thank you, Mayank.

Operator: And thank you. [Operator Instructions] And our next question comes from Surinder Thind from Jefferies. Your line is now open.

Surinder Thind
Analyst, Jefferies LLC

Q

Hi, Tiger. I guess for my first question, maybe if you can provide some color on what the timeline for winning new deals looks like in light of the comment around 2023 being a year of urgency around cost initiatives. I mean, how much are you mining conversations at this point that you started three months ago, six months ago, nine months ago? And...

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

A

[indiscernible] (50:40)...

Surinder Thind
Analyst, Jefferies LLC

Q

...and I guess if you were to start new conversations, what is the urgency for those conversations of those deals to be transacted, especially the larger deals?

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

A

Surinder, it's a great question. A number of the conversations that are in late stages now 6, 9, in some cases, 12 months ago, and have progressed to the point where we believe they're getting closer and closer. The issue is less about urgency from the client. It's more about the complexity of some of these larger deals.

I talked about multifunction. I talked about technology stack. I talked about – in answer to some other question. I talked about, in some cases, not all of them, rebadging. That makes the deal large. It makes the deal complex. It makes many more people from the client side having to be involved in the decision. And, of course, in the meanwhile, they have had to deal with, depending on the industry, regulations to supply chain to China, to Ukraine, to energy and inflation. So I would say the good news is every one of those conversations have continued to make progress. As we get later and later into the state of the pipeline, you get more and more confident upon designing it. The more complex it is, the longer it takes and that's what we have always planned

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for in this kind of an environment. And it's actually good, because you're circling the wagon and then landing the plane in what is obviously a very complex journey.

The other side of the house, which is Data-Tech-AI, tends to have faster decision cycles. Those decision cycles haven't expanded. They have continued to be at the same speed they were, because payback is important. And as long as we go in with the right solution that is relevant for the client at that point in time, in a variety of buying sentiment and a variety of services, we had bull's eye.

So again, it's a question of balancing both. And the last thing I would say is I talked about this toward the end of my prepared remarks, every Data-Tech-AI engagement, when we look back over three to four years, ends up being subsequent more Data-Tech-AI engagements and Digital Operations engagements to the tune of 70-odd percent. So which means when you sign a 100-plus new logos and let's say all of them are Data-Tech-AI engagements, then rest assured that 70 of them will have follow-on Data-Tech-AI and Digital Operations over the next four years, which is the beauty of our business.

Surinder Thind
Analyst, Jefferies LLC

Q

Got it. And then as a follow-up, in terms of the complexity of the projects that you're taking on at this stage, any color on how maybe the projects are being oriented? And what I mean by that is there's a narrative out there that clients are looking for higher or quicker ROI on their investments. So does that change the strategy or the road map for implementation for you guys that whether projects get chopped up a bit more or whether you do certain, I'll call it, delivery projects out of order just to get the benefit to the client? And if that impacts, I guess, what I would call revenue timelines versus what a normal road map might look like, a norma...?

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

A

Yeah, Surinder, actually again a great question, and we talked about it I think probably in both the prior earnings calls, I think both quarter two and quarter three earnings calls. Larger deals and complex deals, in some cases, not in all cases, do get broken up into a couple of three phases. And the idea there is exactly what you said, which is can we get first [indiscernible] (54:33) the low-hanging fruit, get the payback, and generate the investment dollars for the second and the third?

Having said that, there are some clients who prefer not to break them up and take bigger swings. They are okay spending a little longer time in order to actually get everyone aligned, and then go for the whole at one shot, often including rebadging, because in a rebadging exercise, you cannot break that up in a particular operation into pieces because doesn't work. So there are different colors in the way I would answer the question. There's no one standard size that fits everyone. I think we've seen all of the above. And our ability to adjust and flex and be agile to create the right solution is what has always won us the day.

Surinder Thind
Analyst, Jefferies LLC

Q

Got it. And I guess just a clarification on that, Tiger. Does that change the revenue ramps, or is it just different ways to get to the same end point?

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

A

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Yeah. I don't think it changes the revenue ramps. Obviously the devil is in the details. I think Mike said that on – when we do Digital Operations and it's got rebadge, then it would require investments upfront, and larger complex deals require little bit more investment, so that changes the margin profile on the gross margin side. And as it relates to rebadge deal versus a slow ramp, a slow ramp is a slower revenue ramp where the rebadge deal, you'll get a bump in the revenue ramp in the beginning. So we have a good mix of all of the above. And as I've said, it's not that different from the past. So therefore I wouldn't necessarily call out any difference in revenue ramp on account of that.

Surinder Thind
Analyst, Jefferies LLC

Q

Thank you.

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

A

Thanks, Surinder.

Operator: And thank you. And I am showing no further questions. I would now like to turn the call back over to Roger Sachs for closing remarks.

Roger Sachs
Vice President-Investor Relations, Genpact Ltd.

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

Operator: This concludes today's conference call. Thank you for participating. You may disconnect.

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