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Q2 2020 Genpact Ltd Earnings Call

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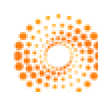

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the 2020 Second Quarter Genpact Limited Earnings Conference Call. My name is Victor, and I'll be your conference moderator for today. (Operator Instructions) As a reminder, this call is being recorded for replay purposes. The replay of 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 ***Genpact Limited - Head of IR***

Thank you, Victor and good afternoon, everybody and welcome to Genpact's Second Quarter Earnings Call to discuss our results for the quarter ended June 30, 2020. We hope you've had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

Speakers on today's call are Tiger Tyagarajan, our President and CEO and Ed Fitzpatrick, our Chief Financial Officer. Today's agenda will be as follows. Tiger will provide an overview of our results and update you on our strategic initiatives. Ed will then walk you through our financial performance for the quarter, as well as provide our new outlook for 2020. Tiger will then come back for some closing comments and then we will take your questions. We expect the call to last about an hour. Some of the matters we will discuss in today's call are forward looking. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties are set forth in our press release. In addition, during our call today, we will refer to certain non-GAAP financial measures that we believe provide additional information to enhance your understanding about the way management views the operating performance of our business. You can find a reconciliation of those measures to GAAP in today's earning release posted to the IR section of our website.

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

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

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our 2020 Second Quarter Earnings Call. Our second quarter results were much stronger than expected in the light of the unprecedented environment the world is facing.

Our performance was driven by incredibly strong execution by our teams on many fronts, as well as the resilience of our business model and the strategic choices we have made over many years. The 4 biggest drivers of these results are: first, reaching 99%-plus work enablement for our global daily routines across

both intelligence operations and transformation services; second, continuing to win new client relationships in both intelligence operations and transformation services through global lockdowns; third, rapidly bringing new solutions to market, leveraging both existing and new capabilities as we help our clients pivot their business models through our accelerated digital transformation; and fourth, swiftly and decisively optimizing our operating and SG&A cost base, while continuing to invest in new areas relevant for our clients in the world of the future.

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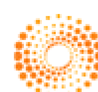

The amazing dedication of our more than 96,000-person global team, as we transition to remote virtual work and the continued high-quality delivery of services to our clients, makes me very proud and have strengthened our trusted adviser position with Boards and C suites.

Specifically during the second quarter, total revenue was $900 million, up 3% on a constant currency basis. Global Client revenue grew 4% on a constant currency basis. We also delivered adjusted operating income margin of 16.2%, up 80 basis points year-over-year, and adjusted diluted earnings per share of $0.52, up 6% year-over-year.

The first half of this year has more than amply demonstrated the strength and resilience of our strategic choices and industry verticals and a predominantly nondiscretionary nature of the solutions and services we provide for our clients.

Our exposure to the hardest hit industries is limited. In addition, a substantial portion of our business is annuity-based, even in our Transformation Services business. Our client-facing relationship teams and our Transformation Services teams, working in a completely virtual environment, have been able to take to market several digital and cloud-enabled solutions that we have been deploying over the last couple of years. This has led to continued new deal inflows, a buildup of our pipeline, an all-time high and new local wins. The consumer goods retail, insurance and high-tech verticals led the way with double-digit growth.

Anticipated pressure in our banking and capital markets vertical eased, as we secured additional client approvals through the quarter to enable work-from-home for processes managing highly sensitive customer information.

Transformation Services that includes consulting, digital, analytics and the Rightpoint Experience business grew in the mid-teens, demonstrating the increased importance of digital transformation to our clients in these times. We also brought solutions to our clients for cash and working capital optimization, supply chain redesign, reducing payment fraud in banking, implementing cloud-based automation and insurance underwriting, among many others, all in a rapid, agile fashion. Transformation Services now accounts for approximately 30% of our Global Client revenue.

At the same time, our CEO and C-suite discussions have gone up almost 5 times, allowing us to understand their strategic competitors in these times and create new sole-source opportunities, both with existing relationships and new logos. The highly collaborative way we transitioned to work from home and the continued delivery of our service-level metrics, productivity and continuous innovation, have given us a stronger seat at the table in many client existing relationships.

We see 5 big trends that are here to stay for our clients across industries. First, a significant shift from off-line to online; second, virtualization of all technology services and solution delivery; third, an accelerated consumption of cloud-based services and solutions; fourth, an exponential growth in real-time predictive analytics; and fifth, all the above, with a human center design of process and collaboration experience.

These trends play well to our focus over the last few years on partnering with clients on their digital transformation journeys. These transformations have seen a dramatic compression from what typically used to be a 5-year horizon to 18-month horizons.

A key area of increased investment is our Cloud service Offerings. We believe successful digital transformations, leveraging cloud-based solutions require 3 competencies that we are investing in: deep domain knowledge to drive the functional design and configuration of new business architecture; second, Transformation Services that help discover, plan, change, manage and programmatically drive cloud projects across all 4 assets in the company, people, process, data and technology; and finally, the ability to bring together the building blocks of services on a cloud backbone in an agile way.

We are partnering with top cloud providers to bring these cloud-based solutions in all our high priority areas, such as financial accounting, supply chain management, banking operations and insurance operations, to name a few.

For example, for a large industrial client, we are reimagining their cash collections process to reduce errors in payments and improve

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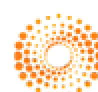

regulatory compliance, by replatforming their collections application to Amazon web services in order to drive improved cash flows.

Our second area of heightened focus on investment is digital commerce, where we are working with clients in both the B2B and B2C markets. As the world shifts from off-line to online accelerates, our clients need to reimagine their business models by redesigning their core operating processes as well as front end design and experience. In the world of digital commerce, seamless flow of data, payments and products are vital to deliver great customer experience.

We are uniquely positioned to help them connect that reimagined front end, with a redesigned supply chain management, order management and end-to-end finance processes. This gives us a differentiated advantage to help clients succeed in their pivot to online.

For example, for a leading CPG company, that is dramatically scaling its digital commerce business, we are redesigning its entire middle and back-office stack and processes, and connecting it to new front-end platforms. We are leveraging AI and predictive insights to reimagine supply chain operations, trade promotions and cash collections to reduce leakage and improve user experience. All of this has led to an expanding pipeline, including many large deals. The pace of progress through various stages of the pipeline for many of these large deals has become slower. But overall, aging remains in line with historical trends, and we are seeing increased deal activity and inflows.

We signed several new deals in the second quarter, and are gaining share with both new and existing clients. We expanded our long-standing partnership with Walgreens Boots Alliance, who selected us as a long-term partner to help improve its finance capabilities, costs and controls. Leveraging our deep domain process expertise in retail and health care as well as AI, automation and analytics solutions powered by Genpact Cora, our digital business platform, we will work together to standardize finance processes, provide faster, smarter access to data and unlock savings to drive innovation through Walgreens Boots Alliance and help drive improved business outcomes.

We were also selected by a global bank to deliver marketing operations and campaign management for our -- with our data and analytics capabilities. Additionally, we are supporting a large-scale up in collections across multiple geographies for that plant. We now have with this bank, a deep and diverse relationship with solutions spanning customer service, collections, core operations, credit and risk, data quality and governance, lending and marketing operations.

We believe speed and agility are key drivers of success that enable us to quickly respond to changes in the marketplace and bring innovative solutions to our clients. This allowed our teams to successfully transition to a primarily work-from-home model, update our smart enterprise process SEP frameworks with new protocols to run services virtually, and provide clients with detailed playbooks on how to adjust their processes for the work-from-home and (inaudible).

It also enabled us to develop several new solutions over the last few months, contextualized to our chosen industries and focused on specific outcomes for our clients. Let me share a few examples. For many of our clients -- are forecasting as a service solution with AI and machine learning, leverages nontraditional client data and other external data sets to forecast key business metrics such as revenue, cash and inventory in a world where traditional forecasting methods, based solely on historical trends, are no longer reliable. For a large industrial manufacturing company, using an AI and machine learning-aided buying process, and a cloud-based automated solution for procurement to improve user experience, increase visibility and drive spend reduction. For clients across multiple industries, leveraging AI and machine learning to detect duplicate and fraudulent claims in areas with high volumes and limited visibility. The strength of these solutions fueled our mid-teen growth in Transformation Services, even in these times. These highly focused engagements often set the stage for future long-term annuity engagements.

We believe in this virtualized world, a work-from-anywhere model that offers the flexible mix of home and office delivery will become the norm. Our service delivery models will include onshore, nearshore, offshore and work-from-home based on client processes, regulatory constraints and employee preferences. This provides unconstrained access to talent pools across the globe, fortifies business resilience and continuity and can improve both employee and customer experience. We are already piloting a permanent work-from-home and work-from-anywhere model in select geographies, with plans to potentially leverage this globally.

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Throughout the last several months, our proprietary platform, Talent Match, has allowed us to identify talent available for redeployment from one part of our business to another as the needs of our clients change. Combined with our reskilling platform, Genome, this bolsters our ability to scale the work-from-anywhere model and improves our employee utilization globally. We have also adjusted our cost base for the lower growth expectations for this year, by taking actions to further improve our utilization levels and optimize our real estate footprint, providing us with the flexibility to balance our short-term needs, with the ability to invest in long-term growth opportunities.

The timing of a large-scale return to office remains unknown, given the various epidemic stages of COVID-19 across the geographies we operate in. With the health, safety and overall benefit of our global workforce as a top priority, we are prepared to continue to deliver services for our clients and innovate for them in a predominantly work-from-home model. Any return to office will be implemented in a slow and deliberate manner, with social distancing, temperature screening and other protocols in place.

The essential nature of the services we deliver for our clients play a key role in global commerce and positions us well to handle the high levels of uncertainty in the macro environment. Clients want a strategic partner with a broad delivery -- global delivery footprint to diversify their operations, and help them undertake an accelerated digital transformation journey that allows their business model to adjust to the new normal.

What the last several months have shown us is that our deep domain depth and process expertise, as well as our investments in digital transformation services, helped us maintain a strong competitive advantage. All of this would not be possible without the disciplined efforts of our leadership teams that constantly move with speed and agility, pivot to the new, and drive our values and culture deep into the organization.

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

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

Thank you, Tiger, and good afternoon, everyone. Today, I'll review our second quarter results as well as provide our current full year financial outlook for 2020.

Beginning with our second quarter results. Total revenue for the second quarter was $900 million, up 2% year-over-year or 3% on a constant currency basis, led by better-than-expected performance in both our Global Client and GE businesses. Global Client revenue, which represented 87% of total revenue, increased 3% year-over-year or 4% on a constant currency basis, ahead of our expectations. Performance was driven by improved revenue coverage related to our transition to a remote working model and stronger-than-anticipated client demand for Transformation Services.

As Tiger mentioned earlier, overall revenue coverage improved as we received additional approvals in our Banking and Capital Markets business to work from home, and we were able to allow certain employees around the globe, to return to the office using a disciplined and measured approach.

During the quarter, we continued to expand the size of our global client relationships. For the 12-month period ended June 30, 2020, we grew the number of global client relationships with annual revenues to over $5 million from $121 million to $132 million. This included clients with more than $50 million in annual revenue, growing from $8 million to $11 million.

GE revenue declined 2% year-over-year. Adjusted operating income margin was 16.2% compared to 15.4% during the same period last year, largely driven by better-than-expected revenue growth, coupled with the accelerated cost containment initiatives we drove during the quarter. The cost containment initiatives included lower discretionary spending, targeted reductions in Transformation Services headcount, which improved utilization levels and reduced SG&A headcount and related spending, which is now more aligned with our new revenue level expectations. Lower travel and favorable foreign exchange also contributed to the improved AOI margins year-over-year.

As Tiger referenced in his prepared remarks, with the uncertainty of the impact of COVID-19 during the quarter, we took actions to reduce our run rate cost base. During the second quarter, we recorded a $22 million restructuring charge, representing $11 million of severance

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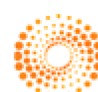

costs related to workforce reductions to manage utilization and streamline corporate expenses as well as an $11 million charge including other operating expenses related to certain leased properties we no longer plan to occupy. We expect savings from the severance actions to cover the severance cost within the third quarter. These restructuring charges are excluded from our second quarter adjusted operating income.

Also included in other operating expenses is an $8 million impairment of certain digital assets that we no longer plan to leverage as we continue to reallocate our resources to focus on the most relevant and impactful digital solutions for our clients. These costs are included in our adjusted operating income.

Gross margin for the second quarter was 34%. Excluding the relevant restructuring costs I mentioned a moment ago, gross margin for the quarter would have been slightly above the 34.5% level reported during the first quarter of 2020. The 34% includes the approximately 100-basis-point impact with certain clients not permitting work-from-home during the quarter. As such, we expect gross margins to improve as we progress throughout the balance of 2020.

As a percentage of revenue, SG&A expenses declined 160 basis points year-on-year, driven by COVID-related cost containment initiatives and lower travel costs that we discussed earlier. SG&A, excluding the restructuring charges we discussed earlier, declined by 220 basis points.

Adjusted EPS was $0.52, up 6% year-over-year, compared to $0.49 in 2019. This $0.03 increase was primarily driven by higher operating income of $0.04, partially offset by higher interest expense of $0.01. Our effective tax rate during the quarter was 21.5% compared to 22.4% last year, largely driven by a change in jurisdictional mix of income.

Turning to our balance sheet and cash flows. During the quarter, we returned $19 million of capital to shareholders related to our quarterly dividend of $0.10 per share, which is up 15% compared to last year. While we have approximately $229 million of authorized capacity available under our current share repurchase program, we are proceeding conservatively on our share repurchases until we have better visibility on the impact of COVID-19.

Cash and cash equivalents totaled $867 million compared to $379 million at the end of the second quarter of 2019, and included $330 million related to the drawdown of our bank facility we made early in the second quarter.

Our net debt-to-EBITDA ratio for the last 4 rolling quarters improved to 1.63x compared to 1.85x at the end of the first quarter. Our days sales outstanding during the quarter improved sequentially to 87 days compared to 89 days during the first quarter. Given the current environment, we will continue to closely monitor the aging of our accounts receivable, which has remained relatively stable through the end of July.

During the second quarter, we generated $192 million of cash from operations compared to $126 million during the same period last year. The increase was driven by higher operating income and relatively lower working capital investment compared with last year. Given our strength in liquidity and the recent improvement to debt market conditions, we will likely look to reduce a portion of the balance outstanding on our revolving credit facility during the third quarter.

Capital expenditures as a percentage of revenue was 1.8% in the second quarter. That 1 percentage point lowered sequentially due to tighter spending controls related to the uncertain environment. With that said, we continue to make investments to support our COVID-19 work-from-home capabilities, including Information Technology and related information security, and we'll continue those efforts in the coming months. We continue to expect capital expenditures for the full year to be between 2.5% and 3%.

As you can see from our results, we have significantly bolstered the strength of our balance sheet. There is no change in our capital allocation priorities. We will continue to invest first in driving organic growth, but we also have a solid M&A pipeline, and we'll be vigilant in continuing to search for companies that can strengthen our capabilities in our chosen service lines.

Let me now turn to our full year outlook as well as an early framework to help you think about revenue growth in 2021. We expect total

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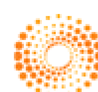

full year 2020 revenue to grow approximately 3.5% to 5% on a constant currency basis. The low end of our range essentially assumes flat sequential revenue for the third and fourth quarters, relative to the second quarter level, as we continue to believe the second quarter should represent the lowest revenue quarter for the year. The high end of our range assumes single-digit sequential increases in both the third quarter and fourth quarter.

For Global Clients, we now expect revenue growth to be in the range of 5% to 6.5% on a constant currency basis. We expect GE revenue to decline 6% to 8% for the year.

While we typically do not share bookings guidance, I want to provide some commentary on our current expectations for bookings for the full year 2020 and our early thoughts on how that may translate to top line growth for 2021.

Given the elongated client decision cycle that Tiger referred to earlier, bookings for the year are not surprisingly on a pace to be at a lower level in 2020 compared to last year. Given this, we believe the recovery to our top line growth rate will extend throughout 2021.

With that said, given the low penetration rates and growing size of our market, as well as the record pipeline levels we are seeing, we fully expect global client revenue growth to return to low double-digit to low-teen growth rates as we work our way through this elongation of the current booking cycle.

With respect to 2020 margins, we are now expecting to drive adjusted operating margin of approximately 15.5% for the full year. Our intention is to begin dialing back up our R&D and sales and marketing spending for the balance of the year as we get better visibility into sequential revenue growth. Of course, all this will depend on the progression of COVID-19, but for now, we have assumed a relatively stable environment based on the current status. Given this outlook, we are estimating adjusted earnings per share for the full year 2020 to be between $2.03 and $2.07.

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

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

Thank you, Ed. We are in an industry that continues to be underpenetrated. The need for our clients to drive change with speed has become greater than ever. We are often the adviser and catalyst for transformation journeys with our clients and can bring them the capabilities needed to lead them through these changes.

The strategic choices we have made in the industry verticals and service lines we focus have served us well. Our investments in digital, analytics and consulting, including the recent acquisition of Rightpoint, allow us to lead our clients through digital transformation journeys at a time when digital is front and center. Our strong execution has reinforced our credibility as a trusted adviser to our clients. The flexibility and agility with which we've addressed our cost base allows us to double down on our investments in cloud and digital commerce, which are increasingly more critical for our clients. We continue to strategically recruit talent to support these areas. The strength of our balance sheet and cash flow allows us to continue to pursue strategic acquisitions to bolster these and other capabilities.

If there's one thing the world has shown us, it's that ecosystems win. Along with our clients, we realized that deep and varied partnerships provide speed and expertise in this fast-paced, ever-changing environment, and we are constantly deepening our ecosystem of partners. Some of our key relationships include hyperscaler cloud providers like Amazon web services, google Cloud platforms, and Microsoft Azure. Specific cloud-based solution providers like Anaplan, BlackLine, HighRadius and Kinaxis, and strategic go-to-market partners like Deloitte, a partnership that we just announced this week.

The strength of our inflows and pipeline shows that our strategy and execution's working. We believe several of our recent wins across our chosen vertical demonstrate our reputation as a transformation thought leader. Our belief in our long-term top line growth trajectory and margin profile remain unchanged. Our long-cycle business is complemented by short-cycled transformation service engagements, allowing us to help our clients transform their businesses with speed throughout the business cycle. The last several months have reinforced the resilience of this model.

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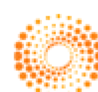

One of the things that makes me proud is the way our teams have continued to give back to the communities in which we operate. From running call centers for various state governments in India, to support COVID-19 patients, to manage COVID-19 testing data for local governments to serving meals to underprivileged communities, our teams continue to go above and beyond.

We've also opened up parts of our internal reskilling platform, Genome, to the public to allow people to acquire the right skills for the future. We've always believed that a strong culture of diversity and inclusion provides a competitive differentiator to cultivate the best ideas to develop cutting-edge solutions.

Over the past 10-plus years, we've made great progress in gender equity, starting with our Board representation, my leadership team and permeating globally throughout the organization. We are sharpening our focus on our racial equity program. We know there's a lot of work to be done, but we are committed to being part of driving this long overdue change in the world.

I would like to take this opportunity to thank our recently retired Chairman of the Board of Directors, Bob Scott. Over the years, we have all greatly benefited from Bob's leadership, intellect and wisdom. We wish him all the very best.

Our long-standing Board member, Jim Madden, has now taken the helm. And I look forward to partnering closely with him in his new role, building on the great counsel he has provided us over the years.

In closing, I want to once again recognize the amazing work and dedication of our 96,000-plus global team, who have come together to support our clients, communities and colleagues during these difficult times. They have faced a challenge of the last several months head on, driving productivity and innovation for our clients and embodying our values and culture every day to rally around a shared purpose to support the global economy.

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

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

Great. Thank you, Tiger. We would like now to open the call for your questions. Victor, can you please give the instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of Ashwin Shirvaikar from Citi.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Pretty good solid quarter compared to -- definitely compared to expectations. So congratulations on that. And that's kind of where my first question is, if you could break out the delta, because you guys spoke almost halfway through the quarter, and such a major positive surprise is, generally speaking, unusual for a company such as Genpact, which has high visibility into outcomes. So if you can break out the impact of incremental work-from-home, the separate impact of what seems like better Transformation Services and other factors, that would help.

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

Yes, Ashwin, thank you. Good question. So ours is a high visibility business. There's no question. We've always said that. We -- if you remember, we stopped guidance when we spoke at the end of the first quarter. And the reason for that was, there was a lot of changes happening in the environment, and we wanted to pause and see how that would transpire.

Our expectations on work-from-home approvals from our banking clients was faster than we had expected. If you remember at that time, we had talked about getting approvals from some of our banking clients. We got that done, which helped us achieve the 99%-plus of our revenue coverage from work-from-home. So that is one big contributor to beating our own expectations.

The second is Transformation Services. If you remember, we talked about new solutions that we have taken to market, pulling together a

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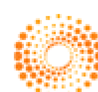

set of capabilities that we've been building over 5 years. Very relevant to today's market around cash, working capital, fraud, supply chain, analytics. All of those really got traction in the marketplace. And third, I would say our delivery, not just in moving to work-from-home, but continued productivity and innovation has really delighted our clients. We've got much closer to the C-suite. As a result, we've been able to talk about some new transformation service journeys. Some of them have converted into subsequent inflows into our pipeline. So I would say all of that turned out to be much better than our expectations based on visibility at that time, which, if you remember, I said, was not very good.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Right. No, I understand. I was hoping you could maybe quantify the impact of each of these 3 pieces? And then my second question is with regards to just -- is your traction continuing into July, your conversations and so on and so forth? Because it seems to me that perhaps the outlook that you provided for Q3, Q4, at least at the lower end, seems quite conservative. I think this -- some comment on that would be great.

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

Maybe I maybe I'll cover a little bit in the -- maybe provide a little more color on each of those items. I would say the first thing that Tiger talked about, better coverage on work-from-home was probably the largest, followed by Transformation Services is almost pretty close. And then actually pretty -- it wasn't one thing or another. There were multiple along -- and those 2 were the biggest -- a bit better in intelligent operations as well, right that Tiger talked about execution. So it was all of them.

The biggest one, I think we talked about the inability to bill on a work-from-home was about a $30 million roughly. We probably cut that in 1/2, something on the order of that magnitude to give you some quantification in TS. And then TS followed that, followed by the Intelligent Operations. So just to put some numbers to what we talked about last quarter and how we came through.

And then the second -- the question that you just asked, remind me what that was again?

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Yes, that -- it seems as though you're bringing considerable momentum into Q3. So at the lower end of your suggested outlook, Q3, Q4 being sequential, seems quite conservative. And what do you think of that statement, first? And how would you respond, I guess?

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

I'll start, Tiger, you add in. I mean, this is the environment that we're in, right? It's still -- even though we're giving guidance for the full year, there's still uncertainty. Not sure, right? Every day you hear about another state that's -- that -- where the cases are going up. So I think it's that level of uncertainty that it's just an abundance of caution of, hey, look, we've got to see how this plays out before we would feel better about pushing the envelope. I think flattish for the next couple of quarters is prudent. But we also said, "Hey, look, we ought to be able to see things go well, sequential improvement each quarter, Q3 and Q4." So I think that's a prudent view. Tiger, any more color to add? I mean the good news is, as Tiger mentioned, the inflows are good. They're coming. The pipeline is growing. That's good. Now we are going to get the deals over the hurdle, but until we get more certainty into the environment, I think our guidance is appropriate. Tiger?

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

Yes, there's nothing -- actually, there's nothing more to read into that than saying, "That's the environment we are in." It's -- the visibility and uncertainty can change information that we don't know today. And therefore, in this environment to be prudent is the right thing to do at the lower end. Very clearly, if everything remains unchanged, you are right. That lower end, we should be able to beat, which is why Ed talked about the quarter 2 revenue number being at the low end of this year. And from hereon, it'll be higher.

But we just think that the market demand has to be conservative and prudent.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

That's perfectly understandable because there's a lot of good news here.

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

Actually, mathematically as well, we also gave a little color on GC, GC and GE, we do expect based upon productivity [and other] to be lower second half of the year. So that's another driver of the overall number, just for your model.

Operator

Our next question will come from the line now Tien-Tsin Huang from JPMorgan.

Tien-Tsin Huang ***JPMorgan Chase & Co, Research Division - Senior Analyst***

My cell service isn't so good. So I'm going to ask 2 questions together, if you don't mind. Just the -- first one on -- and the quarter -- the results were great, by the way.

Just on the sale cycles being a little bit longer as you suggested. I'm curious, how much of that is also just you going after maybe larger enterprises as well as maybe clients that are newer to outsourcing? And then my follow up was on the margin. Just -- I heard the outlook, obviously, in the R&D. I just want to make sure, is that a lever that you can pull, as you explained to Ashwin, if things do get a little bit tougher should we -- can we refer that you -- that a lever that would be available to you to spend a little bit less to still preserve margin? Just trying to understand the dynamics here of how revenue shapes up? And what you still want to deliver on margins in the 2 scenarios of good versus bad, if that makes sense?

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

Yes -- no, both great questions, Tien-Tsin. So let me start the first one. In a way, it is "A Tale of Two Cities." When you talk about cycle times, et cetera, there's a whole set of large deals, which, by the very nature of being complex, and includes very clearly digital front and center in all of those transformation journeys. It doesn't matter which vertical you're talking about. Doesn't matter which service you're talking about: supply chain, to insurance operations, to banking, KYC, AML or finance and accounting. By definition, therefore, they tend to take longer. I don't think it has too much to do with new clients, new logos. I think the journey has been well proven by so many others that even if it's a new client, who, by the way, there are many who got motivated to undertake these journeys now. I think they can turn to the others, look at it and jump onto it. So I don't think that's the issue. The issue is more -- it takes time to pull all this together. And on top of that, we have work-from-home. We are virtual. We have virtual visits. So all of that takes a little bit of time. Plus, there was a period of, I would say, 90 to 120 days when all that people cared about was moving themselves to a virtual work-from-home environment. And if we were serving them or if someone else was serving them, we also had to do the same thing and all of that had to settle down. Now, the reason I called it "A Tale of Two Cities" is because there are quite a few situations where we are seeing speed that we've never seen before. They don't tend to be large deals. They tend to be reasonable-sized deals. There certainly are Transformation Services deals for sure. In many cases, they are Analytics Deals. Analytics have had a very strong run in the second quarter on top of a strong run in the first quarter. And those are probably faster than it's ever been. And that's a reflection of the way decisions are being taken, much faster decision cycle times, much more agile behavior from our clients.

And your second question, I think, Tien-Tsin, the best way to answer the question is our performance in the second quarter. The way the team came together to pull the right levers, to readjust our cost base for the new normal that we think this year is, tells us that we can do it, and we know how to do it.

So as we think about reinvesting in some of the new offerings that we are building, particularly with the 2 that we called out: cloud and digital commerce, adjusting that to make sure that the margin is regulated to the revenue and top line performance, I think is a given.

Operator

Our next question will come from the line of Keith Bachman from BMO.

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

Tiger and Ed, I wanted to follow up on that last point and take it from, perhaps, the other side of the lens. Could you talk, Tiger, a little bit about how you see pipeline and signings growing? Any specifics on characterization about how quickly they're growing now on a

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year-over-year basis? And the reason I wanted to ask the question is you did take some headcount cuts during the quarter to reflect, as you described, "the new normal." But do you have concerns about as you flex up, that you'll have the ability to meet those needs? And then I have a follow up for Ed, specifically, if I could.

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

Yes, Keith, I'll get straight to that part of the question that you have. We don't have concerns about flexing. As we see more bookings, volumes, deals, and ramp-ups come through, we absolutely have no concerns on that. The kind of ramp-up you're talking about, if that were to happen, and if the market were to surprise us with even more than we had expected, it would still put demands on us, lesser than the demands when we've had high-growth rates just last year, for example. And we've ramped up in sales, digital, analytics, consulting, domain across the globe. So we have no concerns on that.

Part of the actions that we took were based on utilization across a range of our Transformation Services group, as well as Intelligent Operations and our SG&A functions. And those were actions based on utilization in order to provide us the opportunity to actually go and hire fresh talent in areas that we wanted to continue to hire and add new capabilities in. So not concerned at all about both the ability to actually ramp up as we see more of that volume come through as well as -- I don't think we've lost and let go of people that we didn't want to let go. In fact, I think we've created a pretty significant excitement in the company over the last 5 months. The way we've navigated this, the way the team has come together to serve the client, the response from the client and then what it's done to our pipeline and our inflows and our client conversations.

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

Okay. And just to, Tiger, to flesh that out though, could you talk about, is pipeline or signings growing low-single digit, mid-single digits? Are you in the double digits? And I just wanted to follow up for my question because it relates to Ed. Ed, you did talk about you aspire to get back to, for global clients, in particular, the low teens, I think, was the context, and you talked about 2021. Was the comment there that you think you'll get back there in 2021? I wasn't sure what the conclusion for any kind of time horizon based on the pipeline and signings that you see now?

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

Yes, Keith. So Re, our business is a long-cycle business. By definition, therefore, if we have a couple of quarters of delayed bookings because signings are not happening because people are basically hunkering down to deliver work-from-home, which is exactly what happened. So the whole of Q2 and the latter part, the last 15 days of Q1. And in some parts of our client base and geographies, continues to be the case.

So then one would expect that to translate to lower bookings in 2020 than last year, which is what Ed called out, and that then translates to a tempered revenue growth next year versus just bouncing back.

In our business, you wouldn't bounce back. What would start bouncing back, if everything else remains stable, is bookings would start coming back. But then that translates to revenue, subsequently. So the way I've described it is that we would expect to get back to normalized global client growth rate as we traverse 2021. So the way I would translate that is, by the time you get to the end of 2021, global client growth rates should come back to normalized growth rates.

Operator

(Operator Instructions) Our next question comes from the line of Bryan Bergin from Cowen.

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

On that last point, is the -- can you remind us what, typically, is the time frame over which bookings are converting to revenue? I'm curious if the pace of that conversion is extended, too, or if it's really just the injection and signings rate? And then also just as you're seeing the pipeline have greater injection, are you seeing new types of deals that you can call out?

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

Yes. So the conversion of bookings to revenue, obviously, has so many factors associated with it that, whatever I'm going to tell you is going to be a normalized averaged-out kind of trajectory, but you can expect a typical sales cycle for a large deal to be on the order of magnitude of 9 months. Then you sign the deal.

And then you ramp and that ramp could be a 9-, 12-month, 18-month ramp. So by the time you get to what one would call steady-state revenue of that booking, you could be in your 18th month, post getting that deal signed. That's the classic, global, large deal environment we are in.

Now, there are lots of differences that happen. If you do a rebadge deal where you carve out an operations and take it over, that could be lumpy. But leaving those aside, that's the way it normally works.

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

Some more impact on the bookings timing as opposed to post booking. I think Tiger's saying, that's kind of what we typically expect. And there's no normal -- if there was a range, an average, then there's no normal depending upon the size of the deal, the type of deal, et cetera. But what's taking longer now is getting the deals through and into execution, and that's why we think that bookings would be impacted in comparison to last year. That was the [comment] to that question, I think...

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

And your question on the type of deals that we are seeing, I wouldn't say the type is different from a service perspective because we are very focused on a specific set of industry verticals, a specific set of services that we have very deep capabilities on. What I would say is different is the importance of, in that journey, the importance of digital, which one would argue over the last 3 or 4 years has gone up significantly, has gone up many notches just in the last 4 months.

The importance of integrating and making those services capable of dealing with online versus just off-line, depending on the industry, if it's a consumer goods company, if it's a retail, if it's a life sciences company, if it's a manufacturing company that is pivoting from distribution to online distribution in a B2B world.

And let's assume 3% of their revenue used to be B2B. And now they're thinking about 25% of that being B2B. That's a very different environment for their supply chain, for their order management, for their finance, for their [order to cash]. And that changes the nature of the deal, the complexity of the deal and the evaluation that, that deal goes through.

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

Okay. That's helpful. And then just on Transformation Services, are you expecting to maintain the level of growth you saw in 2Q within that kind of second half outlook that you have?

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

I think so broadly, at a broad level, the answer is yes, because we are seeing the demand for the type of services and the type of change that is being looked for with rapid payback is pretty strong. Think about it: a lot of our clients in almost every industry are looking at 2 things, and they are interconnected.

One, they're looking at sometimes a smaller top line, a lower growth. And in that environment, they have to find a way to run the company more efficiently on save cost. We are a big player in that journey. And in doing so, actually bringing our technologies in order to run it in a new, modern way.

At the same time, they actually want to undertake a broader digital transformation journey to leverage the cloud, to leverage virtualization to leverage real-time analytics and to be able to pivot online, and all of that in the context of bringing better experience when everyone's virtual.

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That requires dollars. So you undertake a cost journey in order to undertake a digital transformation journey to pivot to a new business model. We play in both cases, and that allows us to, therefore, sometimes enter with one and pivot to the other.

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

Okay. So that would infer you're not seeing anything that was pulled forward in Transformation Services or anything kind of onetime surge related?

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

No. No. Not at the moment.

Operator

(Operator Instructions) Our next question will from the line of Justin Donati from Wells Fargo.

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

In your prepared remarks, you talked about banking and capital markets, some of the pressure there alleviating. So looking here in Q3, has that business stabilized? And then can you also provide a little bit more color on your consumer retail health care business as well?

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

Yes. The reference to banking and capital markets was primarily with reference to transition to work-from-home, where of all the industry verticals that we serve, no surprise, that a number of clients in the banking vertical took time to give us the approval, given some of the sensitive data that we manage on the regulatory environment to allow us to move that particular portion of the work to a work-from-home environment, and set it up in a manner where all of us were comfortable.

And therefore, by the time we got to the end of the second quarter, it allowed the whole company to get to that 99% rate, and therefore, that positions us well for stability in the Q3, Q4 environment.

What I would say, we are seeing in the banking capital markets world, is a continued push for movement to the cloud, a continued push for the ability to drive cost out in an environment where clearly the banks are challenged with return on equity as a big requirement looking into the future. At the same time, it throws up opportunities, for example, for collections in the consumer banking world, and we talked about that with one of the clients that I referred to. So we expect the banking capital markets vertical to continue to be lower growth than some of the other verticals, and you refer to the consumer goods, retail, life sciences vertical. We see that to be a high-growth vertical as we continue to finish the balance of the year.

A number of those clients are pivoting to online very aggressively. A number of them are pivoting to finding a way to deal with a very volatile demand and supply environment. Our capabilities in supply chain to top of our capabilities in finance and accounting have been really, really welcomed by clients at this point in time. And then our traction that we're getting in Analytics in supply chain and finance and order management as they pivot to real-time analytics to deal with their environment. And then when we talk about all the changes happening in life sciences and health care, I think it positions us really well for continuing to be very strong in that vertical.

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

Okay. And just to be clear, so does that assume in your guidance that the Financial Services vertical is at least stable in Q3?

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

Yes, I would distinguish within Financial Services, the banking vertical would be stable. The insurance vertical has had a great -- which is part of the Financial Services vertical, but we run it separately. That has had a very good first half, and we expect that to continue into the second half.

Operator

And our next question will come from the line of Robbie Bamberger from Baird.

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Robert W. Bamberger ***Robert W. Baird & Co. Incorporated, Research Division - Research Analyst***

Great job this quarter. Yes. So last quarter, you noted 85% of your portfolio is essentially recurring and not really exposed to the hardest hit areas of COVID. But I guess, based on the positive results over the past few months, have you seen this figure increase, I guess, as a percentage of revenue?

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

So Robbie, you are a little muffled, but if I understood your question right, the part where I thought you were referring to was last year -- last quarter, we said that about 15% of our revenue is in industrial verticals that have been adversely hit by COVID-19. And our expectation is that, that's our continued view. But these are verticals that all of us know, business travel, hospitality, aviation, energy, some portions of automotive and all of those put together account for about -- at the highest level, probably shy of 15% of our [order book].

Robert W. Bamberger ***Robert W. Baird & Co. Incorporated, Research Division - Research Analyst***

Okay. Yes, that's great. Yes. And then also just a question on Rightpoint. What was the revenue from Rightpoint this quarter? And I guess, do you expect growth to be better or worse than the overall business with Rightpoint? Do you still expect, I guess, 2.5% contribution to revenue growth this year?

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

Yes, that's remained relatively constant because the Rightpoint business impacted relatively in line with the rest of the business, so that 2.5%'s still a good number.

Robert W. Bamberger ***Robert W. Baird & Co. Incorporated, Research Division - Research Analyst***

Okay. Perfect. And then I guess one more. Is the mix of existing client revenue, I guess, versus new client revenue in terms of growth, pretty normal? Or does this environment, I guess, change that dynamic at all?

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

From a revenue perspective, it's pretty normal because it takes time for our revenue mix to change, given the long-cycle nature of the business. However, I think I would say we probably have in every one of our verticals, quite a few new clients and new logos that have entered in. And it will be interesting as they traverse through the pipeline and ultimately take their decisions. Those will be additions to our portfolio, which is very exciting because, typically, when we establish a relationship with a large global enterprise in any of these verticals, that ends up being a multiyear journey, as we grow that relationship over time.

So revenue mix hasn't changed. I would say our inflows and pipeline does have some very interesting new levels.

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

I've looked at this since I've joined. I've been saying 2/3 from existing logos, 1/3 from new. I don't know that it's changed, but when I look next, I'll come back and advise, but I think it's pretty consistent.

Operator

And I'm not showing any further questions at this time. I'll turn the call back over to Roger for any closing remarks.

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

Thank you, Victor, and thanks, everybody, for joining. We look forward to speaking to you again next quarter.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.

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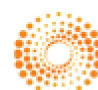

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