

16-Feb-2022

Conduent, Inc. (CNDT)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

Giles Goodburn

Stephen Wood

Vice President-Corporate Finance & Investor Relations, Conduent, Inc.

Chief Financial Officer, Conduent, Inc.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

OTHER PARTICIPANTS

Shannon S. Cross

Analyst, Cross Research LLC

Puneet Jain

Analyst, JPMorgan Securities LLC

Bryan C. Bergin

Analyst, Cowen and Company

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Conduent Q4 2021 Earnings Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I'll now turn the conference over to your host, Giles Goodburn, Vice President of Investor Relations. Thank you. You may begin.

Giles Goodburn

Vice President-Corporate Finance & Investor Relations, Conduent, Inc.

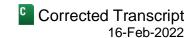
Thank you, operator. And thanks, everyone, for joining us today to discuss Conduent's fourth quarter and full-year 2021 earnings. We hope you had a chance to review our press release issued earlier this afternoon.

Joining me today is Cliff Skelton, our President and CEO; and Steve Wood, our CFO. Today's agenda is as follows. Cliff, will provide an overview of our results and a business update; Steve, will then walk you through the financials for the quarter and the full year, as well as providing a financial outlook. We will then take your questions.

This call is being webcast and a copy of the slides used during this call, as well as the press release, were filed with the SEC this afternoon on Form 8-K. This information, as well as the detailed financial metrics package are available on the Investor Relations section of the Conduent website.

During this call, we may make statements that are forward-looking. These forward-looking statements reflect management's current beliefs, assumptions, and expectations, and are subject to a number of factors that may cause actual results to differ materially from those statements. Information concerning these factors is included in

Q4 2021 Earnings Call



Conduent's Annual Report on Form 10-K filed with the SEC. We do not intend to update these forward-looking statements as a result of new information or future events or developments, except as required by law.

The information presented today includes non-GAAP financial measures. Because these measures are not calculated in accordance with the US GAAP, they should be viewed in addition to and not as a substitute for the company's reported results. For more information regarding definitions of our non-GAAP measures and how we use them, as well as the limitations to their usefulness for comparative purposes, please see our press release.

And now, I'd like to turn the call over to Cliff.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Thank you, Giles. And good afternoon, everyone. Welcome to Conduent's Q4 and end of 2021 earnings call. Thank you for joining us. Today, Steve and I will take you through Q4 and full-year 2021 results. We will also focus on some significant operational and sales results. Importantly, we want to walk you through the transition from 2021 to 2022 and 2023. We will talk about the base business and why we see the fruits of our labor working and already demonstrating growth, and when and how you will see that growth manifest in the numbers, irrespective of the 2021 tailwind of pandemic one-timers and the effect on 2022.

We'll include some strategic opportunities and discuss improvements in our culture and our client base but, first, let's start with an overview of our 2021 results. If you'll turn to slide 6, you'll see that Conduent's Q4 revenue came in at \$1.048 billion, virtually unchanged from prior year; and \$4.14 billion for the full year, which was down 60 basis points year-over-year. This was very much in the center of how we guided the year during our second and third quarter earnings updates.

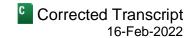
In Q3, we alluded to the benefit of one-time PSNAP in unemployment volumes and how higher-than-anticipated revenues would create confidence in our 2021 numbers, and the year-over-year headwind in 2022. Steve will touch on that momentarily. But the takeaway is in the examination of the base business across the three segments where we've seen strong progress. For the first time, we'll discuss expectations in each segment.

The normalization of COVID is upon us, as you know, and while we do mention stimulus volume as a callout due to the fact that those payments are clearly isolated, onetime payments, we don't expect to specifically call out pre-COVID versus post-COVID scenarios. The only known headwinds or tailwinds are these onetime payments associated with onetime unemployment insurance benefits and Pandemic SNAP programs. Meanwhile, adjusted EBITDA was \$114 million for the quarter, equating to a 10.9% margin, down 170 basis points as compared to prior year, where we benefited from a number of temporary cost savings as well as higher stimulus volumes. For the full year, EBITDA came in at \$487 million, an 11.8% margin, which was slightly above the top-end of our guided range.

Regarding new business sales in the fourth quarter, our annual recurring revenue signings improved both year-over-year and sequentially, up 17% year-over-year and 28% from Q3. For the full year, we delivered \$408 million in annual recurring revenue and an increase of 16% versus 2020.

Now, because of our mix of business, this ARR was delivered with slightly lower TCV than the prior year, both for the quarter and for the full year. As we've talked about before, the mix and the type of business sold can create this variation between ARR and TCV. While both are important, what matters most is the amount of annualized revenue because one long-term contract can ramp the TCV quite high, irrespective of annual recurring revenue.

Q4 2021 Earnings Call



Finally, in terms of our primary financial metrics, our net ARR activity metric was positive for the fifth quarter, driven by this improved new business ARR, as well as better retention. As always, this number matters in the growth of our base business, and Steve will show you how that will manifest in late 2022 and 2023.

Turning our attention to other highlights of our 2021 performance. As many of you know, we closed the sale of our Midas Suite of Solutions to symplr on February 8 for pre-tax net proceeds of \$321 million. The combination of this and the debt refinancing we completed early in the fourth quarter means our capital and liquidity positions remain strong. We have a balanced use of cash plan for those proceeds.

Our ability to quickly and seamlessly deliver government payments at scale enabled us to respond to the developing pandemic in 2021 and distribute over \$50 billion in government pandemic stimulus payments. We enjoyed the third consecutive year of improvement in client satisfaction and sustained our high and improved level of associate engagement. Finally, we won numerous awards for culture, including Best Place to Work for LGBTQ, Diversity and Women in the workplace.

So if you turn to slide 7 and think about how 2021 went as it relates to operations, our clients, and how we serve them, we're quite proud of how the year went. We received a lot of recognition in those areas. The drivers for some of that recognition is our focus on operational excellence or client-first routines or work around driving better SLA performance and continued uptime, improving our technology environments, as well as focusing on our associates in an inclusive culture. This recognition is based on feedback from clients and industry research firms, as well as outside independent assessments.

A couple of things to call out that we're quite proud of. As previously mentioned, we were awarded GM Supplier of the Year in 2021. We've also continued to improve our overall client satisfaction scores three years in a row and we received several other recognition awards overall, in the transportation space, most notably.

With respect to industry research analysts and their recognition, you can see the various firms that recognized us as a leader across many, if not all, of our business units. And as previously mentioned, we're quite proud of some of the cultural recognition awards. You can read them, with a lot around diversity, our capability in terms of moving people to work-from-home environments and recognition for Best Place to Work for both Women and LGBTQ associates, as well as for culture in general. I would say that it turned out to be a year beyond our expectations in terms of the outside-in point of view.

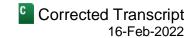
With all that said, let me hand it over to Steve now and let him take you through the details of our 2021 full-year sales and financial results. Steve?

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Thanks, Cliff. As we have done in the past, we are reporting both GAAP and non-GAAP numbers. The reconciliations are in our filings and in the appendix of the presentation. Let's turn to slide 8 and discuss our key sales growth and retention metrics. While overall TCV was down 8% for the full year, we are pleased with the almost \$1.8 billion in new business signings for the year, showing strong client support for our offerings and capabilities. New business annual recurring revenue was up 16%, with all three segments contributing near-double-digit growth year-over-year. Non-recurring revenue grew 61% in the year, a function of Pandemic SNAP volumes in the Government segment but also Commercial and overall bookings, which more than doubled in 2021 as compared to 2020.

Q4 2021 Earnings Call



During the fourth quarter, a handful of new business signings slipped into 2022. With that said, we expect to have strong sales in Q1 2022.

You'll see in our sales metrics slide in the appendix that average contract length was 3.4 years as compared to 4.8 years in 2020, a function of our deal mix across the segments. We continue to evolve our integrated sales model to optimize the balance between near-term and long-term revenue needs and in 2022, we are changing our sales compensation models to further incentivize these outcomes. Therefore, in 2022, we are moving our primary sales metric to annual contract value from total contract value.

We will continue to report total contract value, but the shift to annual contract value defined as total contract value divided by deal term, we'll remove some of the variation caused by the differences in deal lengths between our Commercial and Government and Transportation businesses. The net ARR activity metric, our combined measure of wins, losses, pricing effects and other contractual changes was positive for the fifth quarter. As a reminder, this trailing 12-month measure does not predict the timing of revenue, but is based on the timing of notification. A full definition of this metric is covered in the appendix of our presentation. Finally, with respect to renewals, we had an extremely busy and strong fourth quarter, several larger clients renewed their agreements, demonstrating their satisfaction and a strong commitment to Conduent as their business process partner. Overall renewal TCV for 2021 was \$2.8 billion, which was similar to 2020.

As we have noted in prior calls, individual quarters can have significant variation due to timing of renewals.

Now, let's turn to slide 9 and discuss our full-year 2021 P&L metrics. We finished the year with results coming in around the midpoint of our guidance range. Revenue for 2021 was \$4.14 billion as compared to \$4.16 billion in 2020. Throughout the year and continuing into Q4, Pandemic SNAP volumes in our Government segment exceeded our assumptions from earlier in the year and contributed a meaningful tailwind to our results. I'll talk more about this when I cover our segment results.

Adjusted EBITDA was \$487 million for the full year 2021 as compared to \$480 million in 2020. And our adjusted EBITDA margin at 11.8%, was up 30 basis points year-over-year as compared to 2020. This was slightly above the high-end of our outlook and was again benefited by the tailwind in Pandemic SNAP volumes in our Government segment.

As I outlined in our Q3 call, adjusted EBITDA margins declined sequentially during the fourth quarter and our Q4 adjusted EBITDA margin was 10.9% as the Pandemic SNAP volumes tapered. Finally, when comparing 2021 to 2020, the other significant driver around adjusted EBITDA beyond the general impact of mix was the benefit of temporary cost savings in 2020.

Now let's turn to slide 10, and go over the segment results. For the full year, Commercial segment revenues declined 4% year-over-year, which was a significant improvement to last year's year-over-year compare. New business ramp improved over 2020, but this was offset with runoff of lost business.

For the Government segment, full-year 2021 revenue grew 2.9% as compared to 2020. This included an incremental \$74 million over 2020 from both Pandemic SNAP and unemployment insurance. As noted earlier, these higher-than-anticipated tailwinds, especially in Pandemic SNAP, exceeded our assumptions from earlier in the year. Transportation segment revenues grew 3.8% year-over-year in 2021 as compared to 2020. New business ramp was significantly stronger in 2021, benefiting from contributions from some of the larger deals we have talked about in recent earnings. The Transportation segment also benefited from returns in tolling volumes, transit projects and parking volumes, although the latter two have still not yet fully returned to normalized levels.

In terms of adjusted EBITDA and margin, the Commercial segment declined 7% year-over-year and the adjusted EBITDA margin of 11.6% was down 30 basis points year-over-year. This was driven by revenue mix and temporary cost savings that benefited 2020. In the Government segment, adjusted EBITDA grew by 10.8% on the adjusted EBITDA margin of 33.4% was up 240 basis points year-over-year, driven by higher margins on increased Pandemic SNAP volumes. For the Transportation segment, adjusted EBITDA declined 6.8% year-over-year as compared to 2020, and the adjusted EBITDA margin of 14.6% was down 170 basis points year-over-year. This was driven by revenue mix as well as temporary cost savings that benefited 2020.

Let's turn to slide 11 and discuss the balance sheet and cash flow. Adjusted free cash flow for the full year finished at \$89 million, which represented an 18% conversion from adjusted EBITDA. This was slightly below our expectations of a full-year conversion of around 20%. In 2021, we repaid approximately \$32 million of payroll taxes, deferred from 2020 primarily related to the CARES Act. Excluding the impact of this, 2021 adjusted free cash flow conversion as a percentage of adjusted EBITDA would have been approximately 25%.

Capital expenditure was 4.4% of revenue in the quarter and 3.6% of revenue for the full year at \$147 million. This was slightly below the revised guidance range during our Q3 earnings update of approximately \$150 million. Our adjusted net leverage ratio remained at 2 turns, which is the low-end of our preferred range of 2 to 2.5 turns, and we had \$420 million of cash on hand at the end of 2021. As we reported in our Q3 earnings update, we completed the refinancing of our debt on October 15, extending our maturities for our revolving credit facility and term loan A to 2026, our term loan B to 2028 and our senior secured notes to 2029. Finally, on February 11 this year, we repaid the \$100 million of debt drawn under our revolving credit facility.

That concludes our prepared remarks on 2021 and I'm now going to hand it back to Cliff to set out some of the key elements of our game plan in 2022 and 2023. Cliff?

Clifford A. Skelton

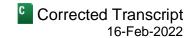
President, Chief Executive Officer & Director, Conduent, Inc.

Thanks, Steve. Let's turn to slide 13 and we'll discuss how we're thinking about our priorities as we move into 2022 and beyond. We think this is particularly important as you examine our continuation strategy for base business growth and the trajectory timeline. So what we're trying to depict here in the priority slide is more or less a game plan of what you can expect us to accomplish over the course of the next two years. It's all about profitable growth and continuing this journey. And as you've already seen, or you will see when you normalize out the onetime stimulus effects, we're already growing in 2022. We now need to improve on that trajectory as well as driving margin expansion.

There are untapped opportunities that this slide is meant to demonstrate to you. Profitable growth is key, but we're not going to take our eye off the ball of what we've accomplished heretofore. We want to continue to sustain that hard-fought foundation critical to client retention and new business sales. Whether it's around automation, tech modernization, consolidating our data centers while we modernize, or creating a shared service for operations, all that work will continue to reap rewards into the future.

At the same time, we believe there are some adjacencies that are not only opportunistic and synergistic, but quite unique to what we can accomplish here at Conduent, whether it's this mid-market opportunity of customer experience as a service. Whether it's integrating our claims capability across our unique environments in commercial healthcare and worker's compensation, whether it's a continuation of opportunistic geographic expansion into countries like Australia and others, or whether it's payments and analytics beginning with our Transportation business where we have a unique payment capability, we believe our unique solutions and

Q4 2021 Earnings Call



services as well as our diverse portfolio is key. Again, of particular importance, we think this payments capability can provide breakthrough opportunities for both us and our clients.

Meanwhile, there are still divestiture opportunities on the margins of the portfolio where we don't see the same synergies for growth. All that said, we've got to deliver into those adjacencies through continued work with partners and penetrating our current client base, where in the Commercial segment, for example, we have lots of product penetration opportunities. Finally, further integrating our sales team with our account management teams in order to leverage our sizeable client base will add a lot of value.

In a nutshell, that's our game plan. This is not more of the same. While it is sustaining what we've built, it's also expanding into the opportunities that we believe are adjacent, selling better and faster, and continuing to retain those clients that we've onboarded with a much improved platform with superior stability and security.

Now I'm going to hand it back to Steve to talk about how that translates into our 2022 guidance and additionally provide an outlook as to how we see 2023 shaping up. So, Steve, back to you.

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Thanks, Cliff. Let's turn to slide 14 and we'll walk through our 2022 guidance and our outlook into 2023. First thing to note, we're providing 2022 and 2023 guidance excluding the estimated impacts of the Midas business, which we sold on February 8. In the table, we have shown full-year 2021, both with and without Midas, where it has been possible to do so. In providing both 2022 and 2023 guidance, we want to show the effect of the continued improvement in our base business trends along a timeline that laps both the meaningful tailwind that we experienced in 2021 from onetime Pandemic SNAP volumes, as well as lower legacy losses and continued revenue ramp from improved 2020 and 2021 sales performance as we move into 2023.

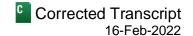
Overall, we expect adjusted revenues in 2022 to be in the range of \$3.825 billion to \$3.975 billion. As a reminder, this excludes the impact of the disposition of the Midas business. At the midpoint of this range, \$3.9 billion, this would represent a year-over-year decline of \$169 million or 4%. Of importance, included in this number is the net runoff of onetime government stimulus programs, including Pandemic SNAP volumes of \$198 million. If we were to adjust the impact of these onetime government stimulus programs from our 2021 and 2022 results, our underlying business would be growing at approximately 1% year-over-year from 2021 to 2022.

In terms of how this breaks down between the three segments at the midpoint of our range, we expect the Commercial segment to grow approximately 2% in 2022, and we expect the Transportation segment to grow approximately 3% in 2022. This is offset by a decline of approximately 17% in the Government segment, driven almost entirely by the runoff of the onetime Pandemic SNAP and unemployment insurance programs.

As we have said in prior earnings, returning the Commercial segment to a sustained trajectory of growth was a key priority and 2022 is an important step on that journey as the impact of leadership, sales discipline, client satisfaction, retention, as well as the operational and technology improvements we have made all take root in the financial outcomes we expect.

In 2022, we expect adjusted EBITDA margin to be in the range of 9.5% and 10.5%, taking into account the estimated impact of the Midas disposition. This margin reduction is largely driven by the runoff associated with the higher margins from onetime government stimulus programs, including Pandemic SNAP in 2021, offset by cost efficiency work and the impacts of sales ramp which will drive increased benefit as we progress through 2022. We expect adjusted EBITDA margins to start the year at or slightly below the guided range and finish the year at or

Q4 2021 Earnings Call



slightly above the guided range, driven by a combination of factors that include a 2022 sales ramp that is more weighted towards the second half of the year, continued work on cost efficiency, modest expectations around interest rate increases that will drive incremental revenue and EBITDA in our BenefitWallet business, as well as some return of volumes in areas such as transit and claims. We expect to convert approximately 15% of adjusted EBITDA to adjusted free cash flow inclusive of paying off the remaining portion of deferred payroll taxes under the CARES Act. Excluding this, the conversion rate would have been approximately 22%.

We expect CapEx to be approximately \$140 million and restructuring charges to be approximately \$40 million, with approximately \$25 million of this hitting operating cash flow. The increase in our outlook on restructuring charges at least for 2022 is driven largely by opportunities to further rationalize our real estate footprint as we continue to evolve our hybrid work-from-work, work-from-home model.

Let's turn our attention now to 2023, where we would like to provide some initial thoughts on outlook. Using the midpoint of our guidance for 2022, we expect our 2023 revenues to grow by between 1% and 4%. We expect both the Commercial and Transportation segments to continue their growth trajectories from 2022, with the Transportation segment in mid-single-digit growth and the Commercial segment in low- to mid-single-digit growth. Offsetting this growth will be the Government segment where expected losses will lead to a second year of revenue decline somewhere in the mid- to high-single-digit range. Our sales pipeline and backlog remain extremely strong in the Government segment. However, this will not manifest into revenue stabilization and growth for the Government segment, likely until 2024 given the long contracting and implementation cycles.

At this stage, our outlook for adjusted EBITDA margins is in the range of 10.5% to 11.5%, constrained by the lower revenue outlook within the Government segment, but offset by margin expansion in both Commercial and Transportation, as well as lower real estate and other corporate costs. We would expect to convert approximately 25% of adjusted EBITDA to adjusted free cash flow with capital expenditure at similar levels to 2022 and restructuring charges lower at approximately \$20 million as we move into the final phases of both our data center and real estate optimizations.

Before I hand it back to Cliff, I'll note that this initial outlook for 2023 is based very substantially on our base business and assumes less than a 1% contribution from the strategic initiatives Cliff laid out earlier. It's our intention to provide more detail on these and this 2023 outlook early in the summer.

I'll hand back to Cliff now to talk more about that before we move to Q&A. Cliff?

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Well, that's a lot to digest. But in closing, 2021 was a good year. Financially with the benefit of some stimulus tailwinds, we met or exceeded internal and external expectations. Operationally, we improve sales, ARR, service level agreement performance, client retention and associate engagement. And culturally, we received recognition across the board. Now, 2022 is a settling year with the runoff of stimulus, but the base business is already growing. 2023 will be the year with continued improving revenue growth and margin.

Our plan continues to work. We have a strategy. We have assets and adjacencies no one else has and we intend to discuss those and our progress in an analyst briefing this coming summer. We have a team of dedicated associates and a fantastic client base. I'd like to thank our shareholders for their confidence. I'd like to thank our clients for their business and I'd like to thank our associates for the loyalty and the teamwork. Let's go have a great 2022.

We'll now open it up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is from Shannon Cross of Cross Research. Please proceed with your question.

Shannon S. Cross

Analyst, Cross Research LLC

Thank you very much. I was wondering if you can talk a bit more about the headwinds you're facing this year, obviously the stimulus, and how you balance taking incremental business, I mean, the margin potential that was there on that versus obviously now facing a tougher comp. As shareholders, I would assume people want incremental revenue, which is good.

But, I guess, maybe if you dig down a little bit into the various segments and just what gives you confidence that Commercial and some of these others are starting to turn and gives you confidence in the ability to give 2023 guidance, which is perhaps more than most companies are willing to give in the current environment. And then, I have a follow-up. Thanks.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Yeah, Shannon, thanks for the question. A couple of things. One is in our sales routines, we're now starting to see a lot of more of that middle – mid-market ramp around ACV, ARR and even NRR that's going to help. We're not just waiting for these long-term big government contracts like we were, number one. Number two, we've got a lot more confidence in our share – in our client base, due to the improvements we've seen in quality both operationally and technologically. So, we're getting to the table when we weren't before. And we've changed out the way we are modeling our sales efforts in a go-to-market game plan, where we've teamed up sales executives and account managers together, and we've put the same kind of new compensation package in, so that they all win together.

And then, finally, this stimulus runoff is very clear in terms of what runs off and what doesn't. It's a little less clear on when volume comes back. We think volume is going to come back. We think interest rates are going to come back. That's not entirely modeled in our game plan. And then, finally, we haven't – Steve said we only have 1% of the model that includes some of these strategic initiatives and that's in 2023, none of its modeled into 2022. So in 2023, I think we're gaining confidence as we go along. And obviously the proof is in the pudding in terms of how we do in 2022, but it'll be very predictable, I think in the last two quarters of 2022.

Shannon S. Cross

Analyst, Cross Research LLC

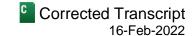
Okay. Thank you. And then can you talk a bit about the cloud computing project, you took a charge for that, but maybe just beyond what happened there, how you think about investment in technology and automation and where you're focusing your investment dollars on that side because obviously we need productivity to be able to increase the margins. Thank you.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

1-877-FACTSET www.callstreet.com

Q4 2021 Earnings Call



Yeah. Let me let Steve start with that particular charge and then I can talk about technology investments.

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Yeah. Look, that was a project that was started some time ago, and as we reevaluated it and we reevaluated our priorities right as you know we have a lot of products and a lot of potential areas that we could invest. And as

Yeah. Look, that was a project that was started some time ago, and as we reevaluated it and we reevaluated our priorities, right, as you know, we have a lot of products and a lot of potential areas that we could invest. And as we look across the portfolio, I think you think about this as being just an increased level of discipline that we're bringing to bear on areas that we're going to invest in versus areas that we're going to choose to invest less in and that plays into some of the rubric around the portfolio and the things at the margins of the portfolio. So the decision was based on relative prioritization of where we want to deploy capital against the returns that we can expect to get from that capital.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

The strategy, Shannon, is a little bit different. I would say in the past and in the early years after the spin, there was a, what I would call a, series of skunkworks out there where build it and they will come. We just – that just doesn't fit with our strategy anymore. We're looking at a strategy around adjacencies, where we've process flowed out our businesses; we know where the synergies are; we know where the adjacencies are; we're doubling down on the technology investments where those synergy gaps and adjacency gaps are.

And the other thing we're doing is, we're looking where those gaps are that generate revenue as opposed to just good ideas. So, that's sort of the posture into 2022. Again, we think some of these payment opportunities and claims opportunities are going to fit right into that model. But it's – to be honest, it's really as simple as a lot more discipline. And the discipline is around tying the strategy, the adjacencies and the synergies to our capital investment plan, as opposed to build it and they will come, it's a different model.

So, Steve's got one add-on.

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Yeah. Shannon, just to clarify on that, it was an internal project, it wasn't a client-facing project. So, that was just a clarification I wanted to make.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Yeah.

Shannon S. Cross
Analyst, Cross Research LLC

Okay. Okay. Thank you very much.

Clifford A. Skelton

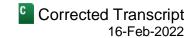
President, Chief Executive Officer & Director, Conduent, Inc.

You bet, Shannon. Thanks.

Operator: Our next question is from Puneet Jain of JPMorgan. Please proceed with your question.



Q4 2021 Earnings Call



Puneet Jain

Analyst, JPMorgan Securities LLC

Hey. Thanks for taking my question. Can you talk about what will drive 100 basis points margin expansion next year? You talked about cost actions, real estate consolidation, interest rates – potentially, interest rates benefit from that. Can you quantify benefit from each one of those individual actions or drivers for next year?

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Yeah, absolutely. So I'll take the easy one first. The – our modeling assumes right now 0.75-point interest rate increases by the end of 2022 that just anniversary into 2023. So that represents around about an incremental \$15 million to \$18 million of revenue next year, something in that order and obviously that falls through to the bottom line. The actions on our corporate costs are going to drive north of \$20 million to \$30 million. And then the strategic initiatives that we refer to, expectations are that margins will kind of improve in those adjacencies, whether it's the payments Cliff talked about or whether it's analytics or other areas. And then clearly the effect of the sales ramp exiting 2022 into 2023 with a growth year – and a growth year that allows us to have sort of natural operating leverage that we build into the business. Those are the real kind of puts and takes, and we feel confident that that's sort of back again approaching to the sort of kind of normalized range as we lap all of these sort of onetime effects that we're seeing right now.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

I would just add that there're still some opportunities in real estate, Puneet, where there's work-from-home versus work-from-work. We have about 65% of our associates working from home right now, that may come down 5% or 6%, but we're seeing that is approaching the new normal, that's allowing us to collapse our footprint, especially in the US, as these leases expire, and by the way, the savings we get in 2022 like quadruple in terms of run rate in 2023. So we see that as another expansion opportunity in our margin.

Puneet Jain

Analyst, JPMorgan Securities LLC

Understood. And can you also talk about portfolio consideration as it relates to potential divestitures, more divestitures in future, as well as a use of cash given where your stock is right now? Can you potentially do a repurchase?

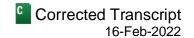
Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

You took me right there, didn't you? Here's the way I look at it. We look at our portfolio – we have a diverse portfolio, as you know, and not all the solutions are created equal in terms of where the synergies are and we know – we now understand where the synergies are. We're doubling down both from an investment perspective as well as a sales perspective. We also know where we have some standalone – a few standalone opportunities on the margin in the portfolio, which could still create some divestiture opportunities. It obviously lines up well when there's scarcity value on the outside. But certainly we want to look at profitability, we want to look at synergies and we want to look at scarcity value and we think there're a few still on the radar. In fact, there are a few still on the radar that we're pursuing, or at least considering as we speak.

With respect to use of cash, I think we need to also use the rubric of that potential opportunity in terms of divestitures or other M&A activity considerations as a backdrop for what we do of use of cash, because that could change the amount of excess cash we have above and beyond what we think we need to keep as a minimum

Q4 2021 Earnings Call



cash on hand. We're going to - we're in the consideration set as we speak, as you can imagine with the valuations where they are, a buyback program is certainly one we need to keep on the radar. We need to keep debt pay-down on the radar and certainly any kind of potential tuck-ins or acquisitions, small acquisitions, but it's mostly centered on, I would say, any kind of return to shareholders as well as debt pay-down.

Now, in parallel, I think you would have seen that we paid \$100 million of our revolver off – of the revolver, so that now we've got maximum liquidity in that revolver. So, that's not necessarily in concert with the rest of the paydown, but it is a factor in the overall use of cash that we want to put in the consideration set. So, more to come over the course in the next month or so in that particular regard.

Puneet Jain Analyst, JPMorgan Securities LLC	Q
It's great. Thank you.	
Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	A
You bet.	
Operator: Our next question is from Bryan Bergin of Cowen. Please pro	oceed with your question.
Bryan C. Bergin Analyst, Cowen and Company	Q
Hi. Good afternoon. Good afternoon, guys. Thank you. I wanted to dig in.	
Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	A
Hey, Bryan.	
Bryan C. Bergin Analyst, Cowen and Company	Q
just a bit more on margin here. Can you just help us sort of bridge for the hear the comments you made on the government stimulus wind-down, the	_

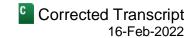
impact from higher wages, can you talk about what you're seeing there and maybe some of the just flesh out the biggest categories here as we bridge this 11.3% to the midpoint of 2022 outlook?

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Yeah. Absolutely, Bryan. It's Steve here. So, look, the Pandemic SNAP margin impact is the largest of those and clearly we've continued to do work to offset the impacts of that in terms of general cost efficiency programs, expectations as we progress through the year is the effect of the sales ramp and the annualization of those cost efficiency programs will play into that rubric of the fact that the margins are going to kind of sequentially improve during the year. You'll have heard my comment that we've got a 0.75-point interest rate increases in there, that's around about \$8 million of impact in the - we expect in 2022. But the largest single piece that dwarfs all of those really is the kind of margin runoff in the Government business. And that clearly we've done work to offset that and hence the reason that you'll see this progression during the year of the margins kind of starting at or below the

Q4 2021 Earnings Call



kind of guidance range and finishing at or above, which gives us the confidence around how we think about how

that progresses into 2023.

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Bryan, with regard to the offsets in wage inflation, I would say it's a modest offset. We've looked at wage inflation in a very targeted way. We're not in a place where we can do it in a blanket way. And we've also looked at the total compensation that kind of value package for our associates for things like increasing the percentage the company pays for healthcare as well as some work we're doing around 401(k). So we think it's a package writ large. It's most important that are slight offsets, but we're not seeing those have massive headwinds. They're modest and targeted.

Bryan C. Bergin

Analyst, Cowen and Company

Okay. Thank you for that. And then just on the bookings front, so the new business ARR that look – that number looks healthy, I understand your comments here on ACV versus a TCV focus. Can – I think you did mention some talk about deal slippage? Can you just talk about what you've seen in the pipeline and maybe some color around that?

Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Yeah. So two things, we all know what was going on with Omicron and everything else in Q4. We definitely had some deals slip to the right. One of them was in the Bay Area transit, where we had a large renewal plus add-on slip to the right. There'll be an announcement forthcoming on that and some other exact deals I can't really talk about right now, but they did slip into Q1. So, we're optimistic about Q1.

If you look at the pipeline in general, it's very strong. In TCV terms, it's in the range of – and it's consistently in this range of \$21 billion, \$22 billion – it's around \$22 billion now. What's really important, though, is if you look from TCV, the stage 2, meaning deals that have a potential for happening in 2022 is in the neighborhood of \$7 billion to \$8 billion. So, that – and those stages are based on timing and confidence. And then, if you translate that to ACV, it's in the neighborhood just under \$2 billion. So, we're really optimistic on sale and we need to be because we need to make it happen and we are making it happen. And that's notwithstanding any other new opportunities strategically.

So, the bottom line is the pipeline is strong across all three pillars, by the way; not just in the two that are already growing across Government as well. So, we did got to go get it and we want to get the ones that generate real revenue in 2022 for sure, but, certainly ones that get booked in 2022. So, again, pretty sanguine there.

Bryan C. Bergin

Analyst, Cowen and Company

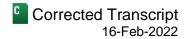
Okay. And just a clarification lastly here. So, if you step back and you were to isolate the net business impact from COVID, Steve, I think you mentioned 1% growth implied in 2022. But if we just kind of looked at the last three years, what was the business doing ex this net impact? Just give us an apples-to-apples feel.

Stephen Wood

Chief Financial Officer, Conduent, Inc.

Yeah.

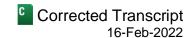
Q4 2021 Earnings Call



Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	A
Please go ahead.	
Stephen Wood Chief Financial Officer, Conduent, Inc.	Д
So, if you were to take Pandemic SNAP and unemployment insurance out of all the years	"
Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	Д
All three years.	
Stephen Wood Chief Financial Officer, Conduent, Inc.	Д
all three years, I believe I've got this right, but the business would have been declining somethin of 9% to 10%	ing in the region
Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	Д
From 2019 to 2020	
Stephen Wood Chief Financial Officer, Conduent, Inc.	Д
from 2019 to 2020 somewhere in the region of 2.5% down from 2020 to 2021, and then close t growth, 1% of growth into 2022.	o a point of
Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	Д
So you're thinking in aggregate numbers, Bryan, over the course of the three years, again, net of that translates from 2021 or 2022 in headwinds, you're talking about 11% improvement in revenu of the reasons we're positive on what we can accomplish in 2023.	
Bryan C. Bergin Analyst, Cowen and Company	Q
Okay. Thank you.	
Clifford A. Skelton President, Chief Executive Officer & Director, Conduent, Inc.	А
Yeah.	

Cliff Skelton, President and CEO, for closing remarks.

Conduent, Inc. (CNDT) Q4 2021 Earnings Call



Clifford A. Skelton

President, Chief Executive Officer & Director, Conduent, Inc.

Listen, thank you. It's a little longer this time for us, but we had a lot more information to transmit, especially as it came to guidance. So I want to thank everybody for your patience and for joining us. We appreciate your support as we continue on our journey. Hope everyone has a safe week. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great evening.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, Factset Calistreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.