
— PARTICIPANTS**Corporate Participants**

Alan Katz – Senior Vice President-Investor Relations, Conduent, Inc.
Ashok Vemuri – Chief Executive Officer & Director, Conduent, Inc.
Brian Webb-Walsh – Chief Financial Officer & Corporate Vice President, Conduent, Inc.

Other Participants

Bryan C. Bergin – Analyst, Cowen & Co. LLC
Mayank Tandon – Analyst, Needham & Co. LLC
Shannon S. Cross – Analyst, Cross Research LLC
Keith Frances Bachman – Analyst, BMO Capital Markets (United States)
Jim Suva – Analyst, Citigroup Global Markets, Inc.
Frank C. Atkins – Analyst, SunTrust Robinson Humphrey, Inc.
Brian Essex – Analyst, Morgan Stanley & Co. LLC
Puneet Jain – Analyst, JPMorgan Securities LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Conduent Q2 2018 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

Now, I'd like to turn the conference over to Alan Katz, Conduent's Head of Investor Relations. Please go ahead, sir.

Alan Katz, Senior Vice President-Investor Relations, Conduent, Inc.

Good morning, ladies and gentlemen, and welcome to Conduent's second quarter 2018 earnings call. Joining me on today's call is Ashok Vemuri, Conduent's CEO; and Brian Walsh, Conduent's CFO. Following our prepared remarks, we will take your questions.

This call is also being webcast. A copy of the slides used during this call was filed with the SEC this morning, and is available for download on the Investor Relations section of the Conduent website. We will also post a transcript later this week.

During this call, Conduent executives may make comments that contain certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 that by their nature address matters that are in the future and are uncertain. These statements reflect management's current beliefs, assumptions and expectations as of today, August 8, 2018, 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 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 U.S. GAAP, they should be viewed in addition to and not as a substitute for the company's reported results prepared in accordance with U.S. GAAP. For information regarding definitions of our non-GAAP measures and how we use them, as well as

limitations as to their usefulness for comparative purposes, please see our press release, which was issued this morning and was furnished to the SEC on Form 8-K.

With that, I will turn the call over to Ashok for his prepared remarks. Ashok?

Ashok Vemuri, Chief Executive Officer & Director, Conduent, Inc.

Good morning, everyone, and thank you for joining our second quarter 2018 earnings call. Brian and I will cover our financial and operational performance, and the progress we are making towards creating a market-leading digital interactions company. We will then take your questions following our presentations.

Before turning to the highlights of our second quarter, I want to address a matter that has been in the press recently around our performance on a tolling contract with a state government agency. Confidentiality agreements prevent us from going into the specifics. However, I will note that issues tend to arise in the implementation phase of the startup and ramp of a new tolling system, particularly one that involves transitioning multiple legacy systems to a new and updated integrated state-wide system.

We have the capability to efficiently resolve these issues and are dedicating all necessary resources to meet our contractual commitments. We are an industry leader in the automated tolling space across the United States with a strong performance track record, and are confident in our ability to address this issue, and are making good progress towards our mutually agreed upon timelines.

Turning now to our second quarter results. Let's begin on slide 3 with an overview of our performance for the second quarter. Similar to last quarter, I will be comparing our results adjusting for the impact of the new accounting standards and our 2017 divestitures. We continued our strong performance in the second quarter. We remain focused on investing in and selling our digital interactions and platform-based offerings. And so progress on both the top and bottom lines.

In terms of quarterly highlights, I will focus on several noteworthy achievements. Adjusted for the strategic actions we have taken, total company revenue for the quarter was again flat compared to last year, demonstrating our continued progress toward sustainable, profitable growth. Flat revenue over the past two quarters gives us a sustainable baseline to grow from in the back half of the year as well as into the future. It also gives us the confidence to reiterate our outlook of organic revenue growth by year end.

Profitability improved again this quarter with adjusted operating margins up 210 basis points versus a year ago. Adjusted EBITDA grew by 8.5% this quarter and our adjusted EBITDA margin was up 130 basis points to 12%. Our profit improvement trend is clearly showing the benefits of our transformation program and focus on higher margin clients and offerings, remediation efforts of prior quarters, and higher value digital offerings. We had the largest quarterly sales signings in our history and are happy to announce the signing of a three-year \$1 billion TCV contract, including a price increase with one of our largest global customers. This deal is particularly notable in that we are able to negotiate this for a shorter tenor than typical contracts of this size, thereby reducing the associated risks. This was a win that we achieved as a result of our shared vision to deliver the absolute best-in-class digital experience to our clients and users.

With our platform portfolio, technology expertise, focus on customer experience and global footprint, we are well equipped to address such growing imperatives across our client portfolio. We launched and completed the tender offer of our 10.5% senior notes and we repriced our term loans and revolver. These actions will meaningfully lower our interest expense moving forward.

We continue to invest in our digital interactions offerings, which we expect will drive meaningful growth and provide us with a differentiated and best-in-class solution set. Given most of our business solutions are designed around managing digital interactions, we see this revenue stream as a key growth driver for our core business. We held our first Analyst Day as a standalone public company. We provided an updated long-term outlook on our growth trajectory and a detailed view on each of our core business units.

Finally, we made meaningful progress on our divestiture plans. We have closed two divestitures since our Analyst Day, including our Commercial Vehicle Operations business and our Off-Street Parking business. We expect to close on the sale of our Actuarial and HR consulting business in the near term.

We also announced that we signed an agreement to divest a group of Local Government businesses, we generated approximately \$113 million in revenue in 2017 and expect to close this transaction in Q3. We now expect the after-tax proceeds for all of the signed and closed divestitures to be \$600 million.

We are also making progress on the additional \$500 million of revenue from select standalone Customer Care contracts. We have launched a competitive process and are working with outside parties to ensure that we are finding the right potential buyer to meet our clients' needs and ensure a seamless transition. I'm satisfied with the progress we are making on this front. This will be the final step in rightsizing the company to our core businesses.

Overall, this is yet another strong quarter, driven by our core business, powered by digital interaction offerings and technology platforms, and positions us for year-over-year organic revenue growth in the near future.

Now let me share some additional highlights from the quarter. I'm on slide 4. We remain on track to deliver on our cumulative cost savings target of \$700 million by the end of this year through our strategic transformation initiative. We made progress on consolidating our real estate footprint with total locations down almost 16% and total square footage down 17% compared with Q2 2017.

IT consolidation remains a large contributor in our transformation program this year. Data center and network consolidation efforts are on track for our 2018 goals. We continue to invest in client-facing technology, as well as, internal Conduent enterprise systems such as state-of-the-art enterprise BI system, a unified best-of-breed payroll system, and fully modernized order to cash and procure to pay systems.

We are leveraging the latest CRM tools to become a smarter, more efficient and more productive company. We've also made progress on our overall spend and expense management. SG&A was down in absolute dollars and flat as a percent of revenue compared to last year. We are continuing to invest in sales and marketing functions while remaining focused on costs within the G&A line.

Moving to slide 5, I will go through a quick update on our segment performance. Our Commercial business again showed meaningful improvement this quarter. Commercial revenue was down 3% on a reported basis, but grew 1% when adjusted for our strategic actions.

Profitability continued to improve with adjusted EBITDA margins up 160 basis points year-over-year, as we saw the benefit of expanded service line penetration, cross-selling and uptake of our digital interactions platforms. As a result, revenue productivity of \$50,000 per employee was up 2% year-over-year. Our European business, which today accounts for 11% of Commercial revenue, is also well-positioned for growth with several new client signings in Europe.

Our Public Sector business performed consistent with the outlook given during our recent analyst day. The revenue decline has flattened out and profit margin has shown continued improvement.

Revenue was down about 1% but it was flat including the impact of strategic actions. Adjusted EBITDA margins improved by 200 basis points year-over-year as a result of operational efficiencies, price increases and new technology deployment. As a result, revenue productivity of approximately \$219,000 per year was up 1% compared with last year and continues to be an industry leading metric.

Moving to slide 6, I will discuss our sales performance in terms of signings and pipeline. We have the highest signings quarter in the company's history in Q2. Signing \$1.95 billion of TCV, a 57% increase compared with Q2, 2017.

Our book-to-bill increase this past quarter to 1.1x supporting our growth outlook for next year. New business signings were \$372 million, these are deals that are underpinned by technology platforms, drive higher client value with higher margins, have acceptable operational risk and have a focus of our core business.

Our go-to-market strategy is gaining traction, and the investments in our sales and client engagement function is yielding exactly the results we expect to see: one, in the immediate term, a strong renewal rate of 99% driven by our client engagement teams; and two, growth of our new business pipeline which is up by \$1 billion compared with last quarter, driven by our new hunter sales teams. This demonstrates that we are putting the right talent in front of our existing and prospective clients. I'm also extremely heartened by our pipeline of better quality, higher margin deals with potential for higher conversion rate. We see this as the first step towards new business growth and I am confident that over the next several quarters our pipeline conversion will reflect in the growth of new business signings

Aside from our largest Commercial contract to date, we had several other notable wins and renewals this quarter. In the Consumer and Industrials segment, Conduent was awarded a four-year new business automation add-on for a large client in the hospitality industry. This win modernizes the omni-channel experience, driving automation and digitization in our clients' engagements. In the healthcare space, we continue to capture market share and grow our client footprint with a significant win at a major health plan company based in California. This was a highly competitive renewal where Conduent clearly demonstrated its ability to help the client transform their business, improve their member and provide the satisfaction and achieve better financial outcomes.

In Conduent Europe, we had a significant win in the learning services space for one of the world's largest professional services firms and one of our top 25 clients. As part of this win, we will provide numerous services including content design and development as well as learning administration and vendor management services.

We had several wins in the public sector. In the transportation space, we expanded our automated fare collection technology for an international transit agency, where our innovative technology payment suite is modernizing the citizen's experience. In the government healthcare space, we were awarded a new contract to maintain and support the work that we previously completed on a major modernization project for a large U.S.-based state Medicaid system. In terms of renewals, we secured an extension with one of our health enterprise clients that included increased pricing and more favorable terms and conditions.

Before I recap our results, I will note that with regard to pending litigations, we continue to vigorously defend ourselves in all such matters. We understand our responsibility as a public company. As we have done in the past, we will make timely disclosures on any material developments through our filings.

Let me now recap our quarterly progress. This is the sixth consecutive quarter that we have shown year-over-year margin expansion and adjusted EBITDA growth. We are clearly on the right track

towards our long-term goals. The margin improvement in our Public Sector business and the year-over-year organic revenue growth story in our Commercial business is encouraging, and positions us well for the back half of 2018 and into the future. We continue to invest in leadership to drive growth in key areas and recently announced a new CEO for our Transportation business, Conduent Transportation LLC, and a new group Chief Executive for our government business.

Operating profit and adjusted EBITDA growth is in line with our expectations, and our progress on our divestiture program has allowed us to strengthen our balance sheet and lower our interest expense. And finally, as we discussed at our Analyst Day, we have identified the technology and platform-based offerings that we believe will position us to achieve our long-term growth targets.

With that, Brian will take us through the financials in more detail. I'll then make some brief remarks prior to opening it up for Q&A. Brian?

Brian Webb-Walsh, Chief Financial Officer & Corporate Vice President, Conduent, Inc.

Thank you, Ashok. As I reminded everyone last quarter and at our Analyst Day, our 2018 financials will have several factors that will impact year-over-year comparables. As such, throughout this presentation and in the exhibits in the appendix, we will provide both GAAP numbers as well as our year-over-year results after adjusting for the divestitures that we completed in Q3 2017, and the adoption of the ASC 606 revenue recognition accounting standard. This accounting standard change primarily impacts how we recognize pass-through revenue for postage and deferred revenue.

We have not adjusted these results for divestitures of the Commercial Vehicle Operations business and Off-Street Parking business which we completed on June 28 and July 10 respectively. We expect to move the historical financials of these businesses into our Other segment starting with the third quarter reported results.

Now let's begin on slide 8 with an overview of the second quarter financial results and a walk through the P&L. Revenue of approximately \$1.4 billion for the quarter was down by about 7.3% year-over-year as reported, and down 7.6% on a constant currency basis. Adjusting Q2 2017 for the impact of our 2017 divestitures and the ASC 606 accounting standard adoption, revenue would have been down about 3% year-over-year. We still expect that after adjusting for the impact of divestitures and ASC 606, we'll be able to show organic revenue growth in the fourth quarter of this year.

As Ashok mentioned in his remarks, further adjusting for the impact of strategic decisions, year-over-year revenue in the quarter would have been flat. Gross margin was 18.9%, an improvement of 270 basis points. This improving gross margin reflects continued progress on our transformation initiative and increased pricing from remediated contracts.

SG&A declined year-over-year while adjusted operating margin improved. Adjusted EBITDA in the quarter was \$166 million, an increase of 5.7% year-over-year as reported, and 8.5% excluding the impact of ASC 606 and the 2017 divestitures. Adjusted EBITDA margin grew to 12%, improving both as reported and on an adjusted basis. This improvement was driven primarily by the transformation initiative and contract remediation and was despite our increased investments.

Moving below the operating margin line, restructuring costs were \$17 million, a reduction of \$19 million compared with Q2 of last year, and in line with our full year guidance. Our transaction costs and gain on divestitures were \$60 million, primarily due to the gain associated with the sale of our Commercial Vehicle Operations business.

In Q2 2017, we had a gain of about \$25 million primarily associated with the sale of our Dallas facility. Interest expense increased by \$3 million in the quarter, primarily as a result of the acceleration of deferred financing costs associated with the term loan repricings. The other expense line increased by \$11 million as we had some favorable legal settlements in Q2 2017. Our pre-tax income in the second quarter was \$54 million, an improvement of \$65 million driven by operating income improvement, the gain on the divestiture of our Commercial Vehicle Operations business, and lower restructuring costs.

GAAP net income in the quarter was \$11 million or \$0.04 per share. Our adjusted tax rate in the quarter was 11.1% compared to 33.3% in the prior year period, as a result of a lower federal corporate tax rate and our ability to utilize certain foreign tax credits as a result of the gain associated with the Commercial Vehicle Operations divestiture. This was partially offset by the impact of the GILTI tax provision. I'll note that we no longer expect the BEAT tax provision to be applicable this year as we would expect to have taxable income.

We now expect our full year adjusted tax rate to be between 25% and 28% as a result of our expected income levels and tax planning. Adjusted net income was \$64 million, up \$28 million compared with the prior year period. And adjusted EPS was \$0.29 per share, an increase of \$0.13 compared with Q2 2017.

As I did last quarter, I'll go through the segments and compare our Commercial and Public Sector results to Q2 2017 results, adjusting for the impact of the ASC 606 accounting standard. The businesses that we divested in Q3 2017 were moved into the Other segment and are out of the year-over-year compares.

Turning to slide 9, we provide an overview of Commercial segment results. Year-over-year, Q2 Commercial revenue declined 3%. This decline was driven by strategic decisions to exit long tail accounts and unprofitable contracts. Excluding strategic decisions, we would have grown 1% year-over-year. Our revenue growth is trending according to plan. Segment profit increased by 51.6% year-over-year, driven primarily by our transformation initiative including cost savings and price increases through contract remediation efforts.

Adjusted EBITDA in this segment grew 15.9% and our adjusted EBITDA margin of 9.9% increased by 160 basis points year-over-year. Our profit improvement is despite the continued investment we're making in the business. We are increasingly well-positioned to win and expand relationships, especially those focused on digital interaction and platform based offerings.

Now let's move on to the Public Sector segment results on slide 10. Revenue declined 1% year-over-year as we continue to have the impact of strategic decisions and contract losses. Excluding the impact of strategic actions, revenue would have been flat compared with Q2 2017. Revenue was up 3% sequentially driven by our Transportation business. Our Transportation business was up 4% year-over-year and 3% sequentially, as we ramp international transit projects and other contracts.

Our Public Sector segment profit was up 33.3%, driven by our cost savings initiative, while adjusted EBITDA was up 12.3%. The margin profile of the Public Sector business improved this quarter with segment margins up 300 basis points and adjusted EBITDA margins up 200 basis points.

Last year at this time, we had discussed the pressure that we would see in the Public Sector business as a result of contract losses and strategic actions. We also provided an outlook that margins would improve and the revenue trend would flatten and then turn around. This quarter is evidence of the progress that we've made in meeting these goals. I'm proud of the hard work that our team has put into achieving this performance.

Moving on to slide 11, let's review our Other segment. As a reminder, the Other segment now only holds our Student Loan business, which is in run off. However, 2017 as-reported results also

include the businesses we divested in Q3 2017. The charts on this slide show the segment results both with and without the impact from ASC 606 and the divestitures. Segment revenue was \$5 million in the quarter, a decrease of \$14 million year-over-year, excluding the impact from ASC 606 and the divestitures, while segment loss was \$5 million in the quarter. We expect to fully exit the Student Loan business by the end of Q3. This exit is ahead of plan. We will have some wind-down activities over the next two to three quarters. This exit represents an important milestone in shedding our unprofitable and high-risk non-core business.

Slide 12 provides an overview of our cash flow in Q2 2018. Cash flow from operations was an inflow of \$98 million compared with an inflow of \$67 million in Q2 2017 primarily driven by working capital. We continue to have strong cash flow performance in the quarter. CapEx in the quarter was \$51 million or around 3.7% of revenue, an increase of \$24 million compared with last year. We now expect CapEx to be between 3% and 3.5% of revenue for the year, but this does not change our outlook for our free cash flow guidance. Our adjusted free cash flow was \$60 million in the quarter compared with \$72 million in Q2 2017. This was driven both by higher CapEx and the \$33 million that we received from sale of our Dallas site last year.

Year-to-date, our free cash flow is up \$62 million compared with the first half of 2017. Our strong free cash flow performance through the first two quarters positions us well for our full year free cash flow commitment. We disbursed \$2 million to employees as a result of the termination of our deferred compensation plan and will continue to do so throughout 2018. In Q4, the largest portion of cash held for plan participants will be distributed. As I've discussed in the past, this flows to our operating cash flow and will be adjusted out of reported free cash flow accordingly.

In addition given the number of divestitures that we are working on, tax payments and other divestiture-related expenses are our adjusted out of free cash flow as well. We received \$400 million in pre-tax proceeds from the sale of our Commercial Vehicle Operations business, resulting in an end of quarter cash balance of over \$1 billion.

Turning to slide 13, I'll provide an update on our capital structure. During Q2, adjusted cash, which excludes the cash balance associated with the deferred compensation plan I just discussed as well as restricted cash, was \$903 million compared with \$461 million of adjusted cash at the end of Q1 2018. As Ashok discussed, we launched the tender of our 10.5% senior notes in Q2, and completed in early Q3 with 93%, or \$476 million of the bonds tendering. This will lower our interest expense approximately by \$50 million annually moving forward. In the second quarter, we also repriced our Term Loan A, Term Loan B and a revolver which remains undrawn; this repricing will save us about an additional \$7 million annually.

Looking at the capital structure post tender, our adjusted cash balance would be \$333 million and our adjusted debt would be just under \$1.6 billion. Keep in mind that this balance only includes the proceeds from the Commercial Vehicle Operations business and does not include proceeds from any of the other divestitures that we've either signed or closed. Our adjusted net leverage ratio, as reported, is 1.7 turns compared with 2.4 turns at the end of Q1. Adjusting for the tender, including the premium that we paid, our leverage ratio would be at about 1.9 turns. We continue to expect to use approximately \$300 million of cash for potential acquisitions.

Moving on to slide 14, we closed two of our divestitures over the past several weeks. We completed the sale of our Commercial Vehicle Operations business on June 28 and our Off-Street Parking business on July 10. We would expect to close on the sale of our Actuarial and HR Consulting business in the very near term.

We have also signed an agreement to sell our Local Government Services business earlier this week, which we expect will close by the end of the third quarter. This business generated revenue of \$113 million in 2017. In total, the divestitures that we've signed and closed generated revenue of approximately \$500 million and adjusted EBITDA of \$85 million in 2017, excluding \$35 million of

stranded cost that we expect to address. We expect total pre-tax proceeds of approximately \$700 million or \$600 million, post tax, from the divestitures of these businesses.

As we've discussed previously, we also are looking to divest approximately \$500 million of revenue associated with our standalone Customer Care business, bringing the total revenue to be divested to approximately \$1 billion. In total, excluding \$70 million from stranded overhead cost takeout, the total adjusted EBITDA from businesses we are divesting would be \$75 million.

Before I close, I'll note that you can see on slide 15, our 2018 guidance remains unchanged from our Analyst Day in June. We expect 2018 revenue to be between \$5.4 billion and \$5.6 billion on a constant currency basis. We expect adjusted EBITDA to be between \$662 million and \$688 million. Finally, our free cash flow is expected to be between 25% and 35% of adjusted EBITDA or between \$166 million and \$241 million.

While the closing of our Actuarial and HR Consulting business has been delayed, we expect that the divestiture of our Local Government business to offset this benefit. We will update our guidance ranges, if necessary, when we close these divestitures. We are well-positioned in terms of our outlook for the year and I'm pleased with the Q2 performance and the progress that we've made to date on our divestitures and capital structure.

I will now turn it over to Ashok for some additional comments before we take your questions.

Ashok Vemuri, Chief Executive Officer & Director, Conduent, Inc.

Thank you, Brian. Over the past few quarters and during our first Analyst Day, I have shared with you our view on how Conduent creates value for its clients and how we think about the work we've performed. At its core, Conduent is a technology-led company, managing essential aspects of our clients' operations, while interacting with and supporting the wide range of people they serve. A key dimension of our core business model is our reliance on technology as the basis for service delivery and differentiation. Our service offerings are built on digital business platforms that enable personalized experiences, drive scalability and standardization and harness both interaction and operational data for greater knowledge and insights.

Increasingly, our clients are requiring solutions built around these three dimensions: individualized, immediate and intelligent. These have become our model for framing client needs in developing our technology solutions. We are leveraging our people, process and technology to achieve best-in-class service and are bringing offerings to the market that are digital platform-based solutions. This allows us to take advantage of our incumbency, scale and domain-specific process know-how to implement solutions quickly and with minimal risk of disruption.

I will now elaborate on a few of the recent wins that I've shared earlier on this call to further illustrate this. First is our win at a large hospitality client that will significantly enhance the experience of its customers through digital engagement. By introducing a range of new technologies across our existing customer experience offering, we have transitioned this engagement into a digitally-enabled solution supported by our alliance ecosystem. We have combined automation, artificial intelligence and human understanding to modernize omni-channel support while delivering a best-in-class experience and enabling speed and scalability in our client's operations. Our client was facing higher per unit cost to serve as it continued to grow its fleet. Our solution helped them make a transformative pivot towards a digital business model with minimal risk and disruption to existing operations.

Another example is our win at a major California-based health plan company, a highly competitive renewal where we demonstrated our ability to foster business transformation. Over the next 15 months, we will deploy an end-to-end plan administration platform along with member and provider

experience solution and automation tools. Once implemented, members, providers and our client will have access to a state-of-the-art technology and operations ecosystem, enabling accurate block administration and an across the board omni-channel digital experience.

The new platform's integrated data exchange model improves claims processing, prevents leakage and enables analytics around fraud. In addition, the solution will drive automation and reduce manual hand-offs thereby reducing transaction and turnaround time as well as lowering administration costs.

Turning to an example in the transportation space, we've expanded our automated fare collection technology for an international transit agency, where we extended our contactless smart card payment technology across all three lines of the state's bus rapid transit system. Our automated fare technology works with the system's new contactless transit card to replace old cash fares. This allows riders to board any line with a simple tap-and-go experience.

Ridership is up, thanks to shorter payment lines, and improved transaction processing. Our new automated payment system replaces all existing field equipment, including freestanding ticket vending machines, inspector terminals, validators and access control gates. All three bus lines are also receiving our new fleet management capabilities that provide a real-time look at fleet performance. This enables quicker response time during both service interruptions and spikes in service demand.

These are just a few examples that speak to the progress we are making towards leveraging digital platforms to help our clients transform their business.

In closing, as I've shared at the Analyst Day, I want to highlight the focus that we have on both the near-term task at hand, as well as the long-term opportunity to leverage technology, continuously streamline the organization to achieve efficiency, and improve our financial performance to create shareholder value.

Thank you. And now let's open the call for Q&A.

QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. We will now begin the question-and-answer session. [Operator Instructions] And this morning's first question comes from Bryan Bergin with Cowen.

<Q – Bryan Bergin – Cowen & Co. LLC>: Hi, guys. Good morning. Thank you. I wanted to ask on the cost restructuring, how far through the program are you now in 2018 and can you talk about areas that may serve as potential areas of outperformance? And as far as your stranded costs, an update on the expected timing that you're going to remove those by.

<A – Brian Walsh – Conduent, Inc.>: Sure. Good morning, Bryan. So the \$700 million program is on track to be completed at the end of this year, \$225 million is incremental for this year, and about 50% of that has been achieved for the first two quarters. So we're tracking to complete it by year end. I would say inside of that, real estate continues to outperform and we're getting more out of real estate than we initially anticipated. IT is a big contributor and both those areas will contribute beyond this year and we'll continue to focus on them beyond this year.

In terms of the stranded overhead costs, we expect six months, post-closing, to be able to address the stranded overhead costs. So roughly by the end of this year, \$30 million will be out and then the rest of it will be out by the end of the first half next year based on our expected timelines. And so we expect to have \$20 million to \$25 million of a stranded overhead problem in the first half of next year and then that goes away.

<Q – Bryan Bergin – Cowen & Co. LLC>: Okay. Appreciate that. And then my follow-up, understand that you may be somewhat limited here on what you can say, but can you provide any update on the litigation? We receive a lot of questions regarding how the accrual's determined, how insurance may factor in. And then as far as that public tolling contract, does the increased resources to complete the work imply somewhat pressured margins there versus expectations? Just trying to understand the implications here on the financials from both.

<A – Brian Walsh – Conduent, Inc.>: Yeah, so first on the Texas lawsuit, the original \$38 million accrual was done in 2015 based on the FAS 5 analysis done at that time. We continue to review it every quarter as required by GAAP. I would encourage everyone to read the full disclosure in our 10-Q regarding this litigation. And, as Ashok mentioned in his prepared remarks, we'll update our disclosures when there's material new information.

In terms of the tolling contract, we typically don't comment on the financials around one specific contract. We're obviously working to remediate the situation. But what I will say is we just confirmed our guidance on revenue, free cash flow and adjusted EBITDA, so at this time, we don't anticipate it having an impact on our ability to meet our guidance.

<Q – Bryan Bergin – Cowen & Co. LLC>: Okay. Thank you.

Operator: Thank you. And the next question comes from Mayank Tandon with Needham.

<Q – Mayank Tandon – Needham & Co. LLC>: Thank you. Good morning. Brian, just to be clear on the guidance, I want to make sure we understand this, the updated guidance or, in other words, you didn't change guidance, but does that actually only include the signed divestitures – sorry, the closed divestitures, but not the signed ones? And [indiscernible] (00:38:26)

<A – Brian Walsh – Conduent, Inc.>: No, it includes both the signed and closed divestitures. And so even though the HR Consulting divestiture is delayed, the closing's delayed, and we're picking up an extra month or so of revenue and EBITDA, because we've now signed the Local Government divestiture, and we expect that to close some time in Q3, those things offset each other. And if when we actually close there is a difference and a change is required, we'll updated guidance then.

<Q – Mayank Tandon – Needham & Co. LLC>: Got it. Thank you. And then for Ashok, Ashok, obviously, great to hear some of these deal wins. Could you just talk a little bit more about sales productivity? You've obviously been investing in sales and marketing, how that is progressing. And ultimately, when do we start to see some of the new business wins start to show up in the bookings numbers? Right now, of course, they're still down year-over-year. When does that tide actually start to turn?

<A – Ashok Vemuri – Conduent, Inc.>: Yeah. So the investments in sales, both in the hunters and in the farmers or the mining client engagement people continues to happen. I think early signs of their productivity is reflected in the new business pipeline, it's reflected in the renewal rate and the pivot that we are successfully making into digital interactions using our platforms. And I think the large deal that we just signed is the testimony to the fact that both for smaller deals as well as for large deals, we have the talent and that team and the expertise to showcase our capabilities to our client. Now obviously, the proof of the pudding will be if we are able to institutionalize this and generate more such kind of deals, which is good work-in-progress – which is work-in-progress.

But the good news here is that we're beginning to see the sign, the pipeline has increased. As you know, once we get the sales team on, the first step is to get a pipeline going, that is increased, then the pipeline gets converted into signings and then the signings into revenue. I think we have a few quarters more, as the traction builds for this conversion to happen into revenue. But the direction is right, the signs that are encouraging and all the clients that I meet when I go with my teams, the feedback has clearly changed in terms of being more positive. The conversations are more driven towards outcomes, and the audience that we have has definitely changed from the usual people we used to meet in the past.

<Q – Mayank Tandon – Needham & Co. LLC>: That's helpful. And if I can just squeeze one more in. Brian, on the debt, I think your guidance now implies about \$23 million in interest expense in the quarters three and four, should we be using that as sort of the benchmark for next year as well or do you expect to be able to delever further as the cash comes in from these divestitures?

<A – Brian Walsh – Conduent, Inc.>: So, we spent \$570 million through the tender

and the premium we paid on the tender. And with the signed and closed divestitures, we expect \$600 million of proceeds, so there's only about \$30 million unaccounted for. We're also right at our leverage target, a little below, we said 2 turns as our net leverage target and we're at 1.9 turns. So I wouldn't anticipate too much more deleveraging.

Right now, when we look at the forecast for interest next year, \$88 million is our forecast, that assumes two more rate hikes this year and two rate hikes next year. And so that's what we're looking at in terms of interest for 2019.

<Q – Mayank Tandon – Needham & Co. LLC>: Great. Thank you.

Operator: Thank you. And the next question comes from Shannon Cross with Cross Capital (sic) [Research] (00:41:59).

<Q – Shannon Cross – Cross Research LLC>: Hi, it's Shannon Cross with Cross Research. Just wanted to ask about the 99% renewal rate, going into the sales productivity question as well, but now that's clearly a high rate and I'm sure it can vary over quarters. But I'm curious what specific things you've put in place to try to increase your renewal rate, what you think is driving it if there were any changes. And then I have a follow-up. Thanks.

<A – Ashok Vemuri – Conduent, Inc.>: Yeah. So renewal rate of 99% is clearly industry leading, I think a few factors that go into this, one is being proactively getting in front of the client way before

the renewal timelines are put in place, stronger delivery, the ability to bundle more capabilities and drive a more comprehensive solution. I think the fact that we have a lot more subject matter experts that we are positioning into our existing client base. So a combination of this is resulting in our ability to continue to sustain these high renewal rates.

<Q – Shannon Cross – Cross Research LLC>: Okay, great. And then in terms of acquisitions you talk about is obviously, I think \$300 million still targeted there. And you've made good traction and obviously, your divestitures, but what are you seeing in terms of the market, pricing opportunities, and how quickly do you think you'll move once you sort of worked through the divestitures?

<A – Ashok Vemuri – Conduent, Inc.>: So, with regard to acquisitions, we have said this before, we are looking to bridge the capability gaps that we have. We're definitely looking for technology and IP assets, we're not interested in buying a set of contracts because they're not sustainable. So we are actually in the process of due diligence-ing some of these interesting assets that are out there. Clearly, if you look at technology-related assets, some of the valuations, I find it hard to sometimes comprehend why they are where they are, but we are going to be extremely pragmatic and practical in order to make the appropriate investments in a way that is accretive, both for our financials as well as is a good use of the of the money that we have.

<Q – Shannon Cross – Cross Research LLC>: So you'll only look at accretive, I assume, at this point.

<A – Ashok Vemuri – Conduent, Inc.>: We look at it from multiple lenses. Clearly, accretiveness is one capability, GAAP is the other. The pivot where the market is going – if I look at the digital interactions space and how quickly we're sort of beginning to get traction in the marketplace, clearly, we will have to make bets with regard to where this puck could go to. But having said that, we don't also want to be in a situation where we become victims to valuations for software companies which I really think is non-sustainable, and which I have no intention of paying for.

<Q – Shannon Cross – Cross Research LLC>: Thank you.

<A>: Thank you. And the next question comes from Keith Bachman with Bank of Montreal.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Hi. Thanks very much. I actually wanted to start on the signings. And Ashok, my question is can you grow with the current backdrop of signings? And what I mean by that is you had very good renewal signings, but your new business signings, frankly, are still pretty weak, and when you talk about growth in calendar year 2019, are the renewals strong enough that given this backdrop, you could grow calendar 2019, or do you need your new business signings pick up? I thought the disclosure on page 20 was interesting, your slide deck, where you talked about the annual reoccurring revenue signings and non-reoccurring signs were both down quite meaningfully. So just wanted to see, do you need the new business signings to pick up before you can really think about growth?

<A – Ashok Vemuri – Conduent, Inc.>: Yes. You do need new business signings in order to drive overall growth, but an important component is renewals. And this level of strong renewals gives us the opportunity to cross and upsell in our install base. So there are two elements to this. Unless and until I have strong renewals and [ph] sustained and (00:46:16) continuation of business in my install base, I don't have the opportunity to cross or upsell in that particular portfolio which in my particular case is very rich.

Having said that, we also need to drive new business growth. And given the traction that we have, and there are stages for the new business signings growth. So number one is you have to have a pipeline, a pipeline that is reflective of the kind of deals that we want. It is real, it does not have transactions which are long tenor or are in parts of the world that we don't do business or don't

want to do business, et cetera. So the pipeline quality is good. It's real. These are manageable transactions. They are at a risk level which I believe are manageable they're well mitigated.

So the conversion now of this pipeline into signings and from signings into revenue is what our focus is on. And given the current rate at which we're able to do that, given the fact that we have two quarters of flat revenue growth finally after many quarters, after many years in fact, gives me the confidence that in the back half of this year, which is why we are staying with the guidance that we have given, as Brian mentioned, as well as the pivot to growth that we expect in 2019 is on sound footing.

So short answer to your question is yes, new business growth is important. Renewals are as important. And renewals track record is very, very strong. New business signings, we will begin to see as the traction of the pipeline is converting into signings and from signings into revenue begins to happen.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Okay. Thank you for that answer. I have a related follow-up. My follow up is a related question. When you talk about strategic decisions and growth normalized for strategic decisions, is that specifically the businesses that you intend to sell and therefore you're trying to normalize for those growth rates, because clearly IT services companies everyday face choices about whether to chase business or not. And there's a lot of deals Cognizant and others walk away from during the course of any business cycle. So, I'm just trying to understand a little bit more when you normalize growth for those strategic decisions, if that's implicitly within those business that you still tend to sell or is there something else? And that's it for me. Thank you.

<A – Brian Walsh – Conduent, Inc.>: So when we talk about strategic decisions, they're long tail clients that we exited, so very small clients that we couldn't monetize and we exited. And they're unprofitable contracts where we tried to remediate them. And when we couldn't remediate them, we decided to exit and not renew. That's what we refer to as strategic decisions. And when we adjust for those and the divestitures and ASC 606, we get to flat.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Okay.

<A – Brian Walsh – Conduent, Inc.>: When we talk about returning to growth in Q4 this year on an organic basis, by that point, we lap a lot of our strategic decisions and excluding ASC 606, excluding all the divestitures, we expect to be at 1% growth.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Okay. And therefore, Brian, just to follow up, for CY 2019, there won't be any – the strategic decisions won't be part of the narrative because everything will be overlapped and so growth will be on a normalized basis or on an actual basis rather?

<A – Brian Walsh – Conduent, Inc.>: Correct. On the core business that we presented at our Analyst Day, and then the 2.5% to 4% growth is off of that. We said for 2019, we'd be at the lower end of that range. Part of that comes through M&A and part of that comes from organic.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Many thanks. Cheers.

Operator: Thank you. And the next question comes from Jim Suva with Citi.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you very much. I believe Ashok in your prepared comments, you mentioned about – did you say about \$500 million of contracts yet to – get rid of off of your company? And if so, would those then be adjusted to your full year sales and EBITDA guidance?

<A – Ashok Vemuri – Conduent, Inc.>: So, Jim, the reference to the \$500 million is a standalone Customer Care business, just thought I would correct that for you and then hand it over to Brian.

<A – Brian Walsh – Conduent, Inc.>: And we have not taken that out of our guidance yet because we don't have a signed deal. So, as we sign a deal, that's when we would adjust our guidance for that business. Keep in mind from an EBITDA perspective, once stranded costs are taken out, it loses money historically, but we have not adjusted yet for that business.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Okay. Great. Thanks so much for the clarification.

Operator: Thank you. And the next question comes from Frank Atkins of SunTrust.

<Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.>: Thanks for taking my questions. First question, I wanted to ask if I could get a update on the global delivery platform. Can you give us a sense of where head count is and kind of where the mix of delivery talent is? And what are you seeing and doing out there to retain and attract talent?

<A – Ashok Vemuri – Conduent, Inc.>: Yeah. So, our global delivery platform center around four distinct hubs, starting with the Philippines, India, Guatemala and Jamaica. And we have other centers like Romania, et cetera, which cater to a particular geography or a particular skill set. And the way we are doing this is, as we increase our accu-shoring percentage, as it begins to find traction with our clients, we are hiring people who have technology and process capability in these centers to support our business across the world.

As we're moving more towards digital interactions and more of the mobility or analytic capability, that is a capability that we find increasingly more in the markets that we serve. So for example, we've set up the innovation center in North Carolina where we expect to hire a lot of people from the neighboring universities, because that's the talent that we believe will be more effective if they are both client-facing as well as they are in the ecosystem in which these ideas are being developed.

From a retention perspective, clearly, we are making those investments, both from investing in our technology, investing in training and development, as well as investing to bring business into it, so that there is a cycle of perpetuating the good and capable set of talent that we can bring to the table. So, I think we have the model down, right. The model is beginning to grow. If I look at the talent acquisition in my global delivery centers, it's actually higher at this point in time, as I move some of the work that used to actually be done in high cost locations has moved there. But clearly in the high cost locations, I have to hire people who will generate a higher value for the company both in terms of pricing and margin and capabilities.

<Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.>: Okay, great. That was helpful. And then can you talk a little bit about revenue opportunity set outside the United States, and then secondarily, where you see opportunities to implement additional layers of analytics or digital capabilities?

<A – Ashok Vemuri – Conduent, Inc.>: So outside the U.S., our focus is on Western Europe, as I've said before, essentially, four countries. We're working in UK, we're working in France, Germany and the Netherlands. We have an install base of clients there. We think that between these four countries in Europe and the United States, we're probably covering as much of the economic technology and process dollars as is possible to do.

We clearly see opportunities across the board, whether it's the amount of monies that are being spent in the government sector, the amount of monies from a technology and process perspective. Everybody is looking for insights. Everybody is looking for intelligence. I mean if you look at us, we

are probably the conduit or the pipe of so much data that flows in. And hitherto, we have not necessarily mined that for insights or intelligence.

And as is evidenced from the deals and the conversations we're having with our clients, most of the conversation is about, yeah, I know there is data, how can I extract intelligence and insight into this, whether it's a auto manufacturer, whether it is a bank, whether it is a credit card company, whether it's a transit agency, whether it's a state and local government. So the opportunities for this are very, very large. The headroom for us is very, very large. We've gotten into this in a fairly – the traction is actually very, very strong for us and we will continue to invest to mine this.

At the same time, the common processes or the generic processes that most companies rely and their operations rely on, the opportunity for automating that, the opportunity for extracting more productivity and efficiency out of the repetitive parts which can be automated, and thereby, by putting it onto a technology stack, drives more insights, intelligence immediacy and is much higher. So overall, the ecosystem is very large. There are a few players that do this on an end-to-end basis the way that we do. And I think from that perspective, just the headroom for me with this particular capability is very, very high.

<Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.>: Okay. Great. And if I could squeeze one more, can you touch just briefly on the recent leadership appointments in a couple areas and what that brings to the table? Thank you very much.

<A – Ashok Vemuri – Conduent, Inc.>: Yeah. So we have – Conduent Transportation LLC is a very strong business of ours, good growth, very strong margins. We definitely have done well for ourselves in being able to hire a CEO for that business. He brings a significant amount of technology capability, has run large organizations and business. And as we pivot our Transportation business to be inclusive beyond just the transit or the tolling or public safety, we think he is the right person, and that allows us to shine a spotlight, if you will, on a business that is definitely a very strong and healthy business for us.

The same situation with Government. We're very fortunate to have Marcus join us as a Group Chief Executive for our Government business, another great area of focus for us. We have not necessarily been as competitive in the federal government space. We think, again, shining a light on this will highlight both the investment opportunity, the growth opportunity, and attract the right talent for a business that is definitely got a ton of legs under it to grow.

Operator: Thank you. And the next question comes from Brian Essex of Morgan Stanley.

<Q – Brian Essex – Morgan Stanley & Co. LLC>: Hi, good afternoon or good morning and thank you for taking the question. Ashok, I was wondering if you could follow up on the sales force movement. At this point, I think we've spoken before and you're a little bit north of the 300 sales force head count going to 360, or maybe you're at 330 going to 360. Where does that stand now and what is the maturity of that sales force like, and when might you anticipate maybe a little bit better contribution on the new business side?

<A – Ashok Vemuri – Conduent, Inc.>: Yeah, so it's around 315, 320 now, Brian. So it's – from a maturity perspective, most of these folks have been around for at least six to eight months, which basically means that they are now ready to drive a higher number or demonstrate better performance. And we've been on this hiring bandwagon right from, let's say, the summer of 2017. So the growth in pipeline, which is the first step towards seeing whether the sales team is effective, that is growing. So that tells me that we have the right people, they're doing the right things. We probably need a lot more of these people, as they finish their six months tenure, they should be kicking in. So I feel confident about where my sales team is. As you know, a sales team is as good as its previous quarter. So it is a job where you just have to keep churning things out and pounding the pavement.

The other good news is that when we moved to a vertical organization and delineated sales from client partners, those people are actually – generate a great amount of traction. We've hired subject matter expertise, we've hired people from the industries. I've said before, it's always important to hire people who can sit across a client and the client can relate to that person, say, okay, I've done this compliance work, I know what this means, I have scars on my back to show where this will go right and where this will go wrong. And I think that is a key reason why our renewals are so high. The fact that we are – and our delivery, the investments that we have made in delivery technology, still a lot to make but still the ones that we have made are beginning to yield the results. So, I feel as compared to the summer of last year, at this point in time, I feel better. But sales, as I always said, is you're as good as your last quarter. So we have to keep our sales engine churning all the time.

<Q – Brian Essex – Morgan Stanley & Co. LLC>: Right. That's super helpful. So, thank you for that. And maybe just if I could follow up on the Customer Care contracts, any indication you can give us in terms of how many customers that represents and how many maybe bulk sales of these contracts that you might be able to find a home for, or is this going to be more of a longer trickle out of your platform as they may be able to be – or may have to be kind of carved up a little bit more to find the right home?

<A – Brian Walsh – Conduent, Inc.>: So, the \$500 million is probably made up of 15 contracts. We are trying to find a buyer for the full portfolio. If we have to look at other options, we will. But our preference is to find a buyer for the whole portfolio.

<Q – Brian Essex – Morgan Stanley & Co. LLC>: Very helpful. Thank you.

Operator: Thank you. Our next question comes from Puneet Jain with JPMorgan.

<Q – Puneet Jain – JPMorgan Securities LLC>: Yeah. Hi. Thanks for taking my question. Is there a way to quantify impact of higher margin cut-off or focus on platform-based businesses on new business signings? Is that like a material driver of year-on-year decline in new business wins?

<A – Brian Walsh – Conduent, Inc.>: If you look at our signings and if you look at our business, once the divestitures are done, 80% of what we do will be platform-based. So, the signings are healthier. They turn to revenues faster. They're meeting our margin guidelines. And for the most part, they're platform-based.

<Q – Puneet Jain – JPMorgan Securities LLC>: Got it. But the cut-off rate for margins or the type of work you are looking for is highest now than what it was last year.

<A – Brian Walsh – Conduent, Inc.>: Yes. Our margin cut-off drives towards the long-term targets for the company. So we want to be over 15%, 15.5%, 16% adjusted EBITDA margins, and so when we look at deals, those are the margin targets we look at.

<Q – Puneet Jain – JPMorgan Securities LLC>: Got it. And it seems like you're going to wind down Student Loan business in 3Q, what will be the wind-down expenses associated with that and is that going to be included in free cash flow or adjusted EPS numbers?

<A – Brian Walsh – Conduent, Inc.>: Yeah. So we expect for Q3 and Q4 about \$3 million to \$4 million of wind-down costs in each quarter. And then if it goes into Q1, it would be a lower amount, \$1 million to \$2 million. And that's – we're going to be out of the business, not servicing the loans anymore, but we'll have wind-down activities we have to complete. The plan is to take that out of segment profit, adjusted EBITDA, report that another net expense. So it would be included in free cash flow, but it would be adjusted out of adjusted earnings, and it would be out of adjusted EBITDA.

<Q – Puneet Jain – JPMorgan Securities LLC>: Got it. Thank you.

Operator: Thank you. This concludes the conference call. Please feel free to reach out to the company directly for any follow-ups. Thank you for participating. You may now disconnect your lines.

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