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CNDT.OQ - Q3 2024 Conduent Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Giles Goodburn** *Conduent Inc - Vice President of Investor Relations*

**Clifford Skelton** *Conduent Inc - Chief Executive Officer, Director*

**Stephen Wood** *Conduent Inc - Executive Vice President and Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Patrick McCann** *Noble Capital Markets - Analyst*

**Marc Riddick** *Sidoti & Company - Analyst*

**Chris Sakai** *Singular Research - Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to the Conduent third-quarter 2024 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Giles Goodburn, Vice President of Investor Relations for Conduent. Thank you. You may begin.

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### Giles Goodburn - Conduent Inc - Vice President of Investor Relations

Thank you, operator, and thanks, everyone, for joining us today to discuss Conduent's third-quarter 2024 earnings. I'm joined today by Cliff Skelton, our President and CEO; and Steve Wood, our CFO. We hope you had a chance to review our press release issued earlier this morning. 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 morning 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 materially differ 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 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 financial 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.

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### Clifford Skelton - Conduent Inc - Chief Executive Officer, Director

Thanks, Giles. Welcome, everyone, to our Q3 earnings. As we did last quarter, Steve will begin with the financials, and I'll follow with a status report on what's changed in the last quarter and a brief discussion on what continues to make Conduent's balance sheet, solution set, and growth expectations unique.

But first, the quarter Q3 adjusted revenue and adjusted EBITDA were \$781 million and \$32 million, respectively, at a 4.1% margin, median or slightly exceeding our expectations. This is fully adjusted now for all completed divestitures, and these results continue to validate our previously described game plan for our growth trajectory. New business signings were \$111 million, with a strong performance in Commercial sales, offset with some continued softness in Government in parts of our Transportation business, where there was less deal activity in the quarter.

As you know, there can be lumpiness in sales performance by quarter, but overall, we are on track for a 2024 sales year that meets our expectations. As expected, our net ARR number returned to positive territory. Steve will go deep on all these numbers here in a moment, but here are a couple of key points. We completed the initial phase of the divestiture program we communicated 18 months ago, and we've deployed 75% of the \$1 billion targeted against debt prepayment and share repurchases. We've been consistent in our messaging for the last 18 months.

We're on a continued path to those 2025 exit rate parameters of lower debt and debt ratios, sequential margin improvement, less capital intensity, and topline growth. We will stay on course both strategically and tactically toward a narrower, more nimble, growing company with a clean balance sheet. Finally, with a more simplified Board structure, we can now turn our attention to what's next.

But first, let me hand it over to Steve to talk about the detailed results for Q3. Steve?

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**Stephen Wood** - Conduent Inc - Executive Vice President and Chief Financial Officer

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. Our reported numbers and the guide for this quarter have been adjusted again for the divestiture of the Casualty Claims business. We've published a full set of historical adjusted financials in our metrics file, which you will find in the Investor section of the Conduent website.

Let's turn to slide 5. We continued to make progress in the quarter with our divestiture plans, completing the third transaction of 2024 with the closure of the sale of our Casualty Claims business receiving \$224 million. Gross proceeds on these three transactions were approximately \$865 million, with approximately \$60 million still to be received between Q4 this year and April next year. Overall net proceeds will be approximately \$780 million. This is right at the top end of the range I outlined for this initial set of transactions.

I said 18 months ago that we were targeting \$1 billion of deployable capital. And to date, we've deployed approximately 75% of that, buying back a total of approximately 61 million shares and prepaying \$539 million of term loans with a further authority to prepay another \$125 million, which we'd expect to do in the fourth quarter.

Let's now turn to slide 6 and 7 and review our key sales metrics. Q3 was a strong sales quarter within the Commercial segment, but this was offset with a lighter quarter in the Government segment, where there was less deal activity. And so our overall ACV attainment of \$111 million was slightly below our expectations. We see the full year outcome being in the range of \$500 million to \$550 million of ACV. Within that estimate, there are a couple of larger deals in our public sector market where precision in predicting timing can be an issue. Within Commercial, we're expecting to see a strong finish to the year.

Our clients continue to look to us for solutions to address cost, drive technology upgrades and business transformation through outsourcing, both in the CX and BPaaS spaces. We have a strong set of horizontal offerings in our Commercial businesses that give us a breadth of capability to provide technology-led BPO solutions end-to-end across our clients' value chains from the front office to the back office. On slide 7, you'll see that our net ARR metric rebounded this quarter. We'd expect to finish the year with this metric somewhere around \$100 million.

Now let's turn to slide 8, and discuss our Q3 2024 financial results. Adjusted revenue for Q3 2024 was \$781 million as compared to \$831 million in Q3 2023, down 6% year over year. This is in line with our expectations and my guide from last quarter when adjusting for the removal of the Casualty Claims business. The causals are consistent with the last couple of quarters with runoff from lost business, partially offset with new business ramp and that gap continuing to narrow.

Adjusted EBITDA was \$32 million for the quarter as compared to \$60 million in Q3 2023. And the adjusted EBITDA margin was 4.1% for the quarter as compared to 7.2% in Q3 2023. Again, this conforms to our guide adjusted for the Casualty Claims business. It's also sequentially up, which again, we expected as we get into our cost work around the removal of stranded costs from the divestitures and our other efficiency programs. We expect this sequential climb in the EBITDA margin now each quarter as we progress through the remainder of 2024 and into 2025 and towards the exit rates we outlined.

Turning to the segment results on slide 9. For Q3 2024, Commercial segment adjusted revenues were \$385 million, down 3% as compared to Q3 2023. The topline story for the Commercial segment this quarter continues to be one of working off the effect of some prior year lost business, which is starting to work out of the compare. We expect the growth gap to narrow sequentially due to improving sales performance and retention and the segment coming closer to flat as we move through the first half of 2025 with growth towards the second half of 2025.

Adjusted EBITDA for the Commercial segment in Q3 2024 was \$35 million, up approximately 21% compared to Q3 2023. And the adjusted EBITDA margin of 9.1% was up 180 basis points year over year, driven by sales ramp and continued cost efficiency.

For the Government segment, Q3 2024 revenues were \$255 million, down approximately 12% as compared to Q3 2023. This is in line with the three discrete drivers I outlined last quarter. Adjusted EBITDA for the Government segment in Q3 2024 was \$60 million, down 37% year over year. The discrete items from last quarter's narrative remain what drives this as well as some short-term elevated expenses related to a couple of implementations that should normalize later in the year. Transportation segment adjusted revenues in Q3 2024 were \$141 million, down approximately 2% year over year.

The implementation ramp from our large Transit project in Australia was \$23 million, offset by our long-anticipated reduction in scope and pricing adjustment for a large, long-term client in our Tolling business. The Transportation segment adjusted EBITDA was breakeven in Q3 as compared to \$3 million in Q3 2023. The primary driver here was revenue mix, specifically with the two contracts noted previously and partially offset by some improved operational performance.

There has been a margin reset within Transportation because of the divestiture of the Curbside and Public Safety businesses. And this is one area where we have several initiatives underway to remove stranded costs, drive incremental operating efficiency, and continue to build scale back into our Tolling and Transit businesses with new leadership now in place.

Let's turn to slide 10 and discuss the balance sheet and cash flow. We ended the quarter with approximately \$400 million of total cash on balance sheet, and our \$550 million revolving credit facility was largely undrawn. We repurchased 3.9 million shares and have now completed this previously approved program. We made prepayments on debt of \$75 million, which included voluntarily prepaying the remainder of our Term Loan B and starting to prepay our Term Loan A. We have additional authority to prepay debt up to \$125 million from divestiture proceeds on hand and still to be received. We'd expect to use the remaining authority before the end of the year.

Our net leverage ratio decreased to 1.4 turns. This ratio will go up over the next couple of quarters as we annualize the divested EBITDA within the calc partially offset by the sequential recovery in adjusted EBITDA as we work through our stranded cost and efficiency programs. Once this work is completed during the second half of 2025, you'll see this leverage returning to around 1.5 turns and then moving towards the 1 turn that we've outlined in our midterm outlook as we exit 2025. Capital expenditure in the second quarter was 2.5% of revenue, and we expect it to be about 2.8% of revenue for the full year 2024.

Let's turn now to slide 11 and cover our outlook for 2024. Now that we've completed the three divestitures we planned for 2024, our full year guide is adjusted to reflect all of these. In line with how I laid out last quarter, the Casualty Claims Solutions divestiture removed approximately \$150 million of revenue and about 1 point of reduction in the adjusted EBITDA margin. Therefore, we now expect full year adjusted revenue to be in the range of \$3.185 billion to \$3.215 billion. At the midpoint, that's about a 3% down year over year.

And we expect adjusted EBITDA margin to be in the range of 3.75% to 4% which will be towards the top end of the range we previously guided. In terms of other modeling considerations, our adjusted free cash flow is not a fully adjusted metric because we don't break out discrete cash flows at the levels of these divested assets. At this point, we expect the year to land around negative \$50 million with around 3/4 of the reduction from

last quarter's outlook driven by a handful of billing milestone adjustments on large contracts in our public sector businesses. These are timing events, not scope changes, and we expect the milestones to be reached early in 2025. Finally, you'll see capital expenditure reducing here with the effect of the divestitures, again, all in line with the prior outlines I've given you.

Moving to slide 12. This remains our walk to the exit rates in 2025, and we remain confident in achieving these targets. We have a strong pipeline and multiple levers in our cost efficiency work to drive our margin outcomes. We will continue to be opportunistic about the portfolio in terms of additional transactions for the right multiples that could continue to enhance value.

Special thanks to all my teammates who worked really hard to deliver on this initial phase of our divestiture program. That concludes my financial remarks for the quarter, and I'll hand it back over to Cliff for the broader business update. Cliff?

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**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

Thanks, Steve. Now let's turn to slide 14 to talk about what's changed over the last quarter, what we've been working on and some trends, a status report of sorts. We have consistently stated that building a solid foundation of operational stability was foundational and precedent to growth. We're now at a stage where new leadership with enhanced relationships is necessary. We've hired three key executives to help us make this pivot.

Mike McDaniel joined us from DXC and previously Accenture. He now leads our Commercial businesses as Group President. Anna Sever joins us from Magellan Federal and previously MAXIMUS. She is now leading our Government business as President. And Scott Copeland has joined us from Cubic as our new leader for Tolling, part of our Transportation sector.

Meanwhile, we see continued improvement in both employee and client retention, and our sales pipeline remains strong with a renewed appetite for offshoring to drive efficiency for our commercial clients. A year ago, we experienced strong sales performance from our Government businesses, and our Commercial performance lagged. This year, we see the opposite. This is where a diverse portfolio can take advantage of economic and policy swings. We believe that while the pipeline is strong end to end, our Commercial businesses will continue to outperform.

Within Transportation, we're progressing well in our largest implementation in the state of Victoria in Australia and believe upon completion that we'll have a quite impressive state-of-the-art account-based ticketing system, among other solid attributes. Net-net, while Commercial is experiencing a year of solid relative performance, overall pipelines across all of our business lines are in good shape.

Finally, divestitures. In this regard, our journey is not over. We see ongoing opportunities to further enhance our balance sheet, become more nimble and better focused investments and bandwidth. More to come here where our Board of Directors is fully supportive of our plan and ongoing efforts.

Now let's turn to slide 15 to go a little deeper on that diverse portfolio I alluded to. Slide 15 is a snapshot of where Conduent is today. This is a very different picture than we would have been able to present just five years ago, and we've made a lot of progress. Our exit rates for revenue and margin percentages are consistent with how we've been narrating this journey for the last 18 months, as is the expected rate at which we estimate we can grow our new business sales.

Conduent has a high base of recurring revenue. Approximately 90% reoccurs each year. So as long as volume stays constant, sales stay the course, and churn continues to slow, we are growing as expected. We have client relationships in 46 of the 50 states in the public sector, and we service approximately 50% of the Fortune 100. Our top 20 clients have an average tenure of 20 years. The most significant opportunity is in those large commercial clients where cross-selling is available.

We've worked very hard over the past four to five years to drive meaningful improvements in the things that are most important to our clients. Our Net Promoter Score, or NPS, is now up 30 points. How this translates into financial outcomes is through improved client retention, which is 40% improved since 2021. The inverse of this is annual churn, and we've seen that come from a rate of over 11% to around 7% and line of sight to that going lower. Our near-term target is to be below 5%.

All of the above is testament to the work we've done to stabilize our company, and we're positioned well for growth as we move into 2025. Importantly, the divestiture work we've done over the past 18 months has resulted in approximately \$780 million of after-tax proceeds, which we've deployed to strengthen our balance sheet through prepaying debt as well as repurchasing around 25% of our outstanding shares.

Even after this initial round of divestiture work, we still have a very rich portfolio of assets across our businesses with over 90% of our solutions underpinned by proprietary technology and over 500 patents across key technology capabilities, including automation, analytics, AI, digital payments, and mobility.

I'd like to take a few minutes to recap on how we're thinking about those assets on slide 16. At this point, our Commercial segment represents about 51% of the overall business from a revenue perspective. And we think about the solutions broadly in two categories. We have a rich set of horizontal BPO capabilities at the core of our Commercial business that can be deployed across multiple industries. These are our cross-industry solutions.

Our attach rate across clients here is approximately 1.6 solutions for a top 200 on average, and we expect to drive that higher with more dedicated efforts around cross-sell. Our CX business is almost exclusively focused on higher-tier work, more complex work, if you will, where continuum of service is important and quality is a primary KPI. Nearly half of our clients in this area have other Conduent products and solutions. Given the complexity of the work we support, we continue to see the evolving AI landscape as one that will augment agent performance, not replace it. We see this business as the tip of an integrated sword and don't think of this business as a competitor with a traditional customer experience company.

Our industry-specific solutions or platform assets that support key business outcomes for our clients unique to a particular industry, including loan servicing, e-discovery analytics, healthcare claims, and specialty drug eligibility.

Across our Commercial business as a whole, more than 1/3 of our revenue comes from the healthcare client vertical with financial services, auto, travel, and logistics being other important verticals. But healthcare is where we stand apart from other BPOs as a ubiquitous provider of service because healthcare is not only an industry where many can play, but it's also a set of products where fewer can play. We bridge those gaps unlike others in the field.

As we continue to develop our Commercial business, we see further opportunity to reshape the portfolio, narrowing in some places, partnerships and tuck-ins and others as well as continuing to work on the onshore to offshore mix to improve margins.

Let's turn to the Government and Transportation segments on slide 17. Our Government and Transportation segments combined make up approximately 49% of our revenue. We continue to believe that our assets in the public sector have strong defensive characteristics against broader macro headwinds. And therefore, having to set up businesses that address public sector markets continues to make sense. Government and Transportation can be thought of in three unique set of solutions, government healthcare technology and servicing for primarily state-distributed Medicaid services, state and federal benefit payments distribution primarily through open and closed loop prepaid cards, and tolling and transit services within our Transportation business.

Each of these business areas are unique. The overall contract length is typically longer than in the Commercial businesses, and the Government margins are certainly superior. The buyers within state governments and agencies are often independent from one another, and the work itself is different. For example, government healthcare is primarily a technology play. Government eligibility and enrollment is primarily a service play.

Electronic benefits card program is a closed-loop prepaid card program, and payment card programs are an open loop program, branded primarily by Mastercard. Tolling is primarily a technology and servicing business, and transit is primarily an equipment and technology business. We think about our Commercial business as a business with embedded technology, whereas our public sector businesses are technology businesses with embedded service capabilities.

Now let's turn to slide 18 to wrap up. Across all these businesses, public and commercial, we're infusing new talent to continue to drive growth and optimize margins, as I've previously discussed. We've demonstrated over the past 18 months through our divestiture work that there's significant value in the underlying assets that make up Conduent. We will continue to look at the portfolio through the lens of maximizing shareholder return,

be that through running, combining, or in certain cases monetizing assets within what is still a very broad portfolio. There's a lot of trapped value in this diverse portfolio.

The key is to focus and increase scale organically or inorganically to compete with fewer peers, allowing for more simplicity and more optimized bandwidth utilization. I'm confident we have Conduent on the right trajectory, moving our business to sustain topline growth, sequential margin improvement, less capital intensity and improved cash flow conversion.

As always, I'd like to thank our shareholders, our clients, and our 55,000 associates for their support. Thank you, everyone, for listening, and I'll now turn it back to the operator for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Pat McCann, NOBLE Capital Markets.

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### Patrick McCann - Noble Capital Markets - Analyst

Congrats on the quarter. I was just going to ask about the election results. Of course, that's on everyone's mind today, I think. And I was just wondering if you could comment a little bit on how you view republican versus democratic administration when it comes to how it affects the various business units, when you look at the potential effects of maybe change in regulation on your government's segment versus what might occur for your commercial segment. Just wondering if you had any thoughts on how the election would affect your business units for good or for bad?

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### Clifford Skelton - Conduent Inc - Chief Executive Officer, Director

Pat, it's Cliff. It's a great question. Here's the way I think about it. Our business is mostly in the public sector, it's mostly entitlement and transportation businesses. Very rarely are those businesses affected by political swings.

Now from time to time, there are policy swings around subsidies and things like that, that can affect revenue streams in the public sector business. But generally speaking, it's pretty even keeled. We were -- I got here at the last part of the first Trump administration and then, of course, the four years of Biden/Harris. And we saw very little differentiation between how it affected our businesses.

So generally speaking, I'd say, from a revenue and a sales perspective, pretty much unaffected. From a corporate perspective, I mean, we're like any other corporation that has impacts from corporate tax rates, et cetera, et cetera. So I would say we're thinking no effect on what we're trying to do.

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### Patrick McCann - Noble Capital Markets - Analyst

Great. And just my other question was regarding the MMIS business. I was just curious if you could dig a little deeper into that specific business as far as states doing RFPs. And it just seems like a nice opportunity for you in that Medicaid management information systems. And I was just wondering if there's anything you could say about the timing of new contracts and how soon maybe more states will be looking to pick new vendors for that?

**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

Look, there's all these opportunities in that space. I can't comment on the exact timing of any individual state, the RFP scheduling, et cetera. But what I can say is when CMS mandated modularity, it changed the landscape, the MMIS landscape. It's no longer this behemoth go for everything kind of RFP. There's various opportunities across the five or six different modules in the MMIS suite, where we could go after a financial module. You can go after an enterprise data warehouse module, the claims module, the pharmacy module.

And so the good news there is those RFPs come out separately, generally speaking. So there's always an RFP kind of stream of opportunities. The key to that particular business, in my opinion, because it's primarily a technology business, there is -- there are some supportive attributes with people, but it's primarily a technology business. The key is to be getting less of those RFPs, getting into the state houses and the decision-makers and forming relationships that will generate those sales that we're after when the RFP actually drops because once the RFP drops, is very strictly regulated. And you can't -- you don't really have an opportunity to use anything else.

So we see real growth opportunities there. We just got to get after it.

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**Operator**

Marc Riddick, Sidoti & Company.

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**Marc Riddick** - *Sidoti & Company - Analyst*

Hey, good morning. So I was wondering if you could start with the thoughts around the portfolio rationalization and where we are there and whether sort of maybe what inning we're in or thoughts is to the divestiture program and what might be further ahead at this point?

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**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

Yeah. Well, the inning to the baseball analogy is an interesting one because I can't tell whether we're going to go to extra innings or not. But what I can tell you is that we see opportunities continuing. In other words, there's good bones in this portfolio. There's still a lot of scarcity value in this portfolio.

We still believe that our portfolio is too wide. We still believe that narrowing it can help us get more nimble, and so I would say that we're going to be opportunistic and continue to be opportunistic into the future with respect to portfolio rationalization and certainly what we do with the proceeds. But the game, to use your analogy, is not over. We're not in the ninth inning.

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**Marc Riddick** - *Sidoti & Company - Analyst*

And it seems as though, I mean I know from the prior commentary and prior remarks, but I guess, maybe I want to just sort of clarify. It seems as though you're -- the pieces that you have, you feel as though can grow and yet there's still some opportunities there if you choose to go down that path, is that a reasonable way to say it?

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**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

Generally speaking, we think all of it can grow. This is -- there's no -- but do we have bandwidth and depth and scale to get there at the rate we want to. And the answer is not always. And so that's kind of -- that's one of the factors we look at when we decide how we want to rationalize or continue to rationalize the portfolio. So yeah, there's no question, there's no excuse for not getting the entire portfolio to grow.



It just needs to be narrow and not everything has the same growth rate. Not everything has the same investment need, not everything has the right leadership and bandwidth need. And so that's how we're going to put the portfolio into the math equation to come up with the right answer at the end.

Steve, anything to add to that? .

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**Stephen Wood** - *Conduent Inc - Executive Vice President and Chief Financial Officer*

No. Well, I would just add on to that. I mean clearly, if you think about the last 18 months, we've divested three assets -- three discrete assets at pretty attractive multiples. We've been able to carve them out. We've been able to find strategic buyers for them that have been able to fit them very nicely into how they're thinking about their businesses.

And as Cliff said, there's -- there continues to be a rich portfolio of assets remaining, and some of those fit together very nicely into this notion of horizontal solutions that we have in the Commercial businesses and then some of the assets in the public sector markets as well. And so we'll continue to be opportunistic about it. We'll continue to find that sweet spot between what we think works together in the portfolio versus things that we can get attractive multiples for on the outside. And that's -- as Cliff said, that remains and going to be one of the levers that we'll continue to pull here as we continue to get the business to where we want to get it.

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**Marc Riddick** - *Sidoti & Company - Analyst*

Okay. That's very helpful. And then I wanted to shift gears certainly, we -- I appreciate the commentary in the prior question around the political ramifications on a national level. I was wondering if there were any state or local level situations, races, results, anything that you think might be beneficial or we should be keeping an eye on for going forward?

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**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

Look, I mean, most of our public sector contracts, as you know, are contracts with states. And the states are always trying to do the right thing for their constituents regardless of party. There are episodic events, for example, around SNAP where states -- if the federal funds dry up, the states may not want to fund 100% of the SNAP payments. And so sometimes, we're looking at trends between red and blue and which states are going to be more supportive or less supportive. But that's pretty much normalized out now.

So I just -- Steve, unless you have comments, I just don't think there are -- I don't see anything from the election regardless of party that's going to impact our business.

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**Stephen Wood** - *Conduent Inc - Executive Vice President and Chief Financial Officer*

Yeah, Marc, I would add to that. As we think about that state government business and technology needs the CMS mandate, everything that they've got to do out there to upgrade technology, figure out how to get stuff off mainframes, figure out how to get stuff into the cloud. Those are -- there's a lot of work that's got to go on over multiple years, and we play very nicely in our state government business into many of those themes.

Most of the programs, almost all of the programs that we run, you would regard them as being critical programs. They're not at the edges of policy. They're about maintaining critical core services to constituents. And so our government business is right over the target of being positioned to play very nicely into a lot of technology, functionality upgrades that have got to go on in those state infrastructure programs around health and supporting citizens for many years to come. And that's a far more important base tailwind to this business than an election result.

**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

I mean, there would have to be more monumental changes in government spending around Medicaid, social security, unemployment insurance, VA benefits, et cetera, et cetera, that even if there are changes, it's a long tail to the work. So it's just -- those entitlements are just not going to drive in the near term. And those are primarily where we get our revenue. So we think we're on a consistent ride here.

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**Operator**

Chris Sakai, Singular Research.

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**Chris Sakai** - *Singular Research - Analyst*

Hi, good morning. As we look out towards 2025 and your targeted exit rate, can you provide more color on the key drivers of margin expansion? Specifically, how much of the anticipated improvement is expected to come from the removal of stranded costs versus operational efficiencies or revenue growth?

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**Stephen Wood** - *Conduent Inc - Executive Vice President and Chief Financial Officer*

Yeah, absolutely. That's on slide 12 in the deck, Chris, but I'll highlight the kind of key components of it. There's \$50 million of stranded cost work that we've got to do specifically around the divestitures. We've got all of that identified and some of that -- most of that has got plans around it in terms of how we're going to remove that as we go through the rest of 2024 and into 2025. We've got another \$50 million of cost efficiency work that we're going to work out across the business.

That's a fairly normal target for a business of this size. We've got \$3 billion -- \$3 billion cost base to go after. And so that's not a quantum of expense efficiency that should be challenging for us to achieve against this notion that we're going to continue to think about ways to put the portfolio together to make it more efficient.

The margin expansion component is going to come from a targeted and well understood range of pricing levers and mix levers that we have Cliff talked about our onshore to offshore mix. We've got some specific pricing levers that we're going to go after to get that. And then the balance of that bridge to the exit rate is going to come from the natural fall-through that we're going to get as we get the business starting to grow from a topline revenue perspective. So those are really the four components that are laid out on that slide, and that's how you think about the walk.

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**Chris Sakai** - *Singular Research - Analyst*

Okay. Thanks for that. And the loss of the government healthcare contract had a pretty good impact on Q2 results, and it's expected to continue affecting performance through Q4. Are there any similar high-impact contracts up for renewal in the near term that investors should be aware of? And how are you working to mitigate potential losses?

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**Stephen Wood** - *Conduent Inc - Executive Vice President and Chief Financial Officer*

Yes. Well, we -- I'll answer the second part of that first. I mean, we're continuing to see our churn rate improve. Cliff talked about the fact that it has gone down from historic 11 through 7 on the path to 5, and that's a very good sign for us. That's fundamentally a proof point around the repair work that's being done to stabilize all aspects of the base of this business over the last four or five years.

There has been some really critical work to get us to that point where our client retention or churn is where we need it to be, and at a level that we've got confidence that our sales teams can continue to grow over the top of. So that's the first part of the question.

The second -- the other part of the question is in relation to the MMIS. I think those discrete drivers that I laid out for you last quarter in terms of the three components of what's going on in the Government segment, one of which related to that MMIS contract are the way we continue to think about the margins. And so that's -- there's nothing out there that isn't sort of baked into that. And once we get through the annualization of those effects, then we see that margin beginning to stabilize on the backside of that. And then with growth, we would look to see that expanding.

**Clifford Skelton** - *Conduent Inc - Chief Executive Officer, Director*

Chris, I don't think you can, in my opinion, pick out any one thing like renewals as a predictor of where this puck is going. I mean, where the puck is going is a combination of volume expectations. It's a combination of renewals that you just talked about. It's a combination of add-on volume that we can get from our current portfolio, and we're were somewhat underpenetrated in the commercial space compared to what we can achieve. And it's a combination of new business sales.

Those are all offset by project revenue roll-off and losses. And we think that when we put that all in the mix or in the equation, we see line of sight to an exit rate that's above the waterline when that's all put into the math equation.

**Operator**

Ladies and gentlemen, this concludes our question-and-answer session, and this concludes our call today. We thank you for your interest and participation. You may now disconnect your lines.

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