18-Feb-2021

Conduent, Inc. (CNDT)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Conduent Fourth Quarter 2020 Results Conference Call. At this time all participants are in a listen-only mode. [Operator Instructions] As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Alan Katz, Vice President-Investor Relations. Please go ahead.

Alan Katz

Vice President-Investor Relations & ESG Reporting, Conduent, Inc.

Good evening ladies and gentlemen and welcome to Conduent's fourth quarter and full year 2020 earnings call. Joining me on today's call is Cliff Skelton, 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 afternoon. Those slides as well as the detailed financial metrics sheet are 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, February 18th, 2021 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 US GAAP, they should be viewed in addition to and not as a substitute for the company's reported results prepared in accordance with GAAP. For more information regarding definitions of our non-GAAP measures and how we use them as well as limitations as to their usefulness for comparative

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purposes, please see our press release which was issued this afternoon and was furnished to the SEC on Form 8-K.

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

Cliff Skelton

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

Thanks, Alan. Good afternoon, everyone, and welcome to Conduent's fourth quarter and full year earnings call. I appreciate everyone joining today. Now, listen, at the risk of stating the obvious, I think we'd all say that 2020 was quite a year. It was certainly quite a year for Conduent as well. However, despite the pandemic headwinds, we're quite proud of how the year ended for us. As Brian and I will discuss in a few minutes, we delivered results that surpassed even our initial outlook from February of last year. We closed out the year stronger and better as a company. Now, you've probably heard us say it in past earnings that, in parallel to our growth efforts, our success is heavily dependent on the continued improvement of the fundamentals. Think of it as sort of the foundational rails the company operates on, and I believe we made real progress in that category in 2020.

Slide 4 gives a bit of recognition from a few of our industry analysts who also see that our hard work is really paying off here. In my remarks today, as always, I'll review the high-level financials as well as the sales and operational performance from 2020. As a follow-up to previous earnings conversations, I'll also quickly touch on a new key performance indicator which will replace what we've previously reported as renewal rate. The new metric will represent the net annual recurring revenue impact from the previous 12 months of sales and retention activities. I'll also discuss what we set out to do in 2020, the results from those efforts and what we intend to get done in 2021.

Now let's turn to slide 5 to get started. 2020 turned out to be a strong year. Both revenue and adjusted EBITDA came in higher than our pre-COVID expectations, and in line with the outlook that we gave on our Q3 call back in November. 2020 revenue was $4.16 billion and adjusted EBITDA was $480 million, equating to a margin of 11.5% for the year. Now I'll note that Q4 was a particularly strong quarter. We achieved revenue of just over $1 billion and an adjusted EBITDA margin of 12.6%.

Looking at the 2020 results excluding the impact of COVID, revenue would have declined 4.1% in 2020 and Q4 revenue would have declined just 0.5% compared to 2019. Now, as you may recall a year ago, the revenue decline was expected to be much larger. What we've seen in the marketplace is that the global business services market has experienced a lot of activity over the last few quarters. Clients are shifting work to global providers especially those who've been able to deliver in a secure and remote environment. We're certainly taking advantage of that in our sales efforts. Speaking of sales, we ended the year at $1.9 billion in TCV signings, well above our initial target of $1.6 billion for the year.

Now let's turn to slide 6 to discuss that growth and that retention in more detail. Q4 new business TCV signings were $519 million, and the $1.9 billion in full year signings I just mentioned represents an increase of 94% compared to full year 2019. 2020 ARR signings were $353 million, an increase of 26% compared to 2019. And regarding the new business mix, we had a healthy variation in signings this year with progress made in all of our segments.

Let me give you just a few examples of the types of deals we signed in the fourth quarter. In our Commercial business, we signed a contract with a very large healthcare client in the payer space to expand our payment integrity offer to a new division for them. In the Government space, we signed an expansion deal with the California Department of Child Support Services to provide digital payment administration services. And in the

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Transportation segment, the Republic of Cyprus has selected us to provide the end-to-end installation of photo enforcement systems. While we historically have been very strong in the transit space in Europe, we're pleased to be able to expand our offerings in public safety.

As previously mentioned, we give a little more context around net new business as a replacement for renewal rate. In addition to showing sales, TCV and ARR for the quarter, we give a more holistic indication of anticipated forward annual recurring revenue on a net basis. The net ARR activity number provides the net ARR from trailing 12 months of sales, won and lost revenue from renewals including price changes and newly contracted volume changes, all of which should be realized in the P&L over time. Now, as you can see from the chart, in Q4 the trailing 12 months of activity resulted in $60 million in anticipated net new revenue. The number does not predict the timing of that revenue and is only a directional indication that we are selling and retaining more than we're losing in any given trailing 12-months.

So let's turn to slide 7 for a business update on how we performed versus our priorities in 2020 and what we're focused on in 2021. As always, our strategy is measured by achieving growth, efficiency and quality driven by leveraging improvements in our people, our process and our technology. Our 2020 priorities were centered on driving value for our clients addressing COVID specific challenges and improving our operating model. In terms of our focus on people, we responded quickly to the COVID-19 crisis and we moved 30,000 plus associates to a work from home environment while keeping our people safe and our system secure. We prioritized diversity and inclusion programs. Of course these programs were not only in keeping with our own core values here at Conduent, but are very important to our base of clients, our associates and future talent. And lastly, we drove utilization of shared services to improve efficiency and leverage best practices.

Regarding process improvement, we standardized our governance process around client implementations and technology changes. We standardized and centralized our sales and our client partner processes and we improved processes and risk management, talent acquisition and change management.

From a technology perspective, our goal was consistent and high quality service delivery. We stood up our IT command center driving improvements to platform monitoring and improving incident, problem and change management outcomes. And finally, information security was and must always be at the forefront of all our activities. Now these results were impressive. Despite the headwinds from COVID, we achieved much of what we set out to accomplish at the start of the year, categorizing our growth efficiency and quality pillars. In terms of growth and efficiency as mentioned, revenue, new business signings, EBITDA and margins exceeded expectations. We made real progress on quality and we significantly improved our technology platform readiness and uptime and we drove operational defects down. All of this resulted in significantly improved client NPS scores and associate engagement scores. Of course, these two outcomes definitely go hand in glove because a more motivated associate base creates a more motivated and loyal client base.

In terms of our 2021 priorities, we use the same people, process and technology levers to better serve our clients. We need to continue this improvement journey. Now, if our 2021 plan seems similar to the 2020 plan, you are correct. You've heard us use the same terms of growth, efficiency and quality outcomes in the past. And we consistently talk about how people process and technology will help us achieve progress. If it seems similar, it's because this journey requires focused and disciplined effort that is communicated with consistency resulting in repeatable outcomes. Our clients are expecting predictability and with it comes confidence, resulting in retention and growth. So we're staying consistent in our approach.

Now before I turn it over to Brian to go through the detailed financials, let me just say this. Given everything that happened in 2020, I'm very pleased with our performance. We delivered on our commitments to our clients, to our

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associates and to our investors and I'm proud of every one of our 60,000-plus teammates. We have a lot more work to do. We made great progress last year and we have a solid plan on how to continue this journey in 2021.

I'd like to now turn it over to Brian for a detailed look at our financials and I'd like to thank everybody for joining us today. Brian?

Brian Webb-Walsh

Chief Financial Officer, Conduent, Inc.

Thanks, Cliff. As we've done in the past, we are reporting both GAAP and non-GAAP numbers. The reconciliations are in our filings and in the appendix of the presentation. Let's turn to slide 9 to discuss the full year results. We'll start with the 2020 P&L. As Cliff highlighted, we finished the year strong with results coming in at or above the high end of the outlook that we gave at the start of the year. Adjusted revenue for the year was $4.16 billion down 6% excluding the impact of the 2019 call center divesture. The decline was driven by the net impact of COVID and prior year lost business partially offset by new business ramp. The full year COVID impact was approximately a negative $85 million. Excluding the COVID impact, full year revenue would have been down approximately 4.1% better than the 6% to 8% initial guidance range that we gave a year ago.

Adjusted EBITDA for the full year was $480 million down 2.6% year-over-year while our adjusted EBITDA margin for the year was 11.5% up 40 basis points compared to 2019. The decline in adjusted EBITDA was driven by lower revenue and bringing back certain employee costs partially offset by the cost savings program and our revenue mix. One item to note is that we don't plan on providing the same level of detail on the impact of COVID in 2021 as it is now in our baseline, but we still plan to highlight major variances in our commentary as we've always done.

Let's turn to slide 10 to go over the segment results. For the full year, our Commercial revenue declined 9.3% primarily driven by COVID impacts of approximately $158 million and prior year lost business. Adjusted EBITDA declined 31.4% while the adjusted EBITDA margin of 11.9% was down 390 basis points year-over-year. The adjusted EBITDA decline was primarily driven by lower revenue, one-time items and certain employee costs, partially offset by cost savings. The COVID impact was primarily driven by lower volumes within our commercial healthcare and transaction processing offerings as well as the interest rate impact on our BenefitWallet offering.

Our Government business grew by 1.4% for the year. This was primarily driven by approximately $149 million of revenue related to COVID volumes as well as the ramp of new business, partially offset by the loss of the California Medicaid contract. Government adjusted EBITDA increased by 27.7%, while adjusted EBITDA margin of 31% increased by 640 basis points. This margin improvement was due to the higher volumes from COVID-19 related work and our cost savings program.

Our Transportation segment revenue declined by 7.9% compared to 2019 primarily driven by the approximate $76 million negative impact from COVID-19. We also had the impact of lost business partially offset by new business ramp. Adjusted EBITDA was up 8.3% compared with 2019 driven by revenue mix and the cost savings program. Adjusted EBITDA margin for the year was 16.3%, up 250 basis points year-over-year.

In Transportation, we saw Q4 tolling volumes continue to recover to 80% of pre-COVID volumes. However, volumes in the curbside management business remained under pressure and impacts continued in the transit business. For the full year, our unallocated costs were $294 million, 2.3% lower than 2019. This decrease was driven by lower IT and corporate function spend partially offset by bringing back certain employee costs. In 2021, we've changed our operating model including bringing on new talent and reorganizing our go-to-market. We are looking at how that may impact our segment reporting this year, and we'll provide an update on the Q1 call.

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Let's now turn to slide 11 to discuss the balance sheet and cash flow. Our balance sheet continues to remain healthy and we have a solid liquidity position. We ended the year with $458 million of cash on the balance sheet and had very strong free cash flow performance for the year. We paid back $150 million borrowing on the revolver in December which we took at the beginning of the pandemic as a precautionary measure. As of year-end, we had approximately $743 million of capacity under the revolver.

Our net leverage ratio at year-end was 2.2 turns, in line with our target of 2 to 2.5. As you can see on the debt maturity table, our first major maturity is at the end of 2022. Refinancing all or a portion of our debt during 2021 is a priority for us. Adjusted free cash flow was $130 million for the quarter and $145 million for the year, an $85 million increase over 2019. This was driven primarily by strong EBITDA performance, lower CapEx spend, the CARES Act payroll tax deferral, and lower cash taxes and was partially offset by an extra pay period in 2020 and fewer year-end working capital tactics. CapEx for the year was $139 million or 3.3% of revenue.

Let's move to slide 12 to discuss our outlook for 2021. We anticipate that 2021 reported revenue will be between $4 billion and $4.15 billion and we expect to achieve an adjusted EBITDA margin of between 11% and 11.5%. We also expect to convert approximately 20% of full year adjusted EBITDA to free cash flow. This includes approximately $170 million of CapEx spend and paying back half of the CARES Act payroll tax deferral. I'll note that we expect restructuring spend to be between $40 million and $45 million in 2021, lower than the $67 million spend in 2020. This overall outlook includes the range of impacts from both COVID and stimulus that we see today.

In terms of how this outlook will trend throughout the year, from a revenue perspective, as we've discussed in the past, the California Medicaid contract will impact the year-over-year compares by about $35 million spread over the first three quarters. And as COVID began impacting Q2 2020, we expect to see the impact in the Q1 compares this year. In terms of profitability, we expect to have our typical seasonality with slightly lower margins in Q1 and higher margins in the fourth quarter.

And lastly, while we still expect to see some seasonality in our cash generation in 2021, it should be more balanced given fewer year-end tactics in 2020. Despite all of the challenges that 2020 brought, our business is showing tremendous resiliency. As Cliff mentioned, this is thanks to the hard work and dedication of our team. We are continuing to deliver for our clients and our transformation is on the right track. I want to thank our associates, shareholders and clients for their continued support. We will now open up the lines for some questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Bryan Bergin from Cowen. Your line is now live.

Jared Levine
Analyst, Cowen & Co. LLC

Q

Hi. This is actually Jared Levine on for Bryan. In terms of the Fed stimulus, can you provide any color in terms of how you're thinking about impacting your 1Q and then the full year outlook?

Brian Webb-Walsh
Chief Financial Officer, Conduent, Inc.

A

Sure. So what I would say is that for COVID in general, we expected to have an overall negative impact on the business on the top line again this year like it did in 2020. We see the COVID positive in Government likely coming down versus 2020 and we see the COVID negative impact in Commercial and Transportation likely improving versus 2020, but again netting to a negative. And in Q1 we think Q1 will look a lot like Q4 since the COVID impact started later in Q1 last year. And so we think we'll be down about 3% to 4% in revenue in Q1 and then that'll start to improve as we go through the year and as we lap the COVID impacts from last year.

Jared Levine
Analyst, Cowen & Co. LLC

Q

Great. And then Cliff, can you update us on the demand environment in the pipeline by the business segment?

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

A

Yeah. Sure. We see a plus up in our pipeline of $2 billion or $3 billion over this time last year and we're seeing a lot more outsourcing activity across the segments particularly in healthcare, but really across all of them. And as you know in the Government segments, sort of the RFP activity is somewhat seasonal and kind of lumpy. So it's not that predictable, but in the Commercial space we're seeing a lot more activity. We're seeing it in healthcare. We're seeing it in call centers frankly across the board in the Healthcare segment. So the market is strong. The market is strong and our reputation has changed. We're in a much better place due to a lot of things, the quality of our recent upgrades and talent, and the quality of our operations and technology platform. So we're feeling really good about the opportunity going forward.

Jared Levine
Analyst, Cowen & Co. LLC

Q

Great. And if I could just sneak in one more clarification; what was the constant currency decline in 4Q?

Brian Webb-Walsh
Chief Financial Officer, Conduent, Inc.

A

It was very minor impact from currency, as it goes like 0.5 point.

Jared Levine
Analyst, Cowen & Co. LLC

Q

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Okay. Good. Thank you.

Operator: Thank you. Our next question today is coming from Mayank Tandon from Needham & Company. Your line is now live.

Mayank Tandon
Analyst, Needham & Co. LLC Q

Thank you. Good evening. Congrats, Cliff and Brian on the progress.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc. A

Thanks, Mayank.

Mayank Tandon
Analyst, Needham & Co. LLC Q

I wanted first to start with the question around some of the one-timers versus the recurring trends in 2021. I get the California impact and then some of the COVID impact that Brian talked about. Anything else that you want to call out just so we can handicap our model better in terms of what's like recurring versus what's one-time in nature?

Brian Webb-Walsh
Chief Financial Officer, Conduent, Inc. A

Yes. So Mayank, in the analysis around the segments, we gave the COVID impact. So if you adjust for those instead of being down, Transportation would have been up on a full year basis; instead of being up, Government would have been down on a full year basis in large part because of California and then Commercial would have declined as well. The decline would have been much smaller if we adjust COVID out. I would also point that in Commercial from a margin perspective, in addition to the COVID impacts and the cost savings impacts, we did have a couple of one-timers that hit Commercial that shouldn't repeat; so some of that decline in EBITDA should come back as we go throughout this year. So those would be the points I'd make on one-timers

Mayank Tandon
Analyst, Needham & Co. LLC Q

Okay. What I'm really getting at is, is there a way to maybe now predict when you can get to organic constant currency positive growth. Is there a timeline maybe you know exiting 2021-2022 timeframe. Any color on that? I think that's the question we often get from investors; just trying to get a feel for when the company can enter a positive organic growth territory?

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc. A

Yeah Mayank. It's a great question. The answer is sort of. Let me tell you why? The timing is heavily dependent on a couple of things. This new net ARR activity report – metric we gave is sort of something that you can use as an indicator. It's an activity indicator of the previous 12 months and it shows the pluses and minuses between new business ARR, losses, price changes, volume changes, and it was to replace sort of the renewal rate that really had so many gaps in it. So that's one indicator you should consider. But remember, that's not a timing indicator. That's an indicator of future growth but not an indicator of when.

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Another component in the equation, to answer your question, is when is the burn-off from previous losses. We think that happens over the course of the next two years. As you know, there were some big ones in the past like [ph] Caymus (00:23:50). And then of course there's the unknowns of COVID. And when you put it all into the mix, it's unpredictable. While we had a great year, the timing's unpredictable. What I would say is we're confident that all the vectors are lined up for growth in 2022, but there's just no way I can predict it with certainty until a lot of these unknowns become more clear.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Got it. That's helpful color. And then finally, Brian, on the free cash flow conversion, you gave a few numbers, but I want to get clarity on why is the conversion rate going to be that much lower in 2021 based on your guidance versus what you delivered in 2020.

Brian Webb-Walsh
Chief Financial Officer, Conduent, Inc.

A

It's primarily two major things I'll point out. One is that in 2020 we had about a $55 million benefit from the CARES Act being able to defer payroll taxes. Half of that gets paid back at the end of this year. That's about a $27 million outflow this year versus a $55 million inflow last year. And the second point is on CapEx. Last year, we constrained CapEx because of the uncertainty around COVID and we decreased it down to $140 million. And this year we're bringing it back to $170 million to support new business that we've signed and also the investments we need to make into the business. So those are the two major drivers.

I would say, over time, we think the conversion rate gets better once the CARES Act repayment's behind us, which the second half gets paid in 2022. And restructuring we're calling to come down this year versus last year and it'll continue to come down as we get our data center consolidation program behind us and as we pivot to revenue growth. So there's less cost actions just to maintain operating leverage. So we do see EBITDA improving and the conversion rate improving over time.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Okay. Thank you for taking my questions. Appreciate it.

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

A

You bet, Mayank. Thanks.

Operator: Thanks. Our next question today is coming from Shannon Cross from Cross Research. Your line is now live.

Shannon Cross
Analyst, Cross Research

Q

Thank you very much. Good to speak with you. I guess, my first one is kind of a big picture question which is, Cliff, you've been in this position for a while. You've lived through a pandemic and a lot of changes. Where do you think you are in terms of the overall transition that you wanted to make in the business? And I'm thinking at what point can we start looking forward to the potential for acquisitions to add new capabilities or investing in new

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areas or is this still sort of in process? And so there's a fair amount more cleanup to go? And then I have a follow-up.

Cliff Skelton

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

A

Yeah, yeah. I wouldn't look at it as completely serial, Shannon. In other words, what I would say to your point on the fundamentals and the foundation, 30%, 40%, close to halfway through the heavy lifting. There'll always be refinement. There'll always be efficiencies. There'll always be operating leverage focus going forward. But in parallel to your point on either tuck-ins or other acquisitions or other M&A activity, I would say that, as COVID winds down and the worrisome aspects of COVID are in the rearview mirror, which is we're sort of seeing the light at the end of the tunnel on that, we start to open up the aperture as we're doing now in the category that you're talking about.

So, I would say, in 2021, we're certainly always open to considering lots of things. I think, that said, my thought is what you expect from us is prove that we can grow this thing organically. So, in parallel, we've got a – while we may consider inorganic opportunities, we need to prove to you that we can grow the company organically at the same time.

Shannon Cross

Analyst, Cross Research

Q

Okay. Great. And then, Brian, I guess, I'm looking at the net ARR statistic and I'm curious from a historical perspective. I'm sure you've run it to see sort of how it correlated to revenue. So maybe if we think about the past; I don't know three quarters or four quarters and where that number was or maybe even go back eight quarters. I'm just curious as to how it sort of trended relative to revenue or what the timing is? Thank you.

Brian Webb-Walsh

Chief Financial Officer, Conduent, Inc.

A

Yeah. So Shannon, this is a trailing 12-month metric. So the $60 million encompasses the activity during the last calendar year. And if you think about 2019, we had less new business signings era that was closer to $280 million versus $350 million in 2020. So that number was lower and our losses were much higher. So that number would have been negative in 2019 versus the positive $60 million in 2020. And that's why, put COVID aside, we declined 4% in 2020. So that's about as far as we can go back since it's a new metric and we're just introducing it, but that's the way to look at it.

Cliff Skelton

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

A

Well, what I would say Shannon because it's an activity metric, the trend is what matters in any given quarter because it's the activity of that trailing 12 months. If there's a big ARR hit or a big loss, it can make the number look a little bit goofy, but if the trend stays positive, it's definitely a leading indicator that we're on the right track to growth.

Shannon Cross

Analyst, Cross Research

Q

Great. Thank you.

Operator: Thank you. Our next question today is coming from Puneet Jain from JPMorgan. Your line is now live.

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Puneet Jain
Analyst, JPMorgan Securities Inc.

Q

Hey, thanks or taking my question. Brian, can you talk about various puts and takes that get you to the top end versus the low end of your revenue growth guidance? It looks like you planned to start the year with minus 3% to minus 4% which is at the low end of annual growth expectations when the comps will be toughest. So what gets you to the top end from Q1 levels?

Brian Webb-Walsh
Chief Financial Officer, Conduent, Inc.

A

Yeah. So I would say at the high end, it would be more revenue coming from Government through SNAP and unemployment volumes and also Federal funding. So if that were to be extended here ends and for instance in volumes were higher than kind of the baseline that's at the midpoint that would help. A faster recovery in Transportation and Commercial would help you get to the high end of the range faster than what we have at the midpoint and then better new business signings ramping faster. So those would be the things that would get us to the high end and the worst case would be lower volumes on the Government side, less funding coming from the Government, higher COVID impacts because Transportation and Commercial are taking longer to come back and maybe weaker new business that would get us kind of to the worst case.

Puneet Jain
Analyst, JPMorgan Securities Inc.

Q

Got it.

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

A

Yeah. And Puneet, I would say our sales efforts have a lot more focus on Commercial, a lot more opportunity in Commercial than we would have had in 2020. And those products board much faster. As Brian said, that could be a contributing factor to getting to the high end.

Puneet Jain
Analyst, JPMorgan Securities Inc.

Q

Understood. Understood. And somewhat similar to Shannon's question; so as you think about 2021 priorities and need for investments in the business, is there way to estimate incremental investments you need to make in technology. And whatever that number is, will that show up in the CapEx or OpEx? Is there any way we can track that number?

Brian Webb-Walsh
Chief Financial Officer, Conduent, Inc.

A

Yeah. So a lot of investments do show up as CapEx but there are also OpEx investments that we're making, but a good indication of the incremental investment this year versus last year is the CapEx number. And again some of that is to support new business and some of it is for technology investments. So that's probably the easiest way to track it.

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

A

Yeah. I would agree, Puneet. As we think about what we're using CapEx for, you can kind of think of it in three buckets. If we have a big sales year, it's going to require more CapEx as a percentage of that CapEx ex-budget.

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Then you've got the running the business and modifying your systems to make sure you stay up-to-date on security protocols et cetera, et cetera. And then you've got the discretionary part which is also increasing in 2021 for either adjacencies or enhancement activities or optimized activities that we have in our product portfolio. So we're seeing some slow ratcheting up in 2021.

Puneet Jain
Analyst, JPMorgan Securities Inc.

Understood. Thank you.

Operator: Thank you. We've reached end of our question-and-answer session. I'd like to turn the floor back over to Cliff for any further closing comments.

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

Look I'd like to thank much everybody for joining us today. We really do feel good about 2020. And while it's in the rearview mirror, we're proud of everything, but it's time to hit the ground running here and drive value for our clients and win in the marketplace in 2021. So, we certainly look forward to updating you next time. We'd like to hope everybody stay safe and healthy and hope you have a great day today. Thank you for joining.

Operator: Thank you. That does conclude today's teleconference and webinar. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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