Okay. Good afternoon, everyone. This is Ashwin Shirvaikar, I'm Citi's Payments Processes and IT Services Analyst, and welcome you all to the afternoon sessions Day 3 our Global Technology Conference. Next up for us is Conduent, and from Conduent we are very fortunate to have Cliff Skelton, who is the CEO; and Brian Webb-Walsh, the CFO. And I believe Alan Katz is also going to be on.

Thank you folks for doing this, for being on. We'll start in just 30 seconds. A quick logistical note to the folks who are listening in or dialed in, if you have any questions at any time during this particular session, you'll see an e-mail at the bottom of your screen, just send the question to that e-mail, type it in, and I'll try to incorporate that in the conversation. And if you're not seeing any e-mail, it's ashwin.shirvaikar@citi.com, it's on all of the reports we're writing.

So, with that out of the way, lots to discuss here so let's jump right in.
QUESTION AND ANSWER SECTION

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

And I want to, Cliff, maybe start with you, and because there's always a few investors in the room that tend to be new to a company, maybe two, three high level points on what Conduent does, what Conduent is, how it differentiates from others in the BPO market. A few minutes, and then we'll jump right into the other questions.

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

Yeah. Thanks, Ashwin. And as you and I were talking earlier, I appreciate everybody being here and getting away from the Tiger King episode that everybody has been watching. I appreciate everybody's time today. Let me just give you a quick kind of high-level view of kind of what makes us different, because in my view, we are very different, we're very diverse, we're very broad.

That diversity gives us an opportunity to weather the storm in cases like COVID in many instances, and sometimes can provide some concentration risk or lack of concentration, so let me talk about it a little bit. Well, I like to characterize the company as – think of it as in two major components, the commercial sector and a public sector, and the public sector is sort of divided in two parts.

The diversity of the commercial sector is quite significant. And we have a healthcare business, within that healthcare business we have four components. We've got a pharmaceutical component, we have a payer component, a provider component, and then a workers' compensation component. Each one of these businesses that I'm describing is somewhere in the neighborhood of $550 million to $750 million in revenue.

We've got a third-party call center business. If you think about that, it's simply just that, third-party call centers for 21 very, very large clients. So let me [ph] – we [00:03:38] backtrack just for a second. If you think about the company, think of it as divided into a solutions environment, a services environment and an environment where it provides both solutions and services, and I'll describe some of those here in a minute.

In the healthcare business, for example, we do have solutions, our Strataware solution, workers' comp business, it would be an example of that; our Midas solution in our provider business for administration and quality assurance in the hospitals and doctors' offices. So that's healthcare and then that's call centers, which is the second component of commercial.

Then we have an HROS or human resources outsourcing business and learning business. Think of that also as four components, an HR outsourcing business where you have a portal to go in and look at and take care of your dependents in any kind of HR environments for your company. We've got a benefits administration component there for 401k and pension administration. We've got a benefit wallet business, which is the HAS, where you can put pre-tax dollars into your account for healthcare payments. And then we have a learning business. So, that's this route, this environment called human resources outsourcing.

We then have a transaction processing business, typical commercial BPO business which would be things like scanning and indexing, print and mail, and that sort of thing. So that – think of those as sort of the traditional BPO business that many others have. We've got collections and financial services. We've got servicing and financial
services. So that – what I just described sort of talks about the commercial business which is roughly, call it 55% to 60% of our portfolio.

Then you move over to the public sector business. Think of that as in thirds. A transportation business, which in turn has four components. A towing business, going through toll booths; a transit business, buses, trains, subways, payment processing and collections; an enforcement business, red light cameras, speeding cameras; and a parking business. All those add up to what we call transportation business primarily serving states, generally serving states.

And then we have two government businesses, lastly. One, a government healthcare business, which is primarily Medicaid claims processing and eligibility work, and back to the solutions and services, the eligibility work is primarily a services business. The claims business is a solutions and a services business. So that's government healthcare.

And then lastly, a government services business which has been very strong here in this COVID environment which does a lot of work in payments, unemployment insurance payments, prepaid cards, child support, Snap which is food stamps, and [ph] Psnap (00:06:44) which is lunch programs for kids that normally get subsidized lunches at school. Now [ph] Psnap (00:06:54) is delivered at home and they're getting those subsidies at home.

That particularly business is significantly up in COVID, whereas our transportation business is slightly down and as are a couple of the others. But net-net, they sort of – they come close to evening themselves out although not exactly perfectly.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Okay. Now, that's a very good overview. It actually leads to my next question which, obviously at this point, the strategic review process that you guys did is several months old, but when new investors do work on the company we always tend to get this question with regards to, why the decision to not divest or monetize any of the businesses? Was it because there is a strategic overlap? What is that overlap? Is it a function of valuation? Did you want to maybe get those businesses to a certain point and then try again? Can you help us with sort of the thinking? And I realize this is a few months old at this point, but it will still be helpful.

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

Yeah. It's a great question, Ashwin. And when I look at the strategic review process, I look at it with several components. The divestiture component just being one as an enabling component, but the strategy review was really around, how do we pivot to growth? What are the components in our pivot to growth? And we believe that the components are certainly the tactics in this growth pillar, the tactics within the sufficiency pillar, and the tactics within this quality pillar. And across the three of those, we feel like if we do things different than we've been doing them, this company can and will pivot to growth. And we're seeing the early signs of that right now.

Now, a potential enabler for that, potential enabler for that, could be to divest a business that may have some [ph] scarcely (00:09:02) value on the outside, that may in turn have some investment requirements on the inside that could be a component of the consideration. It could be a component where a business is not perfectly interlocked and synergistic, such that creating more shared services and operational scale may not help us with that business because it's so different, like our transportation business.
And so when we looked to that we said, we want to be opportunistic, we want to look at it and say, for the right valuation, we would consider selling a business that kind of fits that criteria, those criteria. And we made significant progress. I wouldn't say it's over, what I would say is we continue to be opportunistic. We've continued to see interest, but COVID has changed everything in a pretty significant way.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Yeah.

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

And our view is there's still opportunity here. But we're – don't need to divest in order to make our strategy work. It might springboard at some in our strategy and, for the right valuation, we certainly would – could and would entertain that. And so, it remains a consideration set, we just don't want the market to think that this can't be done without it. And so, it's still in scope, still on the radar, and we just haven't made any of those decisions yet.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Okay. No, that – actually, that makes sense. I mean, you never want to take actions with your back to the wall, or something like that. Why not wait if it results in a better outcome.

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

Right.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

In the meantime, though, you've announced the optimized, enhanced, expand type view. And now, you've had this for about a half year now, so could you speak to the progress that you've made perhaps by segment even?

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

Sure. Well, the epiphany, I think, that we had in – over the course of the last six to nine months is that those three pillars can be achieved, A, without a divestiture; and B, without a massive investment. And you can get there with a continuation of our fundamental turnaround plan. So, if you look at the Growth pillar, that goes really hand in glove with the Quality pillar. We can't sell without a better and improved reputation, which is happening now. And that reputation in the past was tarnished by some quality issues that we had in our – primarily in our technology environment. That's been considerably improved. I mean, drastically improved in our Quality pillar. And so, what we're seeing is more confidence in the marketplace and more referenceability in the marketplace.

So, in our Growth pillar, especially, for example, in our call center business and in some of our Transaction Processing business and some of our Commercial, Healthcare business, what we're seeing is that confidence build is creating a sales execution that's significantly improved. As I may have mentioned in the past, in 2019 we sold just under $1 billion in new business. Our quota for this year is $1.6 billion, and we're on track for that. And so, as you may have heard in the last earnings, Q2 was the highest quota in the history of Conduent in terms of new business signings.
Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Yeah.

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

We don't see that that execution ramp letting up, and we're really proud of that. And so, a lot of the work we did in that Growth pillar, around segmenting our sales organization, top-grading our sales organization, creating a different go-to-market model, governing different – in – hand and glove with this quality improvement capability with our new CIO and our new operations lead, which uplifted our stability, we see that's continuing and that Growth pillar is working.

Now, in the middle one, in the Efficiency pillar, that's where, I say, we had an epiphany, which was we think with a change in our operating model in 2021, creating more shared services, we can drive margin expansion, we can drive client confidence in terms of new business, and that efficiency play is going to help us, we believe, both in margin, and then of course price, reinvestment, et cetera, can be an outcome of that margin expansion.

And here's what I mean by that. Today, we have businesses where, let's say, print or mail rooms or scanning services, are resident within the vertical. It's the same work across verticals, but we've never horizontalized the capability; that creates massive [ph] expanse of (00:13:51) opportunities, as opposed to simple cost reductions.

So, the simple answer to your question is, those three pillars are still alive and well, and we still look at the components of the Growth pillar across the optimize, enhance and expand business. That strategy is the same. COVID changed the attack plan just a little bit where we don't have a big capital outlay and cash is king. And so, we were attacking it a little different in the midst of COVID, but the mission is the same, the strategy is the same.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Okay. Okay. And we have – I'm going to throw a few buzzwords at you. AI, cloud, the previous strategy around digital interactions.

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

Yes.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

At the end of the day, you guys sit on a lot of different transactions and the underlying transaction data. And so, my thinking is the previous strategy, sort of, at least the [ph] loose (00:14:58) thought process around use of data was not wrong, perhaps it was execution. But what's your view with regards to how Conduent can evolve as more and more IT, more and more digital processes – more and more processes become digital and go to the cloud?
It's a great question. I look at cloud as sort of a little bit segmented. And we're certainly moving to the cloud, in almost all of the new business we're signing, is in the public cloud and we have a big migration program to the cloud. But your point is spot on in terms of data and automation.

What I would say is, the Street is littered with companies that have tried to monetize data and haven't been able to do it, and with big investments. And I – my view is the monetization of data itself is a difficult endeavor because it's the client's data, generally speaking. In many cases, it's the client's data. And so, while that's down the horizon, we don't want to be a loss leader there, we want to be a fast follower there.

That said, digitization and AI is absolutely critical to our business, and it's not a disintermediary for us. We think it's an opportunity for us. It doesn't disintermediate the opportunity for new business; the work is the same. If we can take that work and digitize it, and optimize it and do it with less people and fewer hand-offs and higher quality, that's a win for everybody. It's a win for margin, it's a win for client, and it's a growth opportunity.

So, we're heavily focused on AI and machine learning in our call centers and our Transaction Processing space. We've got a lot of new capabilities in terms of handwriting recognition, in our scanning space which is usually an Achilles heel for us – for BPOs that do a lot of scanning and indexing. And so, we're seeing real progress and we will continue to invest modestly and incrementally in that space because we think it drives – it's immediate feedback and immediate improvement to our efficiency. Payback's immediate is what I was trying to get at.

Q

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Right. Right, right. Makes sense. I'm going to ask you an unfair question here. Should investors reasonably expect that your activist investors will give you a good period of time – a few quarters, a couple of years to actually succeed?

A

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

So, a lot's inferred in your question and I'll be very direct.

Q

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Okay.

A

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

The active investors that we experience and work with today – and I'm not just saying this to pander – they – it's been great. Our investors and our activist investors want one thing, they want shareholder value improvement, which is the same thing I want and we want in our company. We have to turn the growth trajectory of the company around, and we have to rebuild confidence in the marketplace so investors will invest in our company. In order to do that, we've got to do all the things we are doing, and that's exactly what our activist investors expect us to do.

Now, your point is, how long will they give you? I can tell you I've been in this job for a year and I've had lots of meetings, not a single one has been one where the spirit and intent of what we were trying to do wasn't matched. It's always matched. We all want the same thing. And so, I think, at least, there's no indication that our turnaround
plan needs to be faster than is happening today in order to be given the forbearance and the road – and that runway, if you will, to achieve it. There's no – I have no indication that there's angst and worry that we're not on the right track and the right timeline. That's from where I sit, so...

Ashwin Vassant Shirvaikar  
Analyst, Citigroup Global Markets, Inc.

Okay, okay. No, that's good to know. I mean, it's – no gun to your head is one less thing to worry about.

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

If there is, I don't see it, Ashwin.

Ashwin Vassant Shirvaikar  
Analyst, Citigroup Global Markets, Inc.

No, I don't see a gun either.

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

Yeah.

Ashwin Vassant Shirvaikar  
Analyst, Citigroup Global Markets, Inc.

So, what are clients saying then, about your strategy as you reached out to them over the course of – not – yes, over the course of the year, but more so the last five, six months when you perhaps said, okay, here's what we are going to do, we're going to invest, we're going to optimize, we're going to grow. What are they saying to you?

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

It's interesting because there are anomalies to what I'm about to say, because it can be business dependent and they're – so, it could – I'm 80% correct in what I'm about to say. But clients, number one, they have a ticket to play. Before they'll even consider you for retention or for a new sale, they have to believe that you're stable and they have to believe that you're predictable. We've been unstable and unpredictable in years past from time to time. We have and are fixing that. Most of that is fixed, that's never – it never gets perfect, so it's always a journey. That's a critical ingredient, it's a ticket to play.

From that point, clients buy or stay for three reasons. They either buy or stay for technology, the technology capability that we provide compared to the competition. In most cases – this is the 80:20 rule I was getting at. In most cases, in this business, with probably one exception, the technology is not an impediment for us. Our technology is as good or even better than the competition. So, we think that's not our issue, although we have to constantly stay on top of it.

The second thing they'll stay or leave for is price, and that's just market. And we've got to understand price, we've got to get our cost and our efficiency in down to where we can start to expand margins, and then make sure that we stay price competitive. Generally speaking, again, with a few exceptions that I've seen in the last year, but almost entirely, price has not been the issue.
The third thing is relationship. If we manage the relationship with a view of the client's strategy and not our strategy, clients will stay with us and they'll buy more from us and we'll sell more, and that's what we're starting to see. So, the direct answer to your question is, clients are saying, I like it, I'm seeing it, I'm believing it, but you're not there yet, I need consistency, I need repeatability, and when I see that I'm buying more and more; and they're buying more now. I mean, we're on track for a 60-plus percent improvement than what clients were buying from us in 2020 compared to 2019, but we need to keep it going.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Yeah. Yeah. That makes sense. So, trying to sort of full circle, and I wanted to go back to your comment on investment and so on and so forth. But one question is, among the many complications that you had to think through and worry about has been your balance sheet. So how are you thinking with regards to refinancing sort of your relatively near-term maturities?

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

Brian, why don't you take that?

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

Sure. So, our Term Loan A and revolver mature at the end of 2022; and the Term Loan B at the end of 2023. And so, we're balancing those maturities with showing more progress in – on our transformation and turnaround. In the relative low cost [ph] debt (00:23:03) that we have today, the low cost capital structure, our Term Loan A is LIBOR plus 175 bps, and our Term Loan B is LIBOR plus 250 bps, so we have an attractive capital structure. So, we're balancing all those things and we think, over the next year, being opportunistic and looking to put a plan together is kind of the right timing, given those factors.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Understood. Understood. I want to kind of go back to something both of you referenced, which is recent signings, recent results, especially the last quarter was a positive surprise to the Street. We saw that in the stock reaction. So, can you speak with the – to the current trends? Because it's kind of where everything comes together. Investors look to – look for sustainability, your clients, as you mentioned, Cliff, just a moment ago, look for sustainability. The – and when I say investors, I mean, both on the equity side and on the debt stack. So, talk about the sustainability of trends perhaps.

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

Well, this mission that we're on is a mission of growth. And to your point, sustainability of growth. Growth – the components of growth are reasonably simple, difficult to achieve but reasonably simple. If our attrition, which happens all the time, especially in government contracting, you expect attrition. Even in the best of circumstances, clients and public endeavors are going to look to see what they can get out there and do RFPs and RFIs, et cetera.

But if our – if we can contain our attrition and outpace that attrition with sales, you win. You win, you grow. And so, what we saw in the past was we were not caring and feeding our clients in a way that was retaining as much revenue as we needed to. And that retention can come in various forms, it's not just a renewal. It can – there's
massive volume swings that can be conducted from a client irrespective of a renewal, and that can really change the model in terms of how much we have to sell in order to grow.

There's add-on business we can have. There are – obviously, there are renewals we can have. There's price reductions components into that mix. So, we've got to do better in that bucket while we're selling more. What we're seeing is sustainability in our sales force and we're seeing improvement in retention. The jury is still out on retention. We're working on it and its better, but we got to wait and see how the year goes and see how the next few quarters go. It's looking promising. Sales is definitely looking promising.

I'll know that it's sustainable when you're not winning on the backs of just big deals. Right now, we're winning on the backs of big deals and some add-on business, and we're starting to see improvements on the singles and doubles and the triples – the $10 million, $20 million, $30 million revenue deals or TCV deals. I'll know that when you have a quarter where you don't sign a big deal and you still make quota, you're sustainable; and we're a couple quarters away from that.

And so, we're seeing good progress and we're hitting all the marks. We're overachieving and we're going to overachieve. But we need to see consistency and we need to also see a lot of doubles and triples in there.

Ashwin Vassant Shirvaikar  
**Analyst, Citigroup Global Markets, Inc.**

Okay, okay. So, let's talk then about your sales force, right. Because part of the answer here is a committed sales force when you're making the investment to arm the sales force, so to speak...

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

Yes.

Ashwin Vassant Shirvaikar  
**Analyst, Citigroup Global Markets, Inc.**

...with the right things to sell. Based on Brian's question – Brian's response, I mean, the other part of how your sales force and their efforts can be hampered is with regards to competition bringing up their balance sheet. But how is your sales force now being compensated? How are they being motivated? Are you adding to the sales force? What's the pitch? What makes someone come work for Conduent today?

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

Yeah. It's a great question. I look at the sales force in really three components. I'll get to the, arguably, a very important component last, which is the new business, new product sales and this segmented global sales organization, which I'll talk about here in a second. But the other two components are: one component is this client partner component where we have 25 to 28 client partners that help our major client, big clients out in the marketplace, especially in Healthcare, that have to navigate all the various components of this company. They want a one-stop shop, and that client partner is a quarterback to make sure that they're getting what they need and new opportunities surface.

And then, finally, the account management team. Because growth – as you know, Ashwin, growth in new business sales has a ramp to it. And the Street – you all are not – you as an analyst and the investors are not going to be satisfied with me telling you, look how great we sold but the ramp doesn't come on for two years.
You’d want to know, what are you doing for me right now, in addition to what are you going to do that manifests 2021 and 2022 which is what the global sales organization is doing. And so, that account management team and that add-on business and that retention and that volume swing is really important. So, we’re focused on that and we’re making sure that every line of business has a solid and aggressive account management team.

Back to your point on a global sales organization. Previously, we didn’t have one. What we had were industry layers and there was confusion between who sold, who account managed, who service managed, who operationally managed, and therefore we took our eye off the ball in terms of new product, new logo sales. We pulled all the newlogo sales and sales execs out under a leader that we — that I’ve worked for in the past that’s proven. He started his career at EDS in sales, 30 years in sales. He and a team that he’s put together have created an entirely new model with a new compensation structure, with new governance routines, with new go-to-market protocols. He’s top-graded half of them already. And so, what we’re seeing is the [ph] high end (00:29:42) — high overachievers are – I mean, we have sales execs that are selling almost 900% of quota. We have some that are new that just got new, there just selling 3%. We got to get out of this top- grading and get – we’ll always been top rating at the bottom, but we want that middle group to be overachieving as well and getting toward quota every year, and that’s what he’s working on. But we’re seeing real progress there. So we think it’s sustainable. It’s an entirely new model. He’s seen it, it’s proven, we just have to execute.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Yeah. Yeah. Yeah. So when — to that point, on execution, you had a good Q2. Q3, there is an outlook with regards to what you talked about. I know this is inter-quarter question but I’m going to ask it anyway, how is performance looking relative to your outlook?

Cliff Skelton

Chief Executive Officer & Director, Conduent, Inc.

So as you might recall we previously said we expected revenue – we ranged revenue between $960 million to $1,100 million and we ranged the EBITDA between 10%, 11.5% which is the equivalent of just under $100 million to $116 million, so you can figure out what the middle of that range is. What I would tell you is we certainly will hit the middle of that range or better. So it’s progressing.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Okay. That’s good to know. I wanted to address a question that had to deal with when it comes to sort of a predecessor company of Conduent that I covered, ACS. And the [ph] habit of (00:31:29) state and local budgets tended to be important not in the moment but on a delayed basis, because that’s kind of how state and local budgets work. And unlike our federal government, states actually have to balance budgets.

Cliff Skelton

Chief Executive Officer & Director, Conduent, Inc.

Right.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

It’s a good thing, don’t get me wrong. It’s a good...
Cliff Skelton
Chief Executive Officer & Director, Conduent, Inc.

In California, you know.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

So, is that a point of concern to you, just given our environment?

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

Yeah. It's an interesting question. It's an interesting question in terms of recessionary environments. It's an interesting question in terms of diversity and whether it's helpful and what does it mean in the state and local environment. Since you've followed ACS, you'd know what I've been told, which is ACS and the transition to Xerox in the 2008-2009 range weathered that recessionary storm pretty well.

And what happens is, at least what the history would tell us, is what happens in those recessionary environments at the state and local level is, while revenues can be down as taxes and tax collections drop due to the economic environment, there is a need for states to have revenue from elsewhere. And what we provide in many of our situations is revenue, for example in our transportation business, states and local government, and so we enabled that revenue.

So we – and subsidies often are enhanced to increase, which is what we also do in our payments business and what we also do in our government healthcare business. So, we think, although nobody knows for sure, just like nobody knows when the COVID is going to end, we think that as it becomes more problematic for states and local governments, it's – is the downside is muted for us and there may even be upside.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Okay. Okay. That's good to hear. It's - maybe spend some time on margins, let's talk about the overachievement, if you will, in the 2020 cost savings plan. What areas are permanent savings, what are temporary, if you could talk about that?

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

Brian, why don't you take it, and I'll pile on at the end, if you would?

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

So the temporary is about 40% of the program and permanent 60%. The temporary is meant to offset the negative impact from COVID, and it's things like reduced travel, which is just happening because we can't travel; furloughs, as volumes come down we do some furloughs; benefits and salary reductions, and the idea is those things will come back as the COVID issues kind of leave us.

And then, the permanent is more – permanent head count reductions, [ph] we spent the labor's work (00:34:27) doing things like closing real estate facilities on a permanent basis and working with our vendors to get permanent cost savings, and those are more permanent. And as we said in our earnings call, we initially scoped a $100
million program, and now we see it between $120 million and $140 million, and it's progressing well and the permanent actions will also give us hope into next year because we're taking those actions in the middle of the year or at least in Q2 and partially in Q3.

So that's what I would say about it, and we still see margins range around between 10.5% and 11.5% this year and to next year as we prioritize [ph] trimming around (00:35:04) the top line, but these actions are helping with COVID and just helping make room for investments, and so that's how we see it. Cliff, what would you add?

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

I would just say, in order to continue the margin expansion mission, we've got to get more efficient. And efficient isn't cost reduction. Efficiencies are really changes in process. And so we've just hired a new head of operations whose job it is to come in and figure out where all these siloed operational models are and where we can create shared services, centers of excellence and drive out some inefficiency cost caused by the siloed arrangements. And so, for example, you've got mail rooms in three or four different lines of business, why would you do that when you're selling mail room services to clients. We have already got a center of excellence built, leverage it. So we're looking at all that.

So round two, if you will, is really about this continuation incrementally of efficiency improvement and margin expansion in very baby steps, as opposed to go wipe out hundreds of people in a cost savings effort just because maybe you think it's unnecessary, and then find yourself maybe cutting more than you should have. So there's a round two that's going to be progressing in 2021.

Ashwin Vassant Shirvaikar
 Analyst, Citigroup Global Markets, Inc.

Okay. Okay. And so as you think of making processes more efficient, is that sort of a more technology driven? Should we look for more automation per se? Or is it more of a redundancy kind of get a consultant in, why are we doing this, should we be doing this in the first place kind of thing? Can you put – shed some more light on that?

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

Yeah. The last part we should be doing anyway, right? I mean we should always be doing, why are we doing this? Does it make sense? Is it adding value? What's the cost benefit etcetera? There is no magic bullet on AR machine learning, no matter what anybody says. There is incremental bullets along the way and so we are definitely focused on chat bot, IVR, VRU improvements in our call centers, we're definitely focused on AI machine learning in our transaction processing business, which involves things like handwriting recognition as I mentioned earlier etcetera.

And so we're going to leverage every bit of that along the way and then we're going to also look at our operating model and we're going to change the operating model, as I mentioned earlier. So the three things that you just said, stop doing things you don't need to be doing. Use technology to create less handoffs and fewer needs, fewer touch points and fewer people if that's the part of it. And then finally, change your operating model so you create more of a shared service, and a different process to do the same, cut down on handoffs and leverage management in a broader horizontal fashion.
Okay. Okay. As we sort of wind down on the time we have, I just want to ask you a broad question about culture change because this is a very complex thing that you’ve been trying to do for the last year. There are signs of success. But to make it permanent, and we’ve talked about sustainability in many different areas in this conversation.

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

Right.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

But nothing – I realize this is kind of a soft question, but nothing makes permanent change like culture change, right? So, can you talk about what you’re doing there? What been the receptivity to changing a culture that as you mentioned was kind of – perhaps in the past given to not – accepting less, if you will.

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

Yeah. Look, I’m hesitant to say what didn’t go well in the past, but let me tell you what we're focused on and what we're seeing.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Yeah. I didn’t mean to throw other people under the bus.

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

No, no, no. Well, you weren’t doing it and I just want to make sure I don’t do that either.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Yeah. Yeah.

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

I think we need an enhanced culture of transparency.

Ashwin Vassant Shirvaikar  
*Analyst, Citigroup Global Markets, Inc.*

Yeah.

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

We can’t have a culture of fear. We have to have a culture of inclusion where people feel like they’re being treated fairly and that everybody’s got a fair shot. And those three things I would argue weren’t always in place before. We have to – most importantly, we have to coach and maybe even top grade, if necessary, our leaders and our managers, because my view is that people abandon ship from abandoning people. They don’t leave companies,
they leave people. And if the right people are in place, you'll have the right culture and the right leadership, and people will stay.

And so, what we're seeing, Ashwin, is we are seeing improvement. We're seeing improvement in retention. We're seeing — we'll see — we've got our associate satisfaction survey ongoing right now, we'll see what the feedback looks like in a few weeks. We're - we are getting a lot more transparency. People are reacting, but I need to be careful because improved retention in a COVID environment can be a head fake, right? I don't want us to start saying, look, it's working, and it is drastically improved, but maybe everybody says it with COVID. So until we see what happens post-COVID, I don't know. But you're over the target. Culture, in my mind, is critical. Our tactics are working and we're seeing improvement. We've got to keep it going.

Ashwin Vasant Shirvaikar  
Analyst, Citigroup Global Markets, Inc.

Okay. Great. On that note, I want to say thank you very much. Appreciate your insights, and thank you Brian as well. It's good to meet and wish you all the best.

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

Thank you very much, Ashwin.

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

Thank you.