



News from Conduent

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Conduent Announces Second Quarter 2022 Financial Results

Key Q2 2022 Highlights

- Results consistent with expectations
- Not separating Transportation business
- Revenue and Adj. Revenue⁽¹⁾: \$928M
- Pre-tax Income: \$5M
- Adj. EBITDA Margin⁽¹⁾: 9.4%
- Annual Contract Value (ACV)⁽²⁾: \$180M
- Annual Recurring Revenue (ARR) signings: \$100M
- Net ARR Activity Metric⁽²⁾ (TTM): \$104M

FLORHAM PARK, NJ, August 2, 2022 - Conduent (NASDAQ: CNDT), a business process services and solutions company, today announced its second quarter 2022 financial results.

Cliff Skelton, Conduent President & CEO stated, "Q2 represents another quarter where our team continued to deliver in line with expectations regarding Revenue performance, Adjusted EBITDA, and Sales. In addition, we received recognition for our culture and service excellence from both our clients and the industry. Meanwhile and importantly, while we previously announced a consideration to separate our Transportation business, further analysis of cost and opportunity given recent turns in the market, as well as further optimism in this business, leads our Management and Board to unanimously believe that keeping the Transportation business as part of the Conduent portfolio, and not separate, is the right decision at this time. The value of diverse revenue streams in the current environment, the distraction of a separation especially in a spin scenario, and changes in market valuations, clarified the information leading to this change in course. Finally, we, as a Conduent team, in concert with our Board and largest public and private shareholders, remain optimistic about the future of our businesses because of our unique technologies, our solution and service capabilities, and our strong associate base. We look forward to the road ahead as One Conduent."

Key Financial Q2 2022 Results

(\$ in millions, except margin and per share data)	Q2 2022	Q2 2021	Current Quarter Y/Y B/(W)
Revenue	\$928	\$1,026	(9.6)%
Adjusted Revenue ⁽¹⁾	\$928	\$1,009	(8.0)%
GAAP Net Income (loss)	—	12	(100.0)%
Adjusted EBITDA ⁽¹⁾	87	119	(26.9)%
Adjusted EBITDA Margin ⁽¹⁾	9.4%	11.8%	(240) bps
GAAP Pre-tax Income	5	19	(73.7)%
GAAP Diluted EPS	\$(0.01)	\$0.04	(125.0)%
Adjusted Diluted EPS ⁽¹⁾	\$0.03	\$0.20	(85.0)%
Cash Flow from Operating Activities	(16)	105	(115.2)%
Adjusted Free Cash Flow ⁽¹⁾	(31)	62	(150.0)%

Q2 2022 Performance Commentary

Revenue and Adjusted Revenue for Q2 2022 were in line with expectations, however, lower than the prior year period, primarily driven by significant, non-recurring stimulus payments volume in our Government Services business in the prior year, as well as unfavorable foreign exchange impact, particularly from the Euro and British pound.

Pre-tax income was \$5M versus \$19M in the prior year period.

Adjusted EBITDA of \$87M and Adjusted EBITDA Margin of 9.4% were in line with expectations.

New Business ACV of \$180M increased for the fourth consecutive quarter, with strong contributions of \$124M from the Commercial segment.

The Net ARR Activity Metric for Q2 2022 was \$104M, up 2% versus Q1 2022 and down (2)% versus Q2 2021.

Additional Q2 2022 Performance Highlights

Conduent achieved several milestones in client satisfaction, industry recognition and culture, including:

- Recognized as a 2022 Leader in Benefits Administration by Nelson Hall for the fourth consecutive report
- Awarded Field Technology Support Partner of the Year by H&R Block
- Ranked #8 in 2022 BPS Top 50 Providers, by Everest Group
- Recognized with Supplier Excellence Award for the Second Consecutive Year by Toyota Financial Services
- Recognized by Forbes as one of “America’s Best 500 Employers for Diversity 2022” for the second consecutive year

Updated FY 2022 Outlook ⁽⁴⁾

	FY 2021 Actuals	FY 2022 Outlook
Adj. Revenue⁽¹⁾	\$4,070M	\$3,850M - \$3,950M
Adj. EBITDA⁽¹⁾ / Adj. EBITDA Margin⁽¹⁾	\$448M / 11.0%	10.0% - 10.5%
Adj. Free Cash Flow⁽²⁾ as % of Adj. EBITDA⁽¹⁾	Approx. 18% ⁽³⁾	Approx. 15% ⁽³⁾

⁽¹⁾ Refer to Appendix for definition and complete non-GAAP reconciliations of Adjusted Revenue, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Diluted EPS and Adjusted Free Cash Flow

⁽²⁾ Refer to Appendix for definition.

⁽³⁾ Normalized for the impact of payment of deferred payroll taxes primarily related to the CARES Act of \$32M in 2021 and \$27M in 2022, Adjusted Free Cash Flow as a percentage of Adjusted EBITDA for 2021 is approximately 25% and approximately 22% in 2022.

⁽⁴⁾ Refer to Appendix for definition of Non-GAAP Outlook

Conference Call

Management will present the results during a conference call and webcast on August 2, 2022 at 5:00 p.m. ET.

The call will be available by live audio webcast along with the news release and online presentation slides at <https://investor.conduent.com/>.

The conference call will also be available by calling 1-877-407-4019 toll-free. If requested, the conference ID for this call is 13730820.

The international dial-in is 1-201-689-8337. The international conference ID is also 13730820.

A recording of the conference call will be available by calling 1-877-660-6853 one hour after the conference call concludes. The replay ID is 13730820.

The telephone recording will be available until August 16, 2022.

About Conduent

Conduent delivers mission-critical services and solutions on behalf of businesses and governments – creating exceptional outcomes for its clients and the millions of people who count on them. Through our dedicated people, processes, and technologies, Conduent solutions and services enhance customer experience, increase efficiencies, reduce costs, and improve performance for most Fortune 100 companies and more than 500 government entities. Whether it's enabling 1.3 billion customer service interactions, touching three out of every four U.S. patients, delivering 45% of SNAP payments, or empowering 10 million employees through HR services, Conduent services and solutions interact with millions of people every day and move our clients' operations forward. Learn more at <https://www.conduent.com>

Non-GAAP Financial Measures

We have reported our financial results in accordance with U.S. generally accepted accounting principles (U.S. GAAP). In addition, we have discussed our financial results using non-GAAP measures. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with U.S. GAAP, to exclude the effects of certain items as well as their related tax effects. Management believes that these non-GAAP financial measures provide an additional means of analyzing the results of the current period against the corresponding prior period. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, our reported results prepared in accordance with U.S. GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable U.S. GAAP measures and should be read only in conjunction with our Consolidated Financial Statements prepared in accordance with U.S. GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions, and providing such non-GAAP financial measures to investors allows for a further level of transparency as to how management reviews and evaluates our business results and trends. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on certain of these non-GAAP measures. Refer to the "Non-GAAP Financial Measures" section attached to this release for a discussion of these non-GAAP measures and their reconciliation to the reported U.S. GAAP measures.

Forward-Looking Statements

This release and any attachments to this release may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "plan," "intend," "will," "aim," "should," "could," "forecast," "target," "may," "continue to," "if," "growing," "projected," "potential," "likely," and similar expressions, as they relate to us, are intended to identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. All statements other than statements of historical fact included in this press release are forward-looking statements, including, but not limited to, statements regarding our financial results, condition and outlook; changes in our operating results; general market and economic conditions; our belief that keeping the Transportation business as part of the Conduent portfolio is the right decision at this time as a result of further consideration, including consideration of the value of diverse revenue streams in the current environment, the distraction of a separation and changes in market valuations; our optimistic outlook about the future of our businesses because of our unique technologies, our solution and service capabilities, and our strong associate base; and our projected financial performance for the full year 2022, including all statements made under the section captioned "Updated FY 2022 Outlook" within this release. In addition, all statements regarding the anticipated effects of the novel coronavirus, or COVID-19, pandemic and the responses thereto, including the pandemic's impact on general economic and market conditions, as well as on our business, customers, and markets, results of operations and financial condition and anticipated actions to be taken by management to sustain our business during the economic uncertainty caused by the pandemic and related governmental and business actions, as well as other statements that are not strictly historical in nature, are forward looking. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expressed or implied herein as anticipated, believed, estimated, expected or intended or using other similar expressions.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this press release, any exhibits to this press release and other public statements we make. Our actual results may vary materially from those expressed or implied in our forward-looking statements.

Important factors and uncertainties that could cause our actual results to differ materially from those in our forward-looking statements include, but are not limited to: the significant continuing effects of the ongoing COVID-19 pandemic on our business, operations, financial results and financial condition, which is dependent on developments which are highly uncertain and cannot be predicted; government appropriations and termination rights contained in our government contracts; our ability to renew commercial and government contracts, including contracts awarded through competitive bidding processes; our ability to recover capital

and other investments in connection with our contracts; our reliance on third-party providers; our ability to deliver on our contractual obligations properly and on time; changes in interest in outsourced business process services; risk and impact of geopolitical events, natural disasters and other factors (such as pandemics, including coronavirus) in a particular country or region on our workforce, customers and vendors; claims of infringement of third-party intellectual property rights; our ability to estimate the scope of work or the costs of performance in our contracts; the loss of key senior management and our ability to attract and retain necessary technical personnel and qualified subcontractors; increases in the cost of telephone and data services or significant interruptions in such services; our failure to develop new service offerings and protect our intellectual property rights; our ability to modernize our information technology infrastructure and consolidate data centers; the failure to comply with laws relating to individually identifiable information and personal health information; the failure to comply with laws relating to processing certain financial transactions, including payment card transactions and debit or credit card transactions; breaches of our information systems or security systems or any service interruptions; our ability to comply with data security standards; changes in tax and other laws and regulations; risk and impact of potential goodwill and other asset impairments; our significant indebtedness; our ability to obtain adequate pricing for our services and to improve our cost structure; our ability to collect our receivables, including those for unbilled services; a decline in revenues from, or a loss of, or a reduction in business from or failure of significant clients; fluctuations in our non-recurring revenue; our failure to maintain a satisfactory credit rating; our ability to receive dividends or other payments from our subsidiaries; developments in various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings; conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes; changes in government regulation and economic, strategic, political and social conditions; changes in the volatility of our stock price and the risk of litigation following a decline in the price of our stock; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections in our 2021 Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with or furnished to the Securities and Exchange Commission. Any forward-looking statements made by us in this release speak only as of the date on which they are made. We are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise.

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CONDUENT INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 928	\$ 1,026	\$ 1,895	\$ 2,054
Operating Costs and Expenses				
Cost of services (excluding depreciation and amortization)	727	772	1,482	1,559
Selling, general and administrative (excluding depreciation and amortization)	113	125	215	251
Research and development (excluding depreciation and amortization)	2	1	3	1
Depreciation and amortization	53	86	114	181
Restructuring and related costs	11	8	20	21
Interest expense	18	13	37	26
(Gain) loss on divestitures and transaction costs	3	(1)	(160)	1
Litigation settlements (recoveries), net	(3)	1	(31)	2
Loss on extinguishment of debt	—	2	—	2
Other (income) expenses, net	(1)	—	—	—
Total Operating Costs and Expenses	923	1,007	1,680	2,044
Income (Loss) Before Income Taxes	5	19	215	10
Income tax expense (benefit)	5	7	79	9
Net Income (Loss)	\$ —	\$ 12	\$ 136	\$ 1
Net Income (Loss) per Share:				
Basic	\$ (0.01)	\$ 0.05	\$ 0.61	\$ (0.02)
Diluted	\$ (0.01)	\$ 0.04	\$ 0.60	\$ (0.02)

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net Income (Loss)	\$ —	\$ 12	\$ 136	\$ 1
Other Comprehensive Income (Loss), Net⁽¹⁾				
Currency translation adjustments, net	(40)	4	(45)	(7)
Unrecognized gains (losses), net	—	—	(1)	(1)
Changes in benefit plans, net	—	(1)	—	(1)
Other Comprehensive Income (Loss), Net	(40)	3	(46)	(9)
Comprehensive Income (Loss), Net	\$ (40)	\$ 15	\$ 90	\$ (8)

(1) All amounts are net of tax. Tax effects were immaterial.

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	June 30, 2022	December 31, 2021
Assets		
Cash and cash equivalents	\$ 519	\$ 415
Accounts receivable, net	684	699
Assets held for sale	—	184
Contract assets	155	154
Other current assets	239	228
Total current assets	<u>1,597</u>	<u>1,680</u>
Land, buildings and equipment, net	263	281
Operating lease right-of-use assets	212	231
Intangible assets, net	43	52
Goodwill	1,310	1,339
Other long-term assets	475	453
Total Assets	<u>\$ 3,900</u>	<u>\$ 4,036</u>
Liabilities and Equity		
Current portion of long-term debt	\$ 30	\$ 30
Accounts payable	166	198
Accrued compensation and benefits costs	219	243
Unearned income	73	82
Liabilities held for sale	—	29
Other current liabilities	407	443
Total current liabilities	<u>895</u>	<u>1,025</u>
Long-term debt	1,272	1,383
Deferred taxes	105	75
Operating lease liabilities	173	184
Other long-term liabilities	88	95
Total Liabilities	<u>2,533</u>	<u>2,762</u>
Series A convertible preferred stock	142	142
Common stock	2	2
Additional paid-in capital	3,918	3,910
Retained earnings (deficit)	(2,220)	(2,351)
Accumulated other comprehensive loss	(475)	(429)
Total Equity	<u>1,225</u>	<u>1,132</u>
Total Liabilities and Equity	<u>\$ 3,900</u>	<u>\$ 4,036</u>
Shares of common stock issued and outstanding	215,705	215,381
Shares of series A convertible preferred stock issued and outstanding	120	120

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cash Flows from Operating Activities:				
Net income (loss)	\$ —	\$ 12	\$ 136	\$ 1
Adjustments required to reconcile net income (loss) to cash flows from operating activities:				
Depreciation and amortization	53	86	114	181
Contract inducement amortization	1	—	1	—
Deferred income taxes	1	(5)	32	(6)
Amortization of debt financing costs	1	2	2	4
Loss on extinguishment of debt	—	2	—	2
(Gain) loss on divestitures and sales of fixed assets, net	(2)	—	(166)	1
Stock-based compensation	7	6	9	9
Changes in operating assets and liabilities	(77)	2	(133)	(89)
Net cash provided by (used in) operating activities	(16)	105	(5)	103
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(17)	(25)	(51)	(39)
Cost of additions to internal use software	(16)	(16)	(32)	(32)
Proceeds from divestitures	2	1	325	2
Net cash provided by (used in) investing activities	(31)	(40)	242	(69)
Cash Flows from Financing Activities:				
Payments on revolving credit facility	—	—	(100)	—
Payments on debt	(8)	(56)	(16)	(79)
Premium on debt redemption	—	(2)	—	(2)
Taxes paid for settlement of stock-based compensation	—	(1)	—	(1)
Dividends paid on preferred stock	(3)	(3)	(5)	(5)
Net cash provided by (used in) financing activities	(11)	(62)	(121)	(87)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5)	1	(6)	(2)
Increase (decrease) in cash, cash equivalents and restricted cash	(63)	4	110	(55)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	593	399	420	458
Cash, Cash Equivalents and Restricted Cash at End of period⁽¹⁾	\$ 530	\$ 403	\$ 530	\$ 403

(1) Includes \$11 million and \$6 million restricted cash as of June 30, 2022 and 2021, respectively, that were included in Other current assets on their respective Condensed Consolidated Balance Sheets.

Appendix

Definition

Net ARR Activity Metric (TTM)

Projected Annual Recurring Revenue for contracts signed in the prior 12 months, less the annualized impact of any client losses, contractual volume and price changes, and other known impacts for which the company was notified in that same time period, which could positively or negatively impact results. The metric annualizes the net impact to revenue. Timing of revenue impact varies and may not be realized within the forward 12-month timeframe. The

metric is for indicative purposes only. This metric excludes COVID-related volume impacts and non-recurring revenue signings. This metric is not indicative of any specific 12 month timeframe.

New Business Annual Contract Value (ACV): (New Business TCV / contract term) multiplied by 12.

Non-GAAP Financial Measures

We have reported our financial results in accordance with U.S. generally accepted accounting principles (U.S. GAAP). In addition, we have discussed our financial results using non-GAAP measures.

We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with U.S. GAAP, to exclude the effects of certain items as well as their related tax effects. Management believes that these non-GAAP financial measures provide an additional means of analyzing the results of the current period against the corresponding prior period. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with U.S. GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable U.S. GAAP measures and should be read only in conjunction with our Consolidated Financial Statements prepared in accordance with U.S. GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions, and providing such non-GAAP financial measures to investors allows for a further level of transparency as to how management reviews and evaluates our business results and trends. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on certain of these non-GAAP measures.

A reconciliation of the following non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP are provided below.

These reconciliations also include the income tax effects for our non-GAAP performance measures in total, to the extent applicable. The income tax effects are calculated under the same accounting principles as applied to our reported pre-tax performance measures under ASC 740, which employs an annual effective tax rate method. The noted income tax effect for our non-GAAP performance measures is effectively the difference in income taxes for reported and adjusted pre-tax income calculated under the annual effective tax rate method. The tax effect of the non-GAAP adjustments was calculated based upon evaluation of the statutory tax treatment and the applicable statutory tax rate in the jurisdictions in which such charges were incurred.

Adjusted Net Income (Loss), Adjusted Diluted Earnings per Share, Adjusted Weighted Average Common Shares Outstanding, and Adjusted Effective Tax Rate

We make adjustments to Net Income (Loss) before Income Taxes for the following items, as applicable, to the particular financial measure, for the purpose of calculating Adjusted Revenue, Adjusted Net Income (Loss), Adjusted Diluted Earnings per Share, Adjusted Weighted Average Common Shares Outstanding, and Adjusted Effective Tax Rate:

- Amortization of acquired intangible assets. The amortization of acquired intangible assets is driven by acquisition activity, which can vary in size, nature and timing as compared to other companies within our industry and from period to period.
- Restructuring and related costs. Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our strategic transformation program.
- (Gain) loss on divestitures and transaction costs. Represents (gain) loss on divested businesses and transaction costs.
- Litigation settlements (recoveries), net represents settlements or recoveries for various matters subject to litigation.
- Other charges (credits). This includes Other (income) expenses, net on the Condensed Consolidated Statements of Income (loss) and other insignificant (income) expense associated with providing transition services on the California Medicaid contract loss and other adjustments.
- Abandonment of Cloud Computing Project. This includes charges in connection with the abandonment of a cloud computing project. The costs include writing off previously capitalized costs and remaining hosting fees that would have continued to be incurred without any economic benefit.

- Divestitures.

The Company provides adjusted net income and adjusted EPS financial measures to assist our investors in evaluating our ongoing operating performance for the current reporting period and, where provided, over different reporting periods, by adjusting for certain items which may be recurring or non-recurring and which in our view do not necessarily reflect ongoing performance. We also internally use these measures to assess our operating performance, both absolutely and in comparison to other companies, and in evaluating or making selected compensation decisions.

Management believes that the adjusted effective tax rate, provided as supplemental information, facilitates a comparison by investors of our actual effective tax rate with an adjusted effective tax rate which reflects the impact of the items which are excluded in providing adjusted net income and certain other identified items, and may provide added insight into our underlying business results and how effective tax rates impact our ongoing business.

Adjusted Revenue, Adjusted Operating Income and Adjusted Operating Margin

We make adjustments to Revenue, Costs and Expenses and Operating Margin, as applicable, for the following items, for the purpose of calculating Adjusted Revenue, Adjusted Operating Income and Adjusted Operating Margin:

- Amortization of acquired intangible assets.
- Restructuring and related costs.
- Interest expense. Interest expense includes interest on long-term debt and amortization of debt issuance costs.
- (Gain) loss on divestitures and transaction costs.
- Litigation settlements (recoveries), net.
- Other charges (credits).
- Abandonment of Cloud Computing Project.
- Divestitures.

We provide our investors with adjusted revenue, adjusted operating income and adjusted operating margin information, as supplemental information, because we believe it offers added insight, by itself and for comparability between periods, by adjusting for certain non-cash items as well as certain other identified items which we do not believe are indicative of our ongoing business, and may also provide added insight on trends in our ongoing business.

Adjusted EBITDA and EBITDA Margin

We use Adjusted EBITDA and Adjusted EBITDA Margin as an additional way of assessing certain aspects of our operations that, when viewed with the U.S. GAAP results and the accompanying reconciliations to corresponding U.S. GAAP financial measures, provide a more complete understanding of our on-going business. Adjusted EBITDA represents income (loss) before interest, income taxes, depreciation and amortization and contract inducement amortization adjusted for the following items. Adjusted EBITDA Margin is Adjusted EBITDA divided by revenue or adjusted revenue, as applicable.

- Restructuring and related costs.
- (Gain) loss on divestitures and transaction costs.
- Litigation settlements (recoveries), net.
- Abandonment of Cloud Computing Project.
- Other charges (credits).
- Divestitures

Adjusted EBITDA is not intended to represent cash flows from operations, operating income (loss) or net income (loss) as defined by U.S. GAAP as indicators of operating performance. Management cautions that amounts presented in accordance with Conduent's definition of Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similar measures disclosed by other companies because not all companies calculate Adjusted EBITDA and Adjusted EBITDA Margin in the same manner.

Free Cash Flow

Free Cash Flow is defined as cash flows from operating activities as reported on the consolidated statement of cash flows, less cost of additions to land, buildings and equipment, cost of additions to internal use software, and proceeds from sales of land, buildings and equipment. We use the non-GAAP measure of Free Cash Flow as a criterion of liquidity. We use Free Cash Flow as a measure of liquidity to determine amounts we can reinvest in our core businesses, such as amounts available to make acquisitions and invest in land, buildings and equipment and internal use software, after required payments on debt. In order to provide a meaningful basis for comparison, we are providing information with respect to our Free Cash Flow reconciled to cash flow provided by operating activities, which we believe to be the most directly comparable measure under U.S. GAAP.

Adjusted Free Cash Flow

Adjusted Free Cash Flow is defined as Free Cash Flow from above plus adjustments for litigation insurance recoveries, transaction costs, taxes paid on gains from divestitures and litigation recoveries, and certain other identified adjustments. We use Adjusted Free Cash Flow, in addition to Free Cash Flow, to provide supplemental information to our investors concerning our ability to generate cash from our ongoing operating activities and for performance based components of employee compensation; by excluding these items, we believe we provide useful additional information to our investors to help them further understand our ability to generate cash period-over-period as well as added information on comparability to our competitors. Such as with Free Cash Flow information, as so adjusted, it is specifically not intended to provide amounts available for discretionary spending. We have added certain adjustments to account for items which we do not believe reflect our core business or operating performance, and we computed all periods with such adjusted costs.

Revenue at Constant Currency

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. Dollars. We refer to this adjusted revenue as "constant currency." Currency impact is determined as the difference between actual growth rates and constant currency growth rates. This currency impact is calculated by translating the current period activity in local currency using the comparable prior-year period's currency translation rate.

Non-GAAP Outlook

In providing the outlook for Adjusted EBITDA we exclude certain items which are otherwise included in determining the comparable U.S. GAAP financial measure. A description of the adjustments which historically have been applicable in determining Adjusted EBITDA are reflected in the table below. In addition, for "FY 2021 Actuals" we are excluding the estimated impacts of \$70 million of Revenue and \$39 million of Adjusted EBITDA related to the divestiture of the Midas business. We are providing such outlook only on a non-GAAP basis because the Company is unable without unreasonable efforts to predict with reasonable certainty the totality or ultimate outcome or occurrence of these adjustments for the forward-looking period, which can be dependent on future events that may not be reliably predicted. Based on past reported results, where one or more of these items have been applicable, such excluded items could be material, individually or in the aggregate, to reported results. We have provided an outlook for revenue only on a non-GAAP basis using foreign currency translation rates at current period end due to the inability to, without unreasonable efforts, accurately predict foreign currency impact on revenues. Outlook for Adjusted Free Cash Flow is provided as a factor of expected Adjusted EBITDA, and such outlook is only available on a non-GAAP basis for the reasons described above. For the same reason, we are unable to provide GAAP expected adjusted tax rate, which adjusts for our non-GAAP adjustments.

Non-GAAP Reconciliations: Revenue at Constant Currency, Adjusted Net Income (Loss), Adjusted Effective Tax, Adjusted Operating Income (Loss) and Adjusted EBITDA were as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
ADJUSTED REVENUE				
Revenue	\$ 928	\$ 1,026	\$ 1,895	\$ 2,054
<i>Adjustment:</i>				
Divestitures ⁽¹⁾	—	(17)	(7)	(35)
Adjusted Revenue	928	1,009	1,888	2,019
Foreign currency impact	11	(10)	16	(17)
Revenue at Constant Currency	<u>\$ 939</u>	<u>\$ 999</u>	<u>\$ 1,904</u>	<u>\$ 2,002</u>
ADJUSTED NET INCOME (LOSS)				
Net Income (Loss)	\$ —	\$ 12	\$ 136	\$ 1
<i>Adjustments:</i>				
Amortization of acquired intangible assets ⁽²⁾	3	32	9	72
Restructuring and related costs	11	8	20	21
Loss on extinguishment of debt	—	2	—	2
(Gain) loss on divestitures and transaction costs	3	(1)	(160)	1
Litigation settlements (recoveries), net	(3)	1	(31)	2
Other charges (credits)	(1)	—	—	—
Total Non-GAAP Adjustments	13	42	(162)	98
Income tax adjustments ⁽³⁾	(4)	(8)	60	(17)
Adjusted Net Income (Loss)	<u>\$ 9</u>	<u>\$ 46</u>	<u>\$ 34</u>	<u>\$ 82</u>
ADJUSTED EFFECTIVE TAX				
Income (Loss) Before Income Taxes	\$ 5	\$ 19	\$ 215	\$ 10
<i>Adjustments:</i>				
Total Non-GAAP Adjustments	13	42	(162)	98
Adjusted PBT Before Adjustment for Divestitures	18	61	53	108
Divestitures ⁽¹⁾	—	(8)	(2)	(17)
Adjusted PBT	<u>\$ 18</u>	<u>\$ 53</u>	<u>\$ 51</u>	<u>\$ 91</u>
Income tax expense (benefit)	\$ 5	\$ 7	\$ 79	\$ 9
Income tax adjustments ⁽³⁾	4	8	(60)	17
Adjusted Income Tax Expense (Benefit)	9	15	19	26
Adjusted Net Income (Loss) Before Adjustment for Divestitures	9	46	34	82
Divestitures ⁽¹⁾	—	(8)	(2)	(17)
Adjusted Net Income (Loss)	<u>\$ 9</u>	<u>\$ 38</u>	<u>\$ 32</u>	<u>\$ 65</u>

CONTINUED (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
ADJUSTED OPERATING INCOME (LOSS)				
Income (Loss) Before Income Taxes	\$ 5	\$ 19	\$ 215	\$ 10
<i>Adjustments:</i>				
Total non-GAAP adjustments	13	42	(162)	98
Interest expense	18	13	37	26
Adjusted Operating Income (Loss) Before Adjustment for Divestitures	36	74	90	134
Divestitures ⁽¹⁾	—	(8)	(2)	(17)
Adjusted Operating Income (Loss)	<u>\$ 36</u>	<u>\$ 66</u>	<u>\$ 88</u>	<u>\$ 117</u>
ADJUSTED EBITDA				
Net Income (Loss)	\$ —	\$ 12	\$ 136	\$ 1
Income tax expense (benefit)	5	7	79	9
Depreciation and amortization	53	86	114	181
Contract inducement amortization	1	—	1	—
Interest expense	18	13	37	26
EBITDA Before Adjustment for Divestitures	77	118	367	217
Divestitures ⁽¹⁾	—	(8)	(2)	(17)
Divestitures depreciation and amortization ⁽¹⁾	—	(1)	—	(2)
EBITDA	77	109	365	198
<i>Adjustments:</i>				
Restructuring and related costs	11	8	20	21
(Gain) loss on divestitures and transaction costs	3	(1)	(160)	1
Litigation settlements (recoveries), net	(3)	1	(31)	2
Loss on extinguishment of debt	—	2	—	2
Other charges (credits)	(1)	—	—	—
Adjusted EBITDA	<u>\$ 87</u>	<u>\$ 119</u>	<u>\$ 194</u>	<u>\$ 224</u>

(1) Adjusted for the full impact from revenue and income/loss from divestitures for all periods presented.

(2) Included in Depreciation and amortization on the Consolidated Statements of Income (Loss).

(3) The tax impact of Adjusted Pre-tax income (loss) from continuing operations was calculated under the same accounting principles applied to the 'As Reported' pre-tax income (loss), which employs an annual effective tax rate method to the results and without regard to the adjustments listed.

Non-GAAP Reconciliations: Adjusted Weighted Average Shares Outstanding, Adjusted Diluted EPS, Adjusted Effective Tax Rate, Adjusted Operating Margin and Adjusted EBITDA Margin were as follows:

(Amounts are in whole dollars, shares are in thousands and margins and rates are in %)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
ADJUSTED DILUTED EPS⁽¹⁾				
Weighted Average Common Shares Outstanding	215,629	212,450	215,561	212,344
Adjustments:				
Restricted stock and performance units / shares	3,489	7,715	3,241	7,287
Adjusted Weighted Average Common Shares Outstanding	<u>219,118</u>	<u>220,165</u>	<u>218,802</u>	<u>219,631</u>
Diluted EPS from Continuing Operations	\$ (0.01)	\$ 0.04	\$ 0.60	\$ (0.02)
Adjustments:				
Total non-GAAP adjustments	0.06	0.20	(0.74)	0.45
Income tax adjustments ⁽²⁾	(0.02)	(0.04)	0.27	(0.08)
Adjusted Diluted EPS	<u>\$ 0.03</u>	<u>\$ 0.20</u>	<u>\$ 0.13</u>	<u>\$ 0.35</u>
ADJUSTED EFFECTIVE TAX RATE				
Effective tax rate	99.6 %	38.2 %	37.0 %	94.3 %
Adjustments:				
Total non-GAAP adjustments	(52.9)%	(12.5)%	(1.8)%	(69.6)%
Adjusted Effective Tax Rate⁽²⁾	<u>46.7 %</u>	<u>25.7 %</u>	<u>35.2 %</u>	<u>24.7 %</u>
ADJUSTED OPERATING MARGIN				
Income (Loss) Before Income Taxes Margin	0.5 %	1.9 %	11.3 %	0.5 %
Adjustments:				
Total non-GAAP adjustments	1.5 %	4.0 %	(8.6)%	4.7 %
Interest expense	1.9 %	1.3 %	2.0 %	1.3 %
Margin for Adjusted Operating Income Before Adjustment for Divestitures	<u>3.9 %</u>	<u>7.2 %</u>	<u>4.7 %</u>	<u>6.5 %</u>
Divestitures ⁽³⁾	— %	(0.7)%	— %	(0.7)%
Margin for Adjusted Operating Income	<u>3.9 %</u>	<u>6.5 %</u>	<u>4.7 %</u>	<u>5.8 %</u>
ADJUSTED EBITDA MARGIN				
EBITDA Margin Before Adjustment for Divestitures	8.3 %	11.5 %	19.4 %	10.6 %
Adjustments:				
Divestitures ⁽³⁾	— %	(0.7)%	(0.1)%	(0.8)%
EBITDA Margin	<u>8.3 %</u>	<u>10.8 %</u>	<u>19.3 %</u>	<u>9.8 %</u>
Total non-GAAP adjustments	1.1 %	1.0 %	(9.1)%	1.2 %
Divestitures ⁽³⁾	— %	0.7 %	0.1 %	0.8 %
Adjusted EBITDA Margin Before Adjustment for Divestitures	<u>9.4 %</u>	<u>12.5 %</u>	<u>10.3 %</u>	<u>11.8 %</u>
Divestitures ⁽³⁾	— %	(0.7)%	— %	(0.7)%
Adjusted EBITDA Margin	<u>9.4 %</u>	<u>11.8 %</u>	<u>10.3 %</u>	<u>11.1 %</u>

(1) Average shares for the 2022 and 2021 calculation of adjusted EPS excludes 5.4 million shares associated with our Series A convertible preferred stock and includes the impact of preferred stock dividend of approximately \$3 million and \$5 million for the three months ended June 30, 2022 and 2021, respectively.

(2) The tax impact of Adjusted Pre-tax income (loss) from continuing operations was calculated under the same accounting principles applied to the 'As Reported' pre-tax income (loss), which employs an annual effective tax rate method to the results and without regard to the Total Non-GAAP adjustments.

(3) Adjusted for the full impact from revenue and income/loss from divestitures for all periods presented.

Free Cash Flow and Adjusted Free Cash Flow Reconciliation:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating Cash Flow	\$ (16)	\$ 105	\$ (5)	\$ 103
Cost of additions to land, buildings and equipment	(17)	(25)	(51)	(39)
Cost of additions to internal use software	(16)	(16)	(32)	(32)
Free Cash Flow	<u>\$ (49)</u>	<u>\$ 64</u>	<u>\$ (88)</u>	<u>\$ 32</u>
Free Cash Flow	\$ (49)	\$ 64	\$ (88)	\$ 32
Transaction costs	2	1	3	2
Vendor financed lease payments	(2)	(3)	(5)	(5)
Portion of Texas litigation settlement (recoveries) recognized in Litigation settlements (recoveries), net	—	—	(24)	—
Tax payment related to divestitures and litigation recoveries	18	—	18	—
Adjusted Free Cash Flow	<u>\$ (31)</u>	<u>\$ 62</u>	<u>\$ (96)</u>	<u>\$ 29</u>