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Q4 2025 CONDUENT INC EARNINGS CALL

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An LSEG Business



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CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Patrick McCann** *Noble Financial Group Inc - Analyst*
- **Gowshihan Sriharan** *Singular Research - Analyst*
- **Matt Swope** *Baird - Analyst*
- **David Nierenberg** *Nierenberg Investment Management Company - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Conduent Q4 2025 earnings conference call. (Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Joshua Overholt, Vice President of Investor Relations. Thank you. You may begin.

Joshua Overholt *Conduent Inc - Vice President of Investor Relations*

Thank you, operator, and thank you, everyone, for joining us today to discuss Conduent's Fourth Quarter 2025 Earnings. I am joined today by Harsha Agadi, our CEO; and Giles Goodburn, our CFO.

We hope you've had a chance to review our press release issued earlier this morning. This call is being webcast, and a copy of the slides used during this call as well as the press release were filed with the SEC this morning on Form 8-K. This information as well as the detailed financial metrics package are available on the Investor Relations section of the Conduent website.

During this call, we may make forward-looking statements. These forward-looking statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to 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. For more information regarding definitions of our non-GAAP measures and how we use them as well as the limitations to their usefulness for comparative purposes, please see our press release.

And now, I would like to turn the call over to Harsha.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Thank you, Josh. I want to welcome our investors, analysts and clients as well as colleagues around the world to this call. I am confident you will be encouraged by what you hear, as we discuss where Conduent is headed and how we intend to get there.

I also want to say good morning, good afternoon and good evening to my 51,000 Conduent colleagues across the globe. Over the past few weeks, I've been energized by the stories I have heard, stories of teams serving clients with commitment, resilience and professionalism every single day. Thank you for what you do and for the pride you take in representing Conduent.

Over the past three decades, I've had the opportunity to lead more than half a dozen companies across multiple sectors, both private and public. Most relevant to Conduent, I have founded in the past and led a BPO that scaled globally and eventually listed on the NYSE. Through those experiences, I have learned what it takes to build organizations that move with deliberate speed and purpose, deliver measurable outcomes for clients, generate sustainable growth and free cash flow for investors and create meaningful development opportunities for all our employees on a global scale. I'm here because I believe Conduent can deliver those same outcomes.

My expectations are simple and my objectives are clear. It is to lead Conduent to consistent year-over-year revenue and EBITDA growth, supported by very strong and durable free cash flow generation. In the BPO industry, these are not aspirational results. They are the natural results of a healthy business with clear strategy, disciplined execution and a relentless focus on serving clients on a daily basis.

As clients focus on their business, our focus is to provide seamless BPO and KPO services to enable their daily services smoothly to their clients. Having been in the role for less than 30 days at Conduent, it would be premature for me to present a fully detailed long-term plan for Conduent's return to sustained growth, improved earnings and free cash flow. Ladies and gentlemen, this is a turnaround story. The work is underway, and we will share with you.

What I can commit to today is full transparency and cadence. In addition to our normal earnings reports, we intend to host an Analyst Day in New York City, where you will have the opportunity to meet our Board and other members of the Conduent executive team and hear directly about our strategy, priorities and execution plan.

While the full plan is still being finalized, this is not my first turnaround. Having led multiple transformations in various sectors, I know there are decisive actions that must happen early, actions that set direction, change momentum and create the conditions for sustainable results. Those actions are already underway, and they inform the priorities I am here to outline.

First and foremost, we will move faster. That means faster decision-making, faster execution and faster improvement. The senior leadership team has already felt this increased pace, and we will only continue to accelerate it. The tone has to be set from the top. Opportunities do not wait and neither will we. Our leaders are being empowered to act, and empowerment comes with clear accountability. We must move with speed to capitalize on the opportunities before us.

Second, we will apply maximum financial discipline across every major decision, especially capital allocation. We will evaluate decisions through multiple lenses, revenue growth, margin expansion and free cash flow generation. This framework will guide how we allocate capital, rationalize parts of the portfolio, manage working capital and prioritize investments.

Third, we will lower our cost structure. This includes reducing corporate overhead, particularly within SG&A and taking a hard look at our entire technology spend and stack. However, we will not compromise quality or client outcomes, but we must be more efficient in how we deliver our solutions. At current levels, corporate overhead and technology expense as a percentage of revenue must come down.

Fourth, we will continue to rationalize our portfolio. My goal for Conduent is clear. Organic revenue growth resulting in strong free cash flow. To get there, we are reviewing every business, categorizing each as either fix, sell or grow.

Businesses that are categorized as fixed will operate under formal improvement plans with clear metrics, timelines, leadership accountability goes hand-in-hand with that. Businesses that are in the category of sale will be actively marketed with a focus on executing transactions efficiently and at fair value. Proceeds will be first used to reduce debt, followed by multiple other priorities. The third is growing the businesses that are identified to grow will receive the required investments as well as be unconstrained so that they can grow.

Fifth, our qualified ACV plant today stands at \$3.2 billion. Our priority is better conversion rates. Going forward, our priority is not just building pipelines, but consistently converting it. Across each of our businesses, pipeline development and execution will improve in

a way that supports sustainable revenue growth.

Finally, we will simplify and strengthen our organization. To deliver on these priorities, we will become a nimbler company with fewer layers, lower cost and clear accountability. We will reduce organizational complexity that slows decision-making and empowers our leaders with full P&L ownership.

I would now like to hand over to Giles to continue the update on the earnings calls, as he will be giving you a very clear update on Q4, which was not under my CEO leadership. Thank you, Giles.

Giles Goodburn Conduent Inc - Chief Financial Officer

Thanks, Harsha. As we've done in the past, we're reporting both GAAP and non-GAAP numbers. The reconciliations are in our filings and in the appendix of the presentation. Let's discuss our key sales metrics on slides 5 and 6.

We signed \$152 million of new business ACV in the quarter, one of our highest quarters in recent years, up 11% versus Q4 2024. Our full year 2025 new business ACV was \$517 million, up 6% versus 2024. Each quarter can be influenced by the timing of large deals, especially in the public sector segments. However, if you aggregate the ACV on a trailing 4-quarter basis, you can see we're trending in the right direction.

On a full year basis, our Government segment new business ACV is up 50%, and our Transportation segment is up 14% versus 2024. While our Commercial segment is down 15% versus prior year, the encouraging signs are that our new capability ACV, selling new products to our existing clients is up again this year by 60%. This is a cornerstone of our Commercial go-to-market strategy, which we are optimistic will continue to reap rewards.

Within the quarter, we signed 14 new logos and 20 new capabilities. And on a full year basis, signed 41 new logos and 87 new capabilities. New business TCV for full year 2025 was up 16% versus 2024, driven by our Government and Transportation segments.

As Harsha mentioned, our qualified ACV pipeline remains strong at \$3.2 billion, which is up 4% year-over-year. The strength here is driven by our Government segment, which is up 29% year-over-year, with an in-year 2026 qualified pipeline, almost double where it was at the beginning of 2025.

Let's turn to slide 7 and review our Q4 and full year 2025 P&L metrics. Adjusted revenue for full year 2025 was \$3.04 billion, compared to \$3.18 billion in 2024, down 4.2%. We ended the year with Q4 adjusted revenue growth in 2 of our 3 segments. Our Government segment grew 1.8%, and our Transportation segment grew 1.9%. Both segments showed positive momentum and positioned well for growth in 2026.

Adjusted EBITDA for the year was \$164 million, as compared to \$124 million in 2024. And our adjusted EBITDA margin of 5.4% is up 150 basis points year-over-year and towards the top end of our guided range. We finished the year with a Q4 adjusted EBITDA margin of 6.5%, up 250 basis points versus Q4 2024 and a sequential improvement of 130 basis points versus Q3.

Let's turn to slide 8 and review the segment results. Full year 2025 Commercial segment adjusted revenue was \$1.5 billion, down 5.9% as compared to 2024. The volume declines in our largest Commercial clients drove approximately 40% of this revenue decline. The remaining top 10 Commercial clients grew on an aggregate basis in 2025 versus 2024.

Commercial adjusted EBITDA was \$154 million, adjusted EBITDA margin of 10.2% was down 30 basis points year-over-year. While we made good progress with our cost efficiency program in this segment, it wasn't enough to offset the impact of lower revenue. The 5 priorities Harsha outlined earlier will significantly accelerate the desired improvement in this segment.

Government segment adjusted revenue for the year was down 6.3% at \$922 million. Our new business revenue outpaced lost business revenue with the primary driver of decline being the completion or winding down of large implementation projects, which we expect to replace in 2026. As I mentioned earlier, in the fourth quarter, our Government segment grew 1.8% year-over-year. We are confident this will continue, and the team is positioned to deliver full year 2026 revenue growth.

Adjusted EBITDA was \$221 million, with adjusted EBITDA margin of 24%, up 270 basis points versus 2024. The drivers here resulted from our AI initiatives and efficiency programs, resulting in lower fraud, labor and telecom expenses, offsetting the implementation runoffs.

Transportation segment adjusted revenue was \$609 million for the year, an increase of 3.9% while adjusted EBITDA was \$18 million and adjusted EBITDA margin was 3% for the year. up 300 basis points versus 2024. Both revenue and EBITDA improvements were

driven by strong equipment sales and a contract amendment in our international transit business.

Unallocated costs were \$229 million for the year, a decrease of 10.2% versus 2024. The improvement here is driven by the cost efficiency programs and our corporate functions and a recovery of legal costs, which more than offset significantly higher US employee healthcare claims activity we continue to experience.

Let's turn to slide 9 and discuss the balance sheet and cash flow. We ended the year with approximately \$243 million of total cash on balance sheet and adjusted free cash flow was negative \$130 million. Adjusted free cash flow in the quarter was positive \$28 million, a little less than we had anticipated due to the timing factors I mentioned last quarter. The updates on these timing factors are we signed the contract amendments that were delayed by the government shutdown in Q4 and build the client for the work already performed. However, we now expect to receive this cash later in Q1 or early in Q2, which accounts for the reduction in contract assets and the increase in accounts receivable on our year-end balance sheet.

Our net leverage ratio decreased to 2.8 turns this quarter, which was a result of the higher EBITDA, and our capital expenditure for the year was 3.4% of revenue, in line with our expectations. We continue to make progress with our portfolio rationalization plans and relating to our full year 2026 guidance. As Harsha mentioned earlier, given his short tenure in the CEO role and the 5 priorities he has outlined, you can expect a more wholesome update on both these items with our Q1 financial results in early May.

That concludes the financial review of 2025, and I'll now hand it back to Harsha.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Thank you, Giles. I look forward to coming back on our Q1 call to revisit these priorities and give you a very detailed update. Just so you're clear, the initiatives would have already starting to take momentum well before our call -- next call. We will also be prepared to outline their expected impact on Conduent's financial performance.

As I continue forward, I would say Conduent has a strong foundation, meaningful client relationships and a global team that knows how to deliver to our thousands of clients across the globe. What we are focused on now is execution. Moving faster, simplifying the business, allocating capital with discipline and holding ourselves accountable for results. Our direction is clear; our execution plan is now in motion. The actions we're taking are designed to return Conduent to sustainable revenue growth, expanded margins and generate strong free cash flow that is sustainable.

As we execute, we will continue to communicate transparently, measure progress rigorously and earn your confidence quarter-by-quarter. I am truly energized by the opportunity given by the Board and the support to lead from the front confidently. We do have a good leadership team in place, deeply committed to building a stronger, more focused and more valuable Conduent for our clients, all our employees, and without any doubt, our shareholders.

Ladies and gentlemen, that is the message for the day. And I think if we can get the operator to open it up for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Pat McCann, NOBLE Capital.

Patrick McCann Noble Financial Group Inc - Analyst

Good morning. Thanks for taking my questions. Harsha, it's great to hear about your vision for the future of the company.

I was curious when it comes to the framework that you outlined of looking at business units and deciding whether to fix, sell or grow them. I was just wondering about would you -- could you give any more color into what metrics you would be looking at the various business units with to kind of make that decision in terms of whether that's margin profile or the capital intensity of a business unit? Anything like that that -- any more color you could give there in terms of how you will evaluate?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Thank you very much again for the question and actually a very thoughtful question. So there will be multi variables at play. And I'll just name a few, which you named a few, but I'll start with the CEO's very important job is capital allocation.

We have a lot of capital going in. Are we getting the right rate to return? And where should we place our bets? So what we have today is an accumulation of somewhere between 15 and 20 small businesses, covering not just the Commercial side, but also the Government and the Transportation segments. So what happens is, I'm looking for, does the sector have unbelievable growth metrics. As an example, healthcare will continue to grow.

Second, can we have decent predictable EBITDA margins? Sometimes, when EBITDA margins are high, we can be taken thinking it's a great business. But anything that's not sustainable, you run out of steam. So, we also need to think through how much capital needs to be allocated and what is the free cash flow that's coming in.

Finally, is there a moat around the business? Can somebody come in and replace us easily or not? And can the moat be breached with, the number one question of the day, technology that is extremely dynamic at this time, and obviously driven by AI, GenAI and all of the other variations?

So to me, these are some of the factors. So, I intend to as quickly as our next Board meeting to actually surround with a matrix and say, here's how we're looking at the world. And by the way, a lot of the -- I've talked to the top 10 investors, and I have to tell you, all of you have given me wonderful ideas to make sure I'm covering all bases. So those will be the factors.

Patrick McCann Noble Financial Group Inc - Analyst

And I'll just ask one more question, and I'll hop in the queue because I know there are others. When it comes to -- the company obviously has a number of different business units, some of them are more closely related to each other, some, not as much. I was wondering what your general philosophy is on a go-forward basis, on which business you would keep if you look at it from the perspective of certain businesses are -- have overlap or had their efficiencies because of the similarities of where certain business units operate and that sort of thing versus the more disparate portfolio of businesses that are completely separate? I don't know if the question is clear, but I am trying to keep it all kind of going in one direction.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

No, it's actually -- not only is the question clear. It's a good dilemma. And so I'll tell you what has been the case to some extent in the past, and I'll move away from the past quickly, and I've seen this in other businesses that are going through a term is let us be everything to everybody or let us be anything to anybody.

We need to walk away from that. And one of the things we as a team are doing, is listing out things we will just not do. It is actually not just important to what you do. You have to make a list of what you really will not do and refrain from it.

It may look good. And I am of the mindset when I go to a client, I will say this is what we can do and we're the best at it. If you need this additional service, maybe we can do this, but maybe we'll find you somebody that we might partner with. We have one big element within our company, and that is a very deep client relationships. We have a long list that, to me, is worth a huge royalty. So, if I'm going to bring a partner to execute with me on a third or fourth service with the client, I may be charging for that relationship because I bring to bear the relationship management.

So to me, I hopefully have answered the question, but it will be case by case. But even in the case by case, we have to be very disciplined about it. We have 20, 30 different services, but we're offering maybe 1.5, 2 services here, completely different services elsewhere. That does not generate scale or efficiency.

I'll go back to my previous days in another BPO, we were doing tax returns only for partnerships, and we got a request to do it for corporations. I actually declined the business saying, we're experts at doing back-office work for the next 4 big firms just for partnerships and not corporations that are public. So, you have to start having a little bit of silo mentality and actually viciously support your value proposition and how you deliver it.

Operator

Gowshi Sri, Singular Research.

Gowshihan Sriharan Singular Research - Analyst

Thank you. My question is on the Commercial side. You laid out in the last call that top 24 to 25 accounts were growing, and the new leadership would necessarily affect the 2026 performance. As you sit here in Q4, any evidence you're seeing that revamped go-to-market feeding into the top of the funnel help you out from that one client that was kind of lagging your behind?

Giles Goodburn Conduent Inc - Chief Financial Officer

Yeah, Gowshi, good question. So, the top 25 and the top 10 that I talked about specifically related to the Commercial segment. As you think about 2026, as I said in the remarks, we've got some really good momentum in both our public sector businesses. Government grew for the first time in Q4, 1.8%. And it's got an extremely strong pipeline across all components of their product offerings and a lot of that pipeline relating to 2026 opportunities. So we feel really good about the Government segment.

From a Transportation is somewhat in the same boat, some good relationships there, a good, strong pipeline and work that we've got that we can achieve and continue to drive year-over-year revenue growth in that segment.

Commercial is where we've got a little bit of work to do. We've reshaped the go-to-market strategy and brought the teams closer to the clients so that we can better serve those client bases, especially those top 10, top 25 clients, where a lot of them we are growing revenue, and we are expanding our capabilities with that client base. So, we know we've got work to do in there. I wouldn't anticipate growth necessarily in 2026, but I'll certainly make the right trajectory as we look forward out into 2027.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

So here is, I'd call it, good news. We are right now examining the leadership for Commercial. When you look at midsized companies, \$3 billion to \$5 billion range, many of the times, the CEO may not be as close to the client as they should be. I have this rare opportunity to have 3 of the leaders reporting into me directly right now. It's an easy answer to go find somebody to run Commercial, and I have some candidates outside as well as some candidates inside the company.

It will end up having a single leader. But at this time, I am actually getting close to the processes. I'm getting close to the clients. I have now at least one phone call a day with a client, some not happy; some extremely thrilled; some wanting more services. I have been active for many years in the CEO ranks. I've been very careful in cultivating relationships across the board, across sectors. And I will bring it to bear for my commercial friends and colleagues so we can generate more.

The other good news is that the discipline around sales force, the discipline around how we're approaching sales. By the way, there is now -- and I will not comment on the past because we'll run out of time. But there is now a weekly regimen with me sitting in at the meeting where we only focus on revenue generation, as it relates to Commercial, Transportation and Government, it has nobody from the administration side. They're welcome to come in if they have time, but this is purely the sales guys and gals, and the line management of the company focus.

And even within Commercial, we may choose to focus on a few sectors. We may not just go here and there, but where we are strong, where we have name recognition, where we have strong references, we're definitely going to piggyback on that.

Gowshihan Sriharan Singular Research - Analyst

Okay. And like you said, the Commercial segment, healthcare, has been a particularly successful side of the business. Are you deliberately choosing to go deeper with a smaller set of payers and health plans, especially with your AI offering? Or do you still think you need more logos here? I'm trying to understand whether the -- and other platforms scale better via depth or breadth from here.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

I would say it's not as much as more logos. We have a lot of logos. I think it's going to be getting deeper into certain sectors, where we already have a fair amount of market share. And so to me, if you look at healthcare today, and you just look at Medicare spending, I'll just give you round numbers, it's probably \$1 trillion -- no, no, maybe even \$4 trillion or \$5 trillion.

It's a large number. In fact, healthcare spending in the US, this I know for a fact, is now the third largest economy in the world after United States and China. So to me, focusing on that heavily and participating in it, helping make a difference to our Commercial clients and our Government clients simultaneously. If you look at even the Big Beautiful Bill, it has brought in a lot of stringency on reclassifying, changing eligibility states are a little lost, and we are their solution to simplify how the Big Beautiful Bill applies, whether it's Medicaid, whether it's Medicare, whether it's social security eligibility. So I think we're going to be more focused than less focused.

Gowshihan Sriharan Singular Research - Analyst

Thanks for that. And on the Government side, you talked about margin expansion from AI-driven fraud cost reduction, and as we said, direct expense in Medicaid early showcases. As you scale those solutions, are you leaning more towards a gain share economics with clients or fixed bid movements? What does that mean in terms of margin improvement and revenue in 2026?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Sure. So I think, first of all, one risk we do have is in the world of AI, some clients may want to take it in-house, but it may not be that simple. So, I'm going to talk about a few things as it relates to let us say an AI company versus Conduent. And I'm going to say this is a small \$25 million revenue AI disruptor.

What we have is a strong distribution network, deep client relationships, operations know-how, proprietary data, and there are large switching costs. But the disruptor may bring a solution that might lower cost and increase accuracy. So one of the mantras we have in the company is let us not behave like a large company, let us not have a big ego, let us partner with small disruptors who might bring the solution to increase accuracy, lower cost.

And yes, we might share some of the savings with the client, in this case, the Government, or it could be Commercial. But in addition, we may not use the same AI disruptor, let us say, on a healthcare client that we might use in transportation. The gentleman who runs transportation will have the leeway to partner with a different AI disruptor.

What these AI companies are thirsting for is a bank of clients. They don't have that, but they have the technology. I'm not going to sit and innovate these things from scratch. We don't have that much time and leeway because they're going to be nimbler and faster, how do you partner with them commercially and sharing in the economics will be the way to go.

Gowshihan Sriharan Singular Research - Analyst

Excellent. Thanks for that. And I'll just make this. I'll be a cheekier. As you walk us through the '25 ACV and you expect that to -- expect that you've alluded to convert that into revenue with speed, where are you most confident by segment? And your exit EBITDA margin was 6.5% for Q4, full year. As you look into 2026, what should we think of it as a realistic sustainable margin once all the cost actions and portfolio moves have been embedded?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Okay. So here's how I would say. Clearly, we haven't given you guidance, which we will in Q1. But having not given guidance, I'll give you a sense first on how the businesses are growing. Second, what I believe should be steady state margins. And when I say steady state, it could be in three years, it could be in two or we might be faster, it depends. So, the Government sector for us is growing smartly and doing well and has come out of the gates quite strong. The Transportation sector has potential and actually is also strong and positive. Commercial needs a turnaround job, and the three individuals running it are on it like a rash. Let me assure you.

Now coming to margins, in a business, in our sector, which is BPO, KPO, I think at a minimum, we need to start really clipping at between an 8% and 10% margin in the medium term, maybe even higher and that potential exists. Today, I can see, and I'll use a

colloquial phrase, low-hanging fruit that I can see maybe one of the few people because I'm new. Whenever you're new, it looks clearer. As you get older into the company, the complexity in your mind increases. So, when I don't have past memory, I'm actually at the edge of saying, oh, we can do A, B, C. So, I think there is a fair amount of cost takeout that -- and by the way, it's not just me to the credit of the senior leadership team. They have come to me without me challenging. They have come to me and said, there's cost here, there's cost here, there's duplication of efforts. So, I think the margin should increase.

And it's not just the margins. We have to convert our EBITDA, and I'm not talking adjusted EBITDA, convert EBITDA to free cash flow, which means, how do you collect, how fast do you collect, are you tracking DSO, are you tracking DPO and are you converting that into eventually positive free cash flow. At \$3 billion, you have scale, you should be able to.

Operator

Matt Swope, Baird.

Matt Swope Baird - Analyst

Good morning, Harsha, Giles, and Josh. Harsha, you mentioned a couple of times the sort of moat around the business. Can that moat be breached by technology, AI, the impact that these AI disruptors are having? Obviously, that's been the talk of 2026 so far. Can you give us some comfort how much of your existing revenue stream do you think is exposed to AI disruptors or other sort of technology threats?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Having been here less than 30 days inside the company, I would humbly say I cannot answer that question right now. But here's what I can tell you that I would say safely, rough guess, 15% to 20% of our business may be exposed to it.

But here is the problem. It is a moving target. Technology, particularly AI is dynamic. And therefore, I think we're going to need to get ahead or partner with people who keep us ahead in the arms race, if you will, of AI. So to me, is the risk today? No. Can the risk keep increasing? Yes. Therefore, we're going to need to move quickly is what I would say or else, our clients will move quickly.

Now, the positive is I would say the Commercial segment will get disrupted maybe a little faster than Transportation or Government. So, I'm just going to give you a tip of the iceberg. In Transportation, we have a new product, it's called Fairgate. It's automated, it's precise, and it is safe, and that is now being installed across the entire New York subway system that tests are on, and we're going to start rolling this out. And when we roll it out and we get this right, this will also move into other geographies. So, this will make a big difference as an example.

Giles Goodburn Conduent Inc - Chief Financial Officer

I think as well, Matt, to add to that, clearly, Harsha is right is probably about 15% that's at risk in the commercial space. But I think we're securing that moat a lot tighter with some of our own AI capabilities as well right across the platforms that we have, whether it's in commercial, using AI to streamline our benefit enrollment environment for our clients and their employees.

Harsha touched on some of the things that we're doing for tolling as well as some of the capabilities we've got license plate recognition and occupancy detection. And then we've talked about all the fraud components that we've got in our Government space as well. So we're shoring up the moat of some of the areas that we've got around the company as well.

Matt Swope Baird - Analyst

I appreciate that, guys. That's helpful. Giles, maybe one for you. As you sort of bridge the gap and CEOs, we've heard a lot about these 2025 exit rates. We've heard a lot about the portfolio divestiture plan. Can you help us with where that stands now? The -- for example, the 2025 exit rate free cash flow was going to be \$60 million to \$80 million. Obviously, we're well, well into the negatives on free cash flow. How should we think about modeling going forward? I know you're not giving full guidance given that Harsha has just started, but vis-a-vis the 2025 exit rates that we've heard about for a while, how do we think about 2026?

Giles Goodburn Conduent Inc - Chief Financial Officer

So I think, clearly, we set those targets about three years ago, and they were aspirational targets. We are making progress towards some of those targets. You look at Government and Transportation. And we've done well and got there from a revenue growth standpoint.

We've still got work to do in some of the areas. We would -- I'd say we still target a sub onetime levered business, as we look out into the future. And that's going to come from some of the divestiture activity that Harsha has alluded to. I think you'll see us accelerate with speed that some of the cost initiatives that we've got going on right across the organization, whether it's in the corporate functions, technology or improving margins in the business and just better discipline around our working capital.

We did have a couple of large implementations out there that we didn't quite get to the place where we wanted to get to by the end of 2025 that had a fairly significant impact on our cash generation. And given where we landed at the negative numbers that we posted for the year. Now, that cash hasn't gone away. We're going to receive it in Q1 or early Q2. But we've got to have better discipline on how we're executing on some of these larger projects.

So I guess my answer is the destination hasn't changed. We're still striving towards improving EBITDA margins on a sequential basis. We're still striving to get to profitability and free cash flow generation. I think Harsha coming in is really going to push us to accelerate that as quickly as possible. And that's the journey that we continue to be on.

Matt Swope Baird - Analyst

Do you think free cash flow can be positive for 2026?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

I can answer it. Here's how I would answer it. We are obviously -- we ended '25, as Giles said, negative 130. There's a fair amount of work, but I'm going to give it a shot, but again, I'm not giving guidance.

And I will have guidance. I will have very precise free cash flow goals. And if you noticed in my script, in my messaging, in my dialogue, I have mentioned the word free cash flow at least 10 times. I am fixated on it. So, we're going to try really hard, but definitely, the turn is coming.

Matt Swope Baird - Analyst

Okay. And how about -- you guys have always historically had this portfolio rationalization slide in the deck. That's obviously out for the moment. The Phase II proceeds that were targeted before were up to \$350 million. Is -- I know you -- I think you had that as priority number four, Harsha. Where does portfolio rationalization timing set and maybe magnitude versus what you -- what we've heard in the past?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Okay. So first of all, I have to thank you very much for a statement you made. You called it priority 4. I should have said those 6 priorities do not have a sequence. You have to run and chew gum at the same time, and we have a very good leadership team that's capable of doing it.

So having said that, portfolio rationalization is a very high priority. There are some things in motion that were put in motion before I took over as CEO. I was the Chairman for a very short while. So, I was familiar with it. If anything, as Giles alluded to, he has hit the acceleration on the rationalization. But what I'm also seeing is a thorough review of the entire portfolio and looks like we may have some other opportunities that we're going to work on simultaneously.

We have bankers in place. We may have maybe more bankers so that we can kind of swiftly go through this so that I'm not waiting a year from now saying, oh, by the way, we're still on portfolio rationalization. The faster we get it done, the more we focus on our

base business. So the folks who are in line management, they're not in the middle of portfolio rationalization exercise. They're focused. Every day, I have said to them, assume you own the business until that last day of transfer. We don't know if we will 100% for sure sell.

Meanwhile, the group that's focused inside M&A and finance are fixated on portfolio rationalization. So we need to do this simultaneously. And to me, it's not number four priority. That's why I was appreciating you to pointing that out.

Matt Swope Baird - Analyst

That is helpful. Thanks. And just one last quick one, if I could squeeze it in. With your bonds trading down into the low 70s, would bond buybacks in the open market fit within your capital allocation?

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Well, that's another good question. So to me, I think making sure we delever first a little bit and get our debt lined correctly. And I think the trading of the bonds has opened up, in my opinion, an opportunity that may be more lucrative than buying our shares back. So to me, it's a touch and go, but again, bankers are reasonably smart. So I'm going to have them run across mathematics to give me an option each time as to each dollar of allocation.

Right now, where it's trading, the yield is rather attractive and saying that we will go into open window fairly soon here as a typical public company, so I, as an investor, I'm also in my head saying, do I buy more shares, do I buy more bonds. So that excitement is actually percolating in my little brain right now.

Operator

David Nierenberg, Nierenberg Investment Management Company.

David Nierenberg Nierenberg Investment Management Company - Analyst

Harsha, it's wonderful to be working with you again.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Nice to hear your voice, David. You've definitely surprised me sitting in the West Coast.

David Nierenberg Nierenberg Investment Management Company - Analyst

It's our third time together in 10 years. I imagine that most people on the call don't have the depth of experience that I've had with you, but I've already bought 1 million shares in confidence because you are a great leader, a great businessman, a great salesman, a diplomat, a tough guy and you have a global network across multiple industries to access for the benefit of this company. I am very excited to be back with you here and looking forward to you're making shareholders a great deal of wealth just as you have done since you succeeded me as Chairman of the Board of Flotek Industries. Looking forward to working with you. Grateful that you were here. Wishing you all the best.

Harshavardhan Agadi Conduent Inc - Chief Executive Officer, Director

Thank you very much David. And I appreciate, one, your support, not just verbally, but through your pocket of backing our shares and buying. I'm actually taking it in as you're saying 1 million shares. So, I need to have more shares than you. That's pretty clear.

The good news is that the Board has structured my compensation heavily on share price that dictates vesting but doesn't stop me from buying the shares as soon as open window opens up. But I appreciate your support immensely. Thank you.

Operator

This concludes the question-and-answer session as well as today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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