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EDITED TRANSCRIPT

CNDT.OQ - Q4 2024 Conduent Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Conduent Q4 2024 Earnings Conference Call and Webcast. (Operator Instructions) As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to your host, Giles Goodburn, Vice President, Investor Relations. Please go ahead, Giles.

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

Thank you, operator, and thanks, everyone, for joining us today to discuss Conduent's fourth quarter and full year 2024 earnings. I'm joined today by Cliff Skelton, our President and CEO; and Steve Wood, our CFO. We hope you had a chance to review our press release issued earlier this morning. This call is being webcast, and a copy of the slides used during this call as well as the press release were filed with the SEC this morning on Form 8-K. This information as well as the detailed financial metrics package are available on the Investor Relations section of the Conduent website.

During this call, we may make statements that are forward-looking. These forward-looking statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to 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'd like to turn the call over to Cliff.

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

Thank you, Giles, and welcome, everyone, to our Q4 and 2024 end-of-year earnings. In line with our previous earnings, Steve will take you through the quarter in a backward view of the year as it relates to the detailed numbers. I'll then follow up with some forward-looking expectations.

Look, as you know, our year was characterized by some intense focus on “culling the herd”, as they say, for several reasons. We believe this portfolio was and perhaps continues to be too wide, resulting in cost in the center that's too high in a scenario where certain underperforming assets can drag the whole down.

That's notwithstanding the fact that many growth companies typically have more scale and depth, and we're progressing towards both. The good news is that we were able to divest several assets at good multiples, allowing us to pay down the bulk of our debt and buy out the Icahn Group, thus streamlining both our strategy and our game plan. We said 2024 would be a trough, and it was.

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That said, Q4 adjusted revenue improved sequentially again, and both Q4 and year-end adjusted EBITDA margins finished on the high end of expectations. In 2024, timing pushed revenue around a little, thus finishing a little under expectations at $800 million and $3.176 billion, respectively, while again, adjusted EBITDA margins finished strong at $32 million and $124 million, respectively, at 4% and 3.9%.

Net ARR was strong for the quarter and the year, characterized by improved retention, while new business ACV was up quarter-over-quarter. However, due to the weak start to the year, we finished a little lower than 2023 on a full year basis.

As with others, we measure sales in new logo, new capability and add-on sales. 2024 was strong on a year-over-year basis in new capability sales, representing further penetration of our portfolio but somewhat weaker in the new logo category. There's much more to talk about, but why don't I turn it over to Steve for the details on the quarter and the year.

Steve?

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

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

In the fourth quarter, our primary sales metric, new business ACV, was flat versus the prior year at $137 million and sequentially up from Q3 but slightly down against our internal expectations and how I've guided the expected full year outcome in my comments in prior quarters.

No alarms here. A couple of deals didn't close in Q4, but we're off to a good start in 2025, one in which we expect to achieve a meaningful increase over Q1 2024. For the full year, ACV was down 20% as compared to 2023.

The year, lacked a mega deal, such as the large transit contract we signed in 2023 and the Government segment was weaker than we had anticipated based on timing of deal flow. However, the Commercial segment had a solid sales year and finished strongly with good early momentum into 2025.

New business TCV was lower in 2024 as compared to 2023, again with the predominant cause being the $1 billion 15-year deal that we signed in 2023 for our Australian transit contract in the state of Victoria, where we continue to make good progress on our solution implementation.

The net ARR activity metric, our combined measure of wins, losses, pricing effects and other contractual changes, was positive at $92 million, reflecting both the solid finish to the year in new business sales as well as improvements in client retention.

We made several meaningful changes to the configuration of our sales approach through 2024, and the early signs are good as we are off to a strong start in 2025, which Cliff will talk more about later. Let's turn to slide 7 now and go over our full year 2024 P&L metrics. Revenue for 2024 was $3.176 billion as compared to $3.32 billion in 2023, down 4.3%, slightly below our expectations due to a couple of discrete drivers.

Adjusted EBITDA was $124 million for the full year in 2024 as compared to $247 million in 2023. And our adjusted EBITDA margin was 3.9%, which was towards the top end of our expectations. Let's now turn to slide 8 and go over the segment results.

Commercial segment adjusted revenue for the full year was $1.606 billion, down 3.7% as compared to 2023, but adjusted EBITDA was up 2.4% year over year, and the adjusted EBITDA margin of 10.5% was up 60 basis points year over year. The gap between lost business and project runoff and new business sales ramp has continued to narrow during the year.

And as we've said previously, we see the segment coming closer to flat during 2025 and then growing as we exit 2025. We see increased appetite from our clients to move more work offshore. And while that mutes our top line growth a little, it's accretive to margin.

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In 2024, we made decisions to add around 2,500 additional seats of capacity in some of our offshore geos, and this will become available to us during the first half of 2025. Government segment adjusted revenue for the full year was down around 10% at $984 million.

Adjusted EBITDA was $210 million, down 35% year over year, with the adjusted EBITDA margin of 21.3%, down around 8 points. I laid this out in our second quarter earnings, where I said we'd be 7% to 8% down on revenue year over year in 2024 with three discrete drivers, which are all lapped by the second quarter of 2025. Firstly, there was the effect of the large government health care contract, where the contract was terminated for reasons other than performance, and that drove around 4.5 points of decline year over year.

We will lap this effect in the second quarter of 2025. Secondly, there was the effect of lower SNAP volumes in our government payments business as few states continued with the supplemental programs due to the change in funding structure as well as a lost client.

That represented around 2.5 points of decline and is fully worked into our run rate now. Thirdly, there was a downward pricing adjustment on a large state eligibility program that started to take effect in the second quarter of 2024, and that was approximately 1 point of decline year over year with that effect being lapped midway through Q2 2025.

The remainder of the top line revenue impact was timing of revenue on implementations and new business. The above revenue hydraulics drove most of the year-over-year impact on adjusted EBITDA. There's also been some elevated expenses related to implementations and operations that we're working to offset in 2025 through greater efficiency.

The prior year also benefited from a portion of a legal settlement of $17 million. Transportation segment adjusted revenues grew 5% year over year to $586 million, while adjusted EBITDA was down $19 million and the segment was breakeven in 2024.

The implementation ramp in our Australia transit project contributed 15 points of revenue growth, offset with loss of scope and a pricing adjustment on a large domestic tolling contract, which was 12 points of reduction in revenue.

There was a significant negative adjusted EBITDA impact from the net of those two revenue items, and this was partially offset with improvements in operational performance and SLAs. Finally, our unallocated costs decreased around 3% in 2024 mainly around a series of initiatives on our technology costs.

Let's turn to slide 9 and discuss the balance sheet and cash flow. We ended the year with approximately $377 million total cash on balance sheet, and our $550 million revolving credit facility was largely undrawn. Through our divestiture program, which generated approximately $780 million of after-tax proceeds, we repurchased 52 million shares and prepaid $639 million against our term loans, including $100 million in the fourth quarter. Sequentially, our net leverage ratio went up slightly from the prior quarter to 1.6 turns.

I've said before that this will go up for the next couple of quarters as we annualize the divested adjusted EBITDA in the calc, partially offset by the sequential recovery in adjusted EBITDA as we work through our stranded cost and efficiency programs.

Once this work is completed during the second half of 2025, you'll see this net leverage ratio returning to around 1.5 turns and then moving more towards the 1 turn we've previously outlined in our midterm outlook as we exit 2025.

Capital expenditure for the full year was 2.2% of revenue as we continue to find ways to optimize our spend. Let's turn to slide 10 and look at our outlook for 2025. Nearly two years ago at our investor briefing, I laid out a financial path to a medium-term outlook for the business, which I framed around a financial view as we exited 2025.

This has been our North Star as we have narrowed our portfolio through divestitures, focusing and reorganizing our business around assets we believe we can grow, significantly reducing our debt and our share count, strengthen our balance sheet and bringing in new growth-oriented leaders for the next phase of the journey.

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With modest adjustments, we're where I expected us to be, and we're entering 2025 with a midpoint to our 2025 adjusted revenue guide, having the business flat as compared to 2024. Overall, we expect adjusted revenues in 2025 to be in the range of $3.1 billion to $3.25 billion.

In terms of how that plays out across the quarters, we'd expect the business to be down year-over-year in the first half of 2025, between 3% and 4%, with most of that being in the first quarter due to some of those items that I highlighted in the Government segment, second quarter will be close to flat and then growing in the second half of the year. At the midpoint for adjusted revenue for the segments, we expect Commercial to grow approximately 2%, Government to be down 4% and Transportation to grow 1%. In 2025, we expect adjusted EBITDA margin to be in the range of 4.5% to 5.5% with an exit rate of around 8%.

We expect sequential improvement as we go through the year, both from ramping revenue, the lapping of the revenue headwinds I talked about earlier as well as our cost and efficiency programs. The background to this guide is that we're anticipating broadly stable macroeconomic conditions. Our Commercial segment has around 40% of its revenue oriented to the health care vertical, and we continue to believe that cost pressures there will drive opportunities in outsourcing.

Our Government segment is predominantly centered on state and local government, where we provide technology, eligibility and payment programs that support essential services for their constituents. We expect adjusted free cash flow to be in the range of $0 to $40 million with the width of that range being driven by milestone timing on some of our large implementation projects.

We expect CapEx to be approximately $80 million or around 2.5% of revenue. Restructuring charges will be around $20 million lower than 2024 at approximately $25 million, and our interest expense reflects the current level of debt. That concludes our outlook for 2025, and I'll hand it back to Cliff for his broader view of the business. Cliff?

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

Thanks, Steve. Overall, we're pleased with the quarter and where we are in the journey. I'd like to open with a few things that are front of mind though. First, we're on track for those 2025 exit rates Steve and I have been discussing, which will represent that shift from years of negative, albeit lessening, growth since the spin to positive growth. Second, there is still room and opportunity to further rationalize the portfolio both from a divestiture point of view and from an efficiency point of view.

We have assets that without significant investment are a drag to EBITDA, which we will disposition. And we have assets that have scarcity value on the outside but might not have the characteristics we think are crucial to our growth and our cash flow imperatives.

While divestitures can take a lot of bandwidth consumption from many of us, we've proven that we can demand good multiples and use the proceeds to significantly shore up the balance sheet and debt profile. We expect to stay on that course to more depth and less breadth in the portfolio of the future.

Third, while there is plenty of noise out there regarding the new administration in Washington and what it might mean for corporations, especially BPO companies and companies with a government profile, let me just say that we continue to see outsourcing demand as clients continue to emphasize efficiency.

We also see continued appetite for offshoring in the CX space with utilization of AI. It does not appear as though that trend will change in the commercial space. Meanwhile, in the public sector businesses, we believe as the federal government pursues a smaller footprint, work will continue to flow to the private sector. Direct assistance to Americans in need appears to not be impacted by any pause in federal spending. As you know, our public sector businesses are primarily centered at the state and local level. And if anything, our belief is that cost may shift to stage force and even more state outsourcing, especially as it relates to Medicaid administration. One area we think crosses over both Commercial and Government is something the new administration is focused on, and that is Medicaid fraud.

We believe our FastCap solution, which finds and helps eliminate duplicate payments and fraudulent payments, can help and we're looking to market that tool to the states. We also think Medicaid eligibility work could potentially increase in volume.

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The same goes for unemployment benefit administration where decisions at the executive level could create further outsourcing of unemployment services, which is with social security distribution, one of the few areas we serve the federal government.

We certainly don't do work for the areas seemingly under scrutiny for cutbacks. Finally, as state and local governments potentially offset lower federal subsidies, they will need new sources of revenue, which plays well into our Transportation business.

Fourth and importantly, operational excellence and stability continues to be a primary importance to us. These days, cybersecurity is always on the front burner, and we take any and all attempts to access our systems as of utmost importance from a protection point of view. Like with every technology and tech-enabled company, there is risk.

But we continue to believe that our systems are very secured, enabled by partnerships with the best data and infrastructure security firms available. This is a top priority for executive leadership, for our people and for our Board of Directors.

Finally, regarding AI, we continue to leverage GenAI across our portfolio, especially in the fraud space for end-user validation, for the customer service portals in our human capital solutions businesses. And of course, like many, we use new GenAI capabilities in our customer experience business for language smoothing and translation as well as for improving the end-customer experience.

I recently heard a tech CEO categorizing AI and the AI narrative for companies into three categories; one, those that hype it, thinking it adds value to their brand; two, those technology companies like Microsoft and Google and others that enable it for other companies; and three, those companies that embrace it and opportunistically leverage it for efficiency and quality improvement for their customers.

We're definitely in the third category, and we'll continue, as we have been, to use AI as a market expander across all of our product sets, such as finance, accounting and procurement and all of our end-user environments. Now regarding our segments.

Commercial has rebounded well from a slow 2023, as Steve mentioned. Client retention has improved. Sales, especially new logo and new capability sales had a very strong Q2 through Q4, and we're in a good spot for a strong jump-off in 2025.

Our geo strategy and client needs also seem to be lining up in concert as we had hoped for. We also said early on that as we focus aggressively on growth and market opportunities, that we needed new talent. We've done exactly that with a new group President over Commercial, one new General Manager over a good portion of Commercial and several new client partner leaders as we shift to an enterprise focus as opposed to a product focus when working with our largest clients.

As Steve mentioned, we expect Commercial to grow about 2% in 2025, which is quite impressive given that full year revenue in 2024 was down 2.7%. In the public sector, specifically in government, 2024 represented a perfect storm between slow RFP schedules and our internal changes in leadership.

We defended the castle, so to speak, in terms of renewals. 2025 represents a year with a pipeline that is substantially higher than last quarter, and we're in a solid position with current clients. Clearly, the government sector held us back in 2024, but we expect some modulation of those headwinds of SNAP reductions and the large contract loss that terminated for nonperformance-related issues that Steve referred to, all of this allowing 2025 to be a year of rebuild.

We're bullish about Government going forward, especially given the pipeline opportunities and the margins they represent. Across the public sector, we have new leadership at the group president level, a new GM for Government, a new GM for road usage charging and two new heads of sales for both public sector and government.

We're off to a good and optimistic start in the public sector, including transportation, where we're now on the other side of difficult starts in New York tolling and state of Victoria transit. We expect a good year from Transportation with another year of growth. Overall, as Steve said, 2025 exit rates represent our North Star, and we remain on course and speed to hit those numbers.

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Meanwhile, culture and engagement remained healthy as we achieved Newsweek's Top 100 Most Loved Workplaces for the third consecutive year. Our assessment and retention is as good as it's been in years, and our client satisfaction or NPS scores achieved all-time high levels in 2024.

Again, with debt levels low, a solid balance sheet, improved client and associate retention, several AI projects starting to take hold, improved sales pipelines, new talent and a continued effort to further streamline our portfolio, we feel well positioned for a solid 2025 with exit parameters characterized by growth and continued margin expansion.

As always, thanks to our teammates for their hard work. Thanks for our clients for their business, and thank you all for joining us today. I'll now turn it over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. And I'll be conducting a question-and-answer session. (Operator Instructions)

Pat McCann, Noble Capital.

Patrick McCann - *Noble Capital Markets - Analyst*

Thanks very much and congrats on all the progress in 2024. My first question had to do with -- there's the recent news in Oklahoma about your AI-enabled technology being used there for public health purposes. I was wondering if you -- could you give other examples of where you're making tangible progress to implement AI in a way that is generative of revenue? And just kind of what are some of the technology developments that maybe are yet tangible that we could really dive into that you've made in -- over the course of 2024?

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

Hey Pat, this is Cliff. Thank you. Just a couple of examples. First of all, as you know, AI is never something you can do in a vacuum. It takes a lot of digital transformation to utilize it the way we need to. And we've been underway with that for several years now.

One of the couple of areas anyway that we've already started to generate revenue and reduction in expense, one would be an account takeover for fraud in our payments business, where we're now getting early warning signs on when an account is about to be taken over using GenAI, and it's drastically reducing our fraud counts.

Another would be in our document automation space, especially in health care, where we can streamline the scanning and indexing and go all the way to a claim adjudication faster, and we're using AI for that. And then finally, we're using it a lot in our human capital solutions business in our portal, where GenAI is helping us with end-user support where it can actually digitize and robotize, if you will, the end-user support so we don't have to have a human intervention along the way for those Tier 1 problems that we have in our human capital business.

So those are some that are already underway. We, of course, are looking at it in our CX business, where we have some language modulation and some language translation work underway so that we can actually do more offshore with fewer accident issues typically are experienced for end users.

Those are some areas we're using it in today.

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Patrick McCann - *Noble Capital Markets - Analyst*

Great. That's very helpful. I also was wondering, with your Commercial business, I know it's something you've mentioned in the past is that you'd typically have around -- your Commercial clients typically have on average about 1.5 solutions per client with the company, and there's an opportunity to sort of grow the wallet share with your clients.

I was wondering maybe what the strategy would be there and maybe if some of the new business leaders are -- will be particularly helpful in that matter. I was just wondering how you attack that to even just grow your wallet share with your existing clients.

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

Yes. Yes, I mean it's a great point. This is something I've been attempting to address for several years now, and we haven't yet cracked the code. We believe we're over the target. Now you said anywhere between 1.5 and 1.8 products per client, depending on the size of the client, in the commercial space, we think that wallet share availability is quite profound.

We've built out a client partner program, under our new Group President for Commercial, Mike McDaniel, who's done this at several other companies. And our belief is that with a client partner program that looks at the breadth of opportunity in the commercial space and goes to market with those clients with full understanding that there are many more things we can do for them, and we don't product push.

We actually look at their problems and try and solve them at an enterprise level with these client partners. So we think that, that was what was missing. In the past, we spent a lot of time with our sales and account managers pursuing product specificity without looking at the breadth of the opportunities.

And we think this client partner program is how we're going to get after it. So it's underway now.

Patrick McCann - *Noble Capital Markets - Analyst*

Excellent, thanks. I'll jump back in the queue.

Operator

Gowshi Sri, Singular Research.

Gowshi Sriharan - *Singular Research - Analyst*

Hi, good morning guys, can you hear me?

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

Yes.

Gowshi Sriharan - *Singular Research - Analyst*

Thank you. Thanks for taking my questions. In terms of the margin improvement of at least 100 basis points in EBITDA margins, is that primarily being driven by the reduction in cost and implementation of operational efficiencies?

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

Yes. Absolutely. We're deep into -- as you know, with the divestitures, there was always going to have to be a level of stranded costs that we would have to deal with and take out of the business. And so we've got the stranded cost work well underway, and that's led on top of our usual attempt to continue to be more efficient.

Gowshi Sriharan - *Singular Research - Analyst*

And in terms of debt reduction, I know you had a leverage ratio of a target around 1 times. If the free cash flow forecast is towards the higher end, is there further plans to reduce debt? Or what's the capital allocation in FY25?

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

I think at this stage, we're getting into a zone where we're increasingly comfortable about the amount of debt that we have on balance sheet. We've got a little bit more of the divestiture proceeds to come in, in April 2025. And so I think you've often heard Cliff and I say that we're going to be balanced in terms of our approach towards capital allocation. But I think I would tell you that as we continue to see EBITDA sequentially recovering during 2025 and getting us towards those exit rate notions, I think we're increasingly comfortable about the level of debt we have in the company.

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

I agree.

Gowshi Sriharan - *Singular Research - Analyst*

In terms of expectations for new business signings, I know you said new logos has been slightly disappointing. How will that contribute to the net ARR growth in F '25? Any new markets or segments being targeted for growth? I know you highlighted the AI segment.

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

Yes. We're expecting 2025 across the board to be a better ACV sales year than 2024. I said in my prepared remarks that we think we're going to see a much stronger first quarter. We're off to a strong start. We've got very strong pipelines across all of our segments to go after that as it transpired.

That wasn't the case in 2024. The pipeline in Government panned out to be weaker than we initially thought at the beginning of the year. But I think we entered this year with good strong pipelines across all three segments and an expectation that we're going to get both a good mix -- I mean add-on is always the largest contributor towards ACV in any sales year.

But clearly, new logo, and as Cliff said, new capability are equally important as we push this client partner model as we try and drive the attach rate up but also how we get new logos. And so expectations are that our pipeline supports us having a good sales year. Cliff?

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

No, I completely agree. And as you know, Gowshi, those add-on revenues are the ones that book in year. We call it impact revenue. So we think that's really important as well. The other thing to remember about that net ARR number is it's not indicative of when the revenue is going to book.

It's indicative of the fact that the revenue or retention is going to happen at some point in time. But timing can vary, depending on the size of the deal and the uniqueness of the deal and the onboarding speed of deal. That all will dictate when the revenue boards. But generally speaking, it's an indicator of the future.

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

Yes. And Gowshi, I'd add on one final comment to that. And Cliff nailed it in the sense that it's a dual metric, right? It represents what we sell but also has an element of retention inside of the metric. And what we've said and what we've seen for the last few years is we expect our churn rate to go down.

It was historically too high. It's now getting into the realms of what we think is an appropriate level of churn. That's higher retention, and that's a contributor towards that net ARR activity metric continuing to be positive and strong.

Gowshi Sriharan - *Singular Research - Analyst*

Final question. In terms of Government, I know you've mentioned that the focus is mostly on the state level. But in terms of -- are you expecting or experiencing talks of project delays? Is that why the forecast is for a pickup in the second half of FY25?

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

No. I don't think it's got anything to do with administration things or anything like that. The sort of factors in terms of 2025 being down for Government were all laid some time ago, and I talked about them in the second quarter earnings last year in terms of those kind of three discrete factors. There was the health care contract, there's lower staff, and then there was a price down on an eligibility contract. And those 3 things are going to lap as we get through the second quarter of 2025.

And beyond that, we're expecting stability and the Government segment building a path to growth. But it's going to be down in the first -- it's going to be down across the year because it's just not enough time to build over those revenue declines. But as we exit 2025 into 2026, our expectation all along has been we expect all three segments to be growing.

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

Right. You got to outrun those weak sales from 2024. You didn't really ask it this way, Gowshi, but I think you alluded to the federal government and the moves being made by DOGE and others. And remember, we're primarily a state and local business in government. And most of the communication we're hearing from the feds is that there are many -- the attempts are to not affect end-user recipients with respect to any of the things that we do.

So we believe that, if anything, some of that volume will increase in the business that we have in the state and local business.

Gowshi Sriharan - *Singular Research - Analyst*

Thanks for taking my questions and good luck.

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

Thank you.

Operator

Marc Riddick, Sidoti & Company.

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Marc Riddick - *Sidoti & Company - Analyst*

Hey, good morning, gentlemen.

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

Hey, Mark. How are you?

Marc Riddick - *Sidoti & Company - Analyst*

So -- very good. You, in your prepared remarks, made a commentary that sort of hinted at some ongoing looks at portfolio rationalization and other potential things that might be looking at. Are there any things that we should be thinking about as far as sort of anything that might be either imminent? Or do you think this is going to be something that we sort of will be looking at throughout the year?

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

No. Look, I mean we've consistently talked about this portfolio and how this company was founded in the ACS days. And the breadth of the portfolio lends itself to just too many things trying to be run at once. And ultimately, like when you have that many things, some of those products and capabilities are going to lag and hold the company back.

We believe there's more dispositions to be had there, and we believe there's -- there are some assets that we have that have both scarcity value on the outside primarily because with scale they can be a much better business that we would also look to disposition.

So our strategy hasn't changed at all. It just takes time. There's a lot of bandwidth consumption associated with divestitures. And trying to run a public company with quarterly earnings, et cetera, you just can't dive into that all at once. And we think all in do it all at once is probably not the right way to pursue the issue.

Marc Riddick - *Sidoti & Company - Analyst*

Okay. Excellent. And then you made mention in one of the earlier questions around sort of comfort levels of leverage. And certainly, you've made a lot of progress, certainly over the last couple of years. With that being said, I mean, there was an authorization that you completed during the course of the year.

Last year, I was wondering if there was any thoughts or appetite levels as to a potential for another share repurchase authorization going forward?

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

I think I'll go -- kind of go back to the previous comment that I made. I think we're getting increasingly comfortable with our debt levels. There's a little bit left on the authorization to pay down debt. In the fourth quarter, I did say we paid down $125 million, which was the remaining authorization. We paid down $100 million.

No alarms to the difference between those two numbers. But I think as we get increasingly comfortable with the level of debt, as we see EBITDA continuing to sequentially improve through 2025, I think we'll continue to be agile about how we think about capital allocation.

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

Yes. Marc, your question kind of -- your two questions kind of go hand in glove vis-a-vis any potential divestiture or disposition activities and what we might do with the cash. And obviously, we want to be balanced and stay open-minded on it.

We want to get rid of businesses that are sort of air foils on the oral corporation. And we have some in mind, some targeted right now, and we want to look at opportunities where there may not be synergies across the business where there's scarcity value on the outside.

And the use of those proceeds could be varied. I would anticipate that we would -- we don't think there's a ton of internal capital allocation needs. There is some in Government that we would look to pursue. And after that, there's only so many things you can do with it. And obviously, share repurchase and debt reduction would be front of mind, but we're going to be open-minded.

Marc Riddick - *Sidoti & Company - Analyst*

And then the last one for me. You made mention that -- and I really appreciate all the commentary around some of the opportunities you may have in front of you regarding the shifting of responsibilities from federal to state, local levels and the like.

Just wondering if you could talk a little bit about the pricing environment. Is there anything that you can share there as to maybe whether it's sort of a magnitude of how you look at the pricing component and your growth assumptions of the segments or maybe what you're seeing out there? Thanks.

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

I think we're seeing -- I think the kind of underlying assumptions as we thought about planning for sort of 2025 and 2026 is a sort of muting of inflation within, certainly, how we see our costs. And I think we've been -- we've had some success clearly over the last couple of years in terms of driving price in -- certainly in our Commercial business. In our Government segment, we're typically more in fixed price type of arrangements. It's pretty common in public sector businesses. And we work into efficiency over time.

And I think the other thing that we're focusing on to continue to drive margin is this notion of shifting more work offshore. There's a lot of opportunity right now with some of our larger clients to move more work into some the geos, and we've been expanding our capacity to be able to take on that work.

And that's quite accretive to margin as we go forward. And so I think it's not directly related to your question, but I -- we're -- ultimately, I think with -- we've done a pretty decent job over the last couple of years in terms of making sure that we're getting price and value for the level of service and the complexity of what the company does.

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

And Marc, I would say, look, in the five years that I've been here, price comes to bear all the time. But if you talk to other CEOs in the BPO space, I think they'll say the same thing. It's the juxtaposition of price, quality and relationship. And quality and relationship, meaning trust, most of the time will trump price, number one. Sometimes it won't, and you've got to reduce your price to get the deal.

But oftentimes, when you get -- when it's a lower price going in, you can make up for it with change orders. So we look at it as a moving target. The most important item for us is creating the trust and relationships with the potential clients and the clients we have. Price is almost always secondary to that.

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Marc Riddick - *Sidoti & Company - Analyst*

Thank you very much.

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

Yes. Thanks, Marc.

Operator

Thank you. We reached the end of our question-and-answer session. And ladies and gentlemen, that does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today

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