08-Jun-2018

Conduent, Inc. (CNDT)

Analyst Day

CORPORATE PARTICIPANTS

Alan Katz
Senior Vice President-Investor Relations, Conduent, Inc.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

Christine Landry
Group Chief Executive, Consumer & Industrials, Conduent, Inc.

Pratap Sarker
Group Chief Executive, Financial Services & Healthcare, Conduent, Inc.

David A. Amoriell
President, Conduent, Inc.

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.

Srikanth Iyengar
Group Chief Executive–Europe, Conduent, Inc.

OTHER PARTICIPANTS

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Brian Essex
Analyst, Morgan Stanley & Co. LLC

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP

Shannon S. Cross
Analyst, Cross Research LLC

Keith Frances Bachman
Analyst, BMO Capital Markets (United States)

Puneet Jain
Analyst, JPMorgan Securities LLC

Michael Anthony Cadiz
Analyst, Citigroup Global Markets, Inc. (Broker)

Mayank Tandon
Analyst, Needham & Co. LLC

Eric Beyrich
Analyst, Arbiter Partners Capital Management LLC

Christopher Weldon
Portfolio Manager and Founder, Stamina Capital LLC

MANAGEMENT DISCUSSION SECTION

Alan Katz

Senior Vice President-Investor Relations, Conduent, Inc.

Good morning, everyone. I'm Alan Katz, Head of Investor Relations for Conduent. I'd like to welcome everyone here in the room today and those who are joining by the webcast to Conduent's 2018 Analyst Day. Throughout the day, our presenters will be referencing slide materials, which are available on our IR website at www.conduent.com. A replay of the webcast as well as the transcript will be available on the website early next week.

This is our first Analyst Day as a public company and we're excited to introduce to additional members of our management team. You'll hear about the company, our offerings and how we go-to-market from the business segment leaders, who are running our business every day.

Before we proceed, let me go over some information I'm sure you're all familiar with. In this presentation, we'll be making statements that are directly and exclusively related to historical facts and those constitute forward-looking statements. Management will also be referencing non-GAAP financial metrics during the presentation.

We have our forward-looking statement language and our non-GAAP disclosure language on slides 3 and 4 of the presentation and we provide non-GAAP reconciliations to comparable GAAP results in the Appendix. The disclosure relating to our signed divestitures is also included on slide 4. I would encourage all of you to review these slides, as you see fit.

With that out of the way, let me tell you what to expect from today's agenda. We have a great set of presentations today. Our CEO, Ashok Vemuri will start the day off with an introduction to the business, an overview of our global markets, and a strategic discussion on where we want to take the company from a technology and offering perspective.

Christine Landry, the Group CEO of our Consumer & Industrials business within our Commercial sector will follow with a discussion about her business, some general trends in the C&I market and examples of the work that we do in that space.

Pratap Sarker, the Group CEO of our Financial Services & Healthcare business within our Commercial sector will follow with a discussion on FS&H and a market overview, as well as examples of offerings from his business.

Following that, we'll take short break and for those of you here at the New York Stock Exchange, I would invite you to spend some time in our Innovation Gallery, which showcases some of the technology and services that we bring to our clients every day. After the break, Dave Amoriell, Conduent's President will go through our Public Sector offerings. He'll discuss the Government and Transportation markets that we serve in the Public Sector and will highlight some of the specific work that we do for those clients.

Following Dave, our CFO, Brian Walsh will take us through Conduent's financials. He'll provide some puts and takes for you to think about from a modeling perspective and close out with some longer term financial goals that we've set for ourselves. And finally, we'll grab some lunch and wrap up with a Q&A session that will include all of our presenters, as well as Srikanth Iyengar, the Head of our European business and Carol Kline, our Chief Information Officer.

We have a big day planned and we're excited to get things going. I'd like to start off by introducing Ashok Vemuri, Conduent's CEO.

Ashok Vemuri

Chief Executive Officer & Director, Conduent, Inc.

Good morning. Thank you, Alan. Thank you all for joining us today and for your continued interest in our company. We believe we've accomplished a great deal in our first 18 months as an independent standalone firm and continued to stay extremely optimistic about our future. During the course of our presentation today, we have three takeaways for you. Together with my leadership team, we will share examples that illustrate each one of them.

First, that we have made impressive progress since our launch last year, as demonstrated by aggressive changes resulting in improved financials; second, we are pivoting to become a technology-led services company; and third, we have a game plan to deliver profitable topline revenue growth.

To get us started, I'd like to reintroduce Conduent to you. We will be describing it differently than a traditional business services company. We will be using different ideas and terminologies like the ones you see in the word cloud. And not only has Conduent changed, our clients' needs are also changing as the industry itself is changing and changing very rapidly. Our responses, therefore, are tailored to meet these changing expectations and to position us for future growth.

Let's look at Conduent from four vantage points; our portfolio, our clients, our position in key industries and our recognition from industry analysts. We are the largest provider of business process service with a portfolio that spans over 20 industries and 24 different domains. One of the most important exercises following our spin-off was to thoroughly audit our assets and identify what would become our core business.

Our core businesses have several common threads running through them. They can be delivered over a technology stack. They have relevancy both today as well as into the future. They also involve the delivery of essential services to a wide variety of end users with whom we interact on behalf of our clients, from employees to patients, to citizens, to insurance companies. The work we perform on behalf of our clients is essential to their operations and stakeholder relationships. By virtue of the breadth and depth of our capabilities, we are the preeminent choice for any business service work supported by digital interactions.

Our expansive base of loyal clients is another advantage for us. We support 65 of the Fortune 100 Companies. Every state in the US is a client. Each of the top 20 health insurance rely on Conduent as a business service partner as to the leaders in pharma, automotive, aerospace and banking. And while we are very well-positioned with these clients, we have the opportunity for greater relationship development.

As an example, our service line penetration currently stands at 2.4 per client and while this is more than doubled from the time of our spin-off, our nine service lines create significant room for service line expansion. We are operating in an attractive growing market with ample demand to support our business goals. With a 5% CAGR, our market is generating an average of $7 billion of annual incremental revenue for us to target and capture.

Finally, our new verticalized go-to market model is gaining traction with both existing and prospective clients. We signed over a $1.4 billion in new business during Q1 and renewals are very healthy at over 94%. And with a total pipeline of $12 billion, we have ample opportunities to win to support our revenue growth targets.

In addition to serving top companies and government agencies in the U.S. and Europe, we are an embedded participant across multiple value chains. We are facilitating interactions across major ecosystems and healthcare, transportation, payments and human resources. We touch 70% of all insured patients and manage almost half of all highway tolls. We process half of the U.S. government SNAP payments, and perform more than 50% of the bill review on workers' compensation claims in this country.

What is important about these statistics is that they indicate the volume and scale at which we operate across these industries. We play a consequential role in the lives of millions of people, ensuring that they receive the essential services, payments and information that they depend on each and every day. But more than that, the scale and magnitude of our participation here has opened our eyes to the permission we believe we have to deliver value in a much broader and greater way.

As the last part of our reintroduction is our recognition as an industry leader. Each of the leading analyst firms including Everest, NelsonHall and IDC consistently recognize Conduent, both overall and in specific sub-segments for our industry position and innovation. And just last week, we were listed as one of the top five Business Process Providers globally by the Everest Group coming in at number four overall and number one as a broad-based provider in North America.

With that, as a brief overview of our company, I will now update you on our very strong progress to stand up our new company and improve its performance. I would argue that this organization saw more change and much [ph] needed that that (09:09) during the last 18 months than during its entire operating history. There are three aspects here that I will share: First, our tremendous effort to reinvent and transform; secondly, our progress to reshape our portfolio through divestitures; and finally our financial performance.

Transforming Conduent required a comprehensive approach. We began as a disaggregated conglomerate of entities, which were never fully integrated. We had competing structures, cultures, fragmented systems and standards across the company, and an extensive portfolio of one-off client situations. The business was complex and expensive. It restrained our competitiveness and hurt our performance.

Today, we're on paths to build a single unified company that delivers market leading performance, a company with a single clear strategic threat that runs through all our operations, a one Conduent culture. A company that uses business intelligence to make data driven decisions, a technology company where all our offerings are supported by scalable, proprietary, best-in-class platforms leveraging the latest innovations. And I'm proud to share that we have made significant progress in each of these dimensions in just our first year as Conduent. Let me share some examples of that with you.

At the time of our spinoff, we had more than 50 separate brands, each with their own name and logo, ways of working and approaches to the market. We are now unified behind a common master brand and operating model. We've made significant changes to our go-to-market strategy. We exited 1,400 accounts as part of our long tail exercise. We successfully remediate a set of large troubled accounts that had been a sizable drag on our performance. At the same time, we strengthened our market coverage by increasing our go-to-market head count by 17%.

Our motto within Conduent is that we have only one of everything, including a single version of the truth. In our first year, we aggressively reduced redundant reporting systems, enabling more agile and data driven decision making. We eliminated over 3 million of real estate square footage last year with more to go. We're also aggressively attacking our IT infrastructure with a goal of consolidating down to two primary data centers and a single network backbone by 2020. We have taken back our critical network infrastructure as well as our client facing applications from service providers to whom we had outsourced for better control and performance by ourselves.

And the final major improvement that I will highlight is cash flow. We generated $200 million in free cash flow last year compared on negative cash flow starting position. These improvements stem not only from our improved operating performance, but a renewed focus on cash management at all levels of the organization.

These are a few examples to highlight. There are dozens more. It has been a very productive start and we are on sound footing as we approach the next phase of our journey to become a growing industry leader.

Another major accomplishment has been our progress to streamline our portfolio through divestitures. This has helped further define our core business while simultaneously creating improved liquidity for future investment. Year-to-date we have announced three additional divestitures; off-street parking business, commercial vehicle operations, and our HR consulting and actuarial business. Total signed divestiture year-to-date represent a combined $390 million in revenue and $65 million in adjusted EBITDA.

Up until this point, we had not communicated the proceeds generated from these divestitures. I'm pleased to share that today with you that we expect $600 million from these assets with the corresponding multiples that you can see on the screen. We are very pleased with this result so far. It is a major milestone in our effort to reposition and recapitalize Conduent.

We have two additional divestitures remaining this year, one in the Public Sector and the other is select customer care contracts. Collectively, these divestitures will give us an expanded range of financial and strategic options in support of our game plan.

The last point I will make on our progress to-date is a roll-up of our financial performance. As shown here, we achieved or exceeded our goals on all key financial metrics as committed prior to the spin-off. Revenue declined 6% year-over-year in line with expectations. Approximately 50% of this decline was driven by strategic actions in our non-core portfolio.

We grew adjusted EBITDA 6% as a result of the many streamlining activities I just described, as well as strong execution within our strategic transformation program, which we overachieved by $45 million. Our improved operating performance, strong focus on collections and more disciplined cash management resulted in moving free cash flow from negative to positive.

And lastly, we generated over $1 billion in market cap growth. Brian will take us through more detail, but as shown on this high level scorecard, we are off to a solid start as a new company.

Now, let me shift to the next part of my presentation to describe our longer term ambition to become an enduring company. I will also share our point of view on how technology and business are intersecting to reshape client needs and the basis of competition in our industry.

Even though we are currently in the midst of a turnaround, we intend to build an enduring company with a long successful future. This requires a mission that can guide our strategy through a series of business, technology and social cycles. Conduent's mission is to transform the way our clients operate. We aspire to not simply manage operations on their behalf, but to create value in a way that helps them evolve, transform and become leaders in their own respective industries. Our role is to help them adopt new approaches, new technologies and identify new possibilities for their business models.

Our mission, therefore, is anchored with a set of goals creating milestones along the way. In the near-term, we define success as becoming the leading business service partner of companies and governments worldwide. This leadership is a byproduct of four underlying attributes that we have listed here.

Finally, enduring companies must not only have a constancy of vision, but be driven by enduring values. An important accomplishment for us during year one was determining Conduent's company values. This will guide our behavior and over time help shape our unique Conduent culture.

As I meet my clients and discuss their challenges, I have recognized the opportunity we have to help them, interpret change and make better decisions for their future strategies. Our clients need help moving to new contemporary ways of operating. And there is a fear among my fellow CEOs of being left behind or worse, being [ph] disintimidated (16:37) by a new unforeseen competitor with a new – entirely new concept of creating, delivering and monetizing value. And in most circumstances, this is driven by the increasing digitalization of the world we live in.

At Conduent, we are viewing the ever changing digital landscape through these three Is, creating a useful framework for understanding where the world is going. First, let me take individualized. Today, each of us expects our digital experience to be over the top and personalized, regardless of the context and with the advent of the social web, each end user has a personal megaphone to share feedback and directly influence a company's reputation. Our best digital experience in one situation always sets the standard for the next. The combination of mobile cloud-based apps and contextual data are enabling this to happen.

Next, everything today is expected to be immediate. This comes to life at two levels. First in our personal experience, now is the new delivery standard. Everything should be accessible with the tap of a finger. But immediate has implications at the opposite end of the value spectrum as well. Not just at the end user level, but more importantly at the ecosystem level.

The emergence of digital business platforms is driving an integration of value chains across industries. These platforms are combining micro services, integrating diverse data and connecting to a wider set of transaction engines. Our clients are expecting this kind of value chain integration today, not only as a cost savings measure but more importantly as a way to gain more control, speed and data visibility across their operations. And they are looking at Conduent to bring this kind of insight and value.

Finally, everything today continues to become more intelligent. Big data has become [ph] exploding (18:36) data creating new possibilities for process and experience improvement. In certain industries, we have an operational role in almost every aspect of the value chain. Few companies have the opportunity to connect and interpret the breadth of operational and consumption data like Conduent has. I'll elaborate on this a bit later in my presentation.

This paradigm that I described is having a profound impact on the business services industry. Clients are expecting service partners to contribute in new ways. Let me describe where I think our industry is going.

Historically, business service value was created when suppliers like Conduent or more appropriately in its previous instance managed an operation or function for less cost, but more importantly on the clients pre-existing operating model. The phrase your mess for less captures this. The focus was to drive this through labor and cost arbitrage, et cetera, and later through automation, but still to deliver very low-end back office outcomes to the end consumer. Even as technologies evolved in recent decades that targeted outcomes did not move away from cost and efficiency.

While this remains an important value-add today, we are at a point where we are seeing a major shift as a result of two emerging factors. One is the emergence of digital business platforms. Once a process is sitting on top of a platform, it has the ability to not only drive efficiency, but to deliver the service in real time, tailored to the individual immediately and provide intelligent insights.

The other shift is that service delivery is now bidirectional. The end user is giving feedback in a very public way. This creates an opportunity to improve and further personalize the service experience based on this real-time feedback. This, in turn is changing the outcomes our clients are expecting from us, and transaction based service level agreements, therefore, are no longer sufficient. We therefore, have to redesign our services with the end user in mind and govern our relationship with experience level agreements as against service level agreements that encompass more than cost and efficiency.

Given our position of delivering our client services directly to the end user, we find ourselves now in a unique position. We are at the forefront of gathering information from end users with the ability to play that back to help our clients better understand changing requirements and subsequently, evolve their operating models in real time. We are not only operating an essential service for our client, we are helping them progress on their digital journey and change the way they operate in line with our long-term vision as a company.

An important benefit of our spin-off and rebirth, if you will, is that it gave us the opportunity to design a company that is fit for purpose against this new landscape. We were given a chance to dramatically reshape our business in a way that our competitors who are vetted to existing business models and risk cannibalizing their own operating model, what not.

Our new business is built around the four facets that you see here and I will explain and provide examples for each. First, we are positioning and gaining acceptance and how we go-to-market. While our portfolio spans many segments we are not simply in the HR or tolling business or the payments business. We're not simply a business services company, we are a digital interactions company, providing bundled services across our clients' operating model and value chain.

We help our clients manage digital interactions with the people they serve seamlessly, securely, personally, and at massive scale. These, in turn, are delivered through our broad range of industry specific technology based workflow and business process solutions. In each case, we are managing large amounts of data and personal information and in each case, those we serve expect our services to be personalized, intuitive and secure.

Up until this point you have heard me use the term digital business platform as more the facet of our portfolio as well as a phenomena in our industry. Here, I'll spend a few minutes describing Conduent's digital business platform architecture and what its components are. A digital business platform is the stack of technology software and associated services that operates, manages, and measures the service delivery stream between our client and the person we are ultimately serving. This is organized into several layers and I will briefly walk you through them.

Starting at the top for every service that we operate whether for business or government, there is an initial intake step, where we must qualify and register thousands and sometimes millions of individuals. Each has a unique identifier, whether it's an employee number, a driver's license number or a social security number. Next is the delivery layer, representing the actual work performed, a payment, a collection, reviewing a bill or administering a program.

The third layer is the engagement layer. The engagement layer has already had a role in the past but has become more important with the advent of the social web, and the more engaged end user. It is driving the bidirectionality of our industry. Communication is now two-way and feedback is immediate. And what this has done, it has raised the bar for the service delivery experience while creating a window into emerging needs. The emergence of this new engagement layer is why we no longer consider the work that we do as back office. Given the transparency of today's world, everything we do, we believe, is front office.

The next layer is compliance and reporting. Regulatory complexity is accelerating particularly in the new frontier of digital end user interactions and services. Our clients rely on our deep knowledge of this environment particularly with heightening focus on data privacy rules and standards. The recent transition to GDPR was a very good example where clients look to our expertise in data mining, warehousing and curating in order to tailor their services and processes to meet this major regulatory transition.

Expected client outcomes is the next layer, and they too are shifting. As I mentioned earlier, cost and efficiency are table stakes. Today, we must create individualized experiences that improve consumer loyalty and citizen satisfaction and help transition our clients to a leaner, more agile operating model. So, that was a very quick run-through of our digital platform architecture but, hopefully, conveys the underlying technology and services stack.

In many ways, it is not unlike the digital platforms we encounter in our consumer lives, whether it is to find a ride or plan a vacation. Essentially, technology helps combine or integrate multiple service layers across a value chain. In our case, we're doing the same thing but at a quasi-industrial level versus that in a consumer context.

As a company build from acquisitions over many years, we are proud to boast the most extensive portfolio of digital business platforms of business and government. This is an array of our offerings that span 20 industries and 2 dozen business areas. And unlike our competitors who are just moving into this arena, we are well ahead not only in terms of the breadth of our offerings but also our extensive use cases. We have an arsenal of assets to position ourselves as a strategic partner to our clients, and over time, as a higher value player across key industries. I'll talk more about this in upcoming slides.

Underlying our platform portfolio will be cutting edge technology. We have made an order of magnitude shift in our focus here both in terms of our investments and our ability to monetize. We have stood up development labs in three cities around the world and hired experts across the five practice areas that you see here. We are aggressively updating our offering road maps and bringing new innovations to our clients.

Of these five practice areas, I would like to spend a few minutes on blockchain. I'm not referring to bitcoins here but the underlying technology which has endless applications across business and government services. Blockchain technology can be applied to any multi-step transaction where timeliness, traceability and transparency are required. It promises to drastically transform digitized business processes in several ways.

Multiple steps and relationships across an entire stream of interactions can be managed simultaneously while making them more efficient, agile, secure and transparent. We are convinced that distributed leisure and blockchain technologies can address a number of pain points for our clients.

Smart contracts, a capability that blockchain enables, is an area that we're particularly excited about. There are almost infinite possible applications for smart contracts, from automating entire facets of the supply chain to introducing new levels of security and transparency to the procurement process. You'll be hearing more about our progress here and results with clients in the coming quarters.

We also aggressively redesigned our operations and global footprint in line with our new approach. We have rationalized our employee base, global footprint and operations to be in line with our new business model. We are concentrating our delivery from a handful of strategic locations. We are moving to a more contemporary work model allowing the right work to occur in the right locations, a concept that we are calling accu-shoring.

Our clients can, therefore, benefit from our capabilities globally, 24 hours a day creating both skill and economic advantages. Up to this point, I have shared our work to-date to improve our financial performance, our vision of the industry, and our work to reposition the company as a digital interactions leader. Now, I will share our plans to capture the market opportunity ahead of us in order to drive profitable topline revenue growth. My colleagues will expand on this when they present their specific business plans.

We have organized our growth strategy around five specific plays you see here. They cover a set organic as well as inorganic opportunities. Some will have benefit in the near term, others will take more time to pan out. Let's dive into three of them. One, our platform modernization efforts which represent our single largest investment to-date. The second, building on my point earlier illustrating the volume and scale at which we participate in certain industries.

We are well positioned to move from an offering provider to a value chain integrator in certain large profitable industries. And thirdly, I will share our approach towards inorganic and partnership opportunities as elements of our key growth strategy. Significant achievement we have made since our spin-off has been the almost $200 million we have pledged for platform modernization over the next three years.

The investment is relatively well balanced across our sectors with transportation and HRS receiving particular emphasis. A major priority is migrating our platform offerings to the cloud. Today, we've already migrated around 40% of our platform services and expect this to be 70% by the end of the year. Another focus is the rationalization and consolidation of multiple offerings into cohesive industry utilities solutions, what I call bundled services, while infusing new innovation and tools especially around analytics, mobility and machine learning.

And lastly, we will continue to focus on rebuilding the infrastructure on which we run our software and platforms making them modern, flexible, seamless and intuitive. Let me illustrate this with an example of the work we have done. This is a before and after picture of platform modernization under way in our tolling solutions area. We are a leader in the highway tolling business with major installations in seven states and a major ramp-up under way in Florida.

A top priority was to modernize the underlying technology and end user experience. Using the model of our three I's, I'll walk you through the changes we are making. First, individualized. We are upgrading our mobile experience with a modern interface with greater personalization, configurability and self-service. We've expanded end user support to include SMS, social media and chatbots powered by human and machine learning, creating a 24x7 self-service capability through a customer's channel of choice.

Next, we are migrating our platform from a heavy, rigid, on-prem-based single system to a cloud-based flexible and scalable solution. Interactions are, therefore, processed immediately accelerating the entire process to just a few minutes from a few months a couple of years ago.

Finally, we're making our system more intelligent. We're applying data, analytics and machine learning to harness the knowledge and insights stemming from traffic and vehicle data running through our system. Opportunities include traffic pattern prediction, fraud detection and, hopefully, down the road new approaches like congestion pricing.

This is just one example of how we're applying our investments in platform modernization to bring more contemporary solutions to our clients, help progress their operating model, and provide a better experience to their end users. The second growth opportunity I will illustrate is our plan to build on our embedded position in certain industry value chains. In this case, I will use healthcare.

Conduent is one of the few players in the healthcare services industry with the capacity to connect the entire healthcare ecosystem around health consumer. That translates into deep healthcare expertise and relationships in each major market segment, be it peer, provider, pharma or government.

Our healthcare offerings include software platforms, analytics as well as a variety of clinical and non-clinical services. In addition, we provide recovery services and employee benefits management like advisory and fiscal agency. Today, these are embedded in all but one facet of the healthcare value chain.

Looking into the future, we're well-positioned to pivot the way we play in healthcare. Our extensive participation allows us to identify new opportunities, develop new solutions and deploy them with speed and agility. Our clients benefit from our end-to-end view of their consumer, be it a member, employee or patient resulting in more informed engagements and interactions.

As an example, our portfolio gives us access to clinical demographic, administrative and consumer-generated data. We can, therefore, construct a true 360-degree view of the health consumer, enhancing delivery of healthcare services, personalizing them and driving better health outcomes.

We also have the opportunity to reapply technologies from one facet of healthcare to another. For example, we're taking our Maven population health solution and combining it with other healthcare assets to develop a compelling solution to address the opioid crisis, something of great interest to our government health services business.

As healthcare transitions for a fee-for service model to a value-based care model, those with the ability to connect the ecosystem and/or influence the entire health consumers' journey will be most successful. Our portfolio of software platforms, deep domain expertise and experience gives us the right to participate as a leader in this transition. Pratap Sarker, our group Chief Executive for Financial Services and Healthcare, will describe this in more detail during his presentation.

We will supplement our organic growth activity with a set of inorganic and partnering activities that further strengthen our competitive position. With our divestiture program nearly complete, we are very well positioned to evaluate possible target companies for new core business growth. Likewise, with our operations stabilizing, we are aggressively reaching out to establish strategic relationships that augment our capabilities.

As we survey this landscape, we are evaluating choices through four lenses: capability enhancement, emerging technology areas, completing offering gaps or creating permission to play in adjacencies, and lastly, drive existing scale and market share. I expect to give frequent updates on our work in this particular space later this year.

In closing, I want to reiterate my optimism for the trajectory we are on. We are transforming Conduent to become a market leading, growth-oriented business services company delivering a differentiated value proposition for our clients, employees, and investors. I'm confident this next chapter will be just as productive as the ones that we have just completed.

I'm also extremely proud of the hard work and dedication of our employees, and fortunate to have their support as well as the support of my senior leadership team, some of whom you will hear from today. Thank you very much.

I'd like to now introduce Christine Landry, Group Chief Executive who will introduce the Commercial business as well as talk about the consumer-industrial sector.

Christine Landry

Group Chief Executive, Consumer & Industrials, Conduent, Inc.

Thank you, Ashok, and good morning, everybody. We greatly appreciate all of you taking the time to be here and is absolutely my pleasure to be here with you today. I'm going to spend the next half hour or so providing you with an overview of Conduent's Commercial business. I'm excited to provide some details around our market share and how we've structured our business.

Let's go back, I'm so sorry. Let's get us caught up here, and then we will keep going. There we go. All right. So, I'm going to spend the next half hour or so providing you with an overview of Conduent's Commercial business. I'm excited to provide you some details around our size, our market share and how we've structured our business to enable strong growth in the markets that we plan.

And to set the stage a little bit, our Commercial business is made of two sectors, Consumer & Industrials as well as the Financial Services & Healthcare. And I'm going to provide you an overview of the Commercial business in total, and then I'm going to spend a little bit of time talking about the details and the makeup of both the Consumer and Industrials sector which is the portion of the business that I run. And then I will ask Pratap Sarker to come up and he will spend a little bit of time talking to you about Financial Services & Healthcare.

So, in our Commercial business as a whole, we serve a diverse group of clients across a number of vertical industries as you see at the top of the slide. Ashok discussed in his remarks, we don't just focus on delivering technology and services to our clients.

And one of the most important facets of what we do and what significantly differentiates Conduent is we're keenly focused on the end user. Examples of these end users are on the right-hand side of the slide. They are consumers, employees, patients, members and commuters, and these are the people that we impact with our front office platforms every single day.

Technology has changed how we interact with each other and the world around us, and it has shifted consumer expectations. Consumers expect seamless, real-time personalized experiences where the data from one interaction informs the next and the experience continues to improve every time we interact with them.

Consumers now have the means at their fingertips to choose, interact with and pay for products and services digitally and all facets of their lives, whether they're buying a car, getting a prescription filled or signing up for benefits at work. And we've listed our key offerings across the bottom of the slide. These offerings and the work we do place us at the intersection of our clients and their end users.

And as we've made the pivot to becoming a technology platform-based company, we view our work through the lens of the individual and the human aspects of engagement and digital interactions. Our clients rely on us to manage a host of different types of interactions on their behalf every day. These are individualized, immediate, intelligent, secure and compliant, and as Ashok mentioned, we do this for 65 of the Fortune 100.

As we look at Conduent's financial picture, in 2017, our Commercial business represented approximately 60% of our total revenue. I'm not going to spend a lot of time on these financials because you've obviously likely seen all of the detail in our earnings deck and as we reported the Commercial business had its best Q1 in many years. While revenue was down 2% on a reported basis, revenue actually grew 3% when adjusted for our strategic actions. Profitability improved and as we exited underperforming contracts, remediated others and drove expansion through cross-selling and service line penetration, as well as leveraged better technology deployment, price increases and operational efficiencies.

It's important to note that we've broken out our revenue according to our core and non-core functions. Core is defined as areas of our business that are platform based, scalable, standardized, and with the potential for accu-shoring. And as you can see, non-core makes up less than a quarter of our overall revenue and that will decrease as we divest these businesses over time. No longer are we focused on commoditized transaction-based work, and instead, we enable and embed platforms and technologies in the work we do as often as possible.

It's easy to switch from one transaction processor to another, but once a technology platform is embedded into a business, it's far harder for our clients to change partners. So our aim is to grow that core technology and digital business platform penetration and percentage over time. And through our ongoing strategic divestiture actions, we will continue to see a drop in these non-core areas while also realizing the opportunity to invest further in our platforms.

So now, let's turn our attention specifically to the Consumer & Industrials sector or what we call C&I. This sector is made up of six vertical industry groups: automotive, aerospace and defense; media, entertainment and telecom; technology; energy and utilities; and manufacturing; and finally, retail, travel and logistics.

What you see depicted across the bottom are the service offerings we bring to these vertical industries. Our go-to-market model is to align ourselves according to the industries our clients are in, and we couple our deep industry domain expertise with our robust offerings and subject matter experts, which allows us to implement industry-focused solutions and services, focus on service line penetration, sharpen our line of sight into opportunities for growth and have relevant dialog with clients about improving end-user experiences.

With that in mind, let's take a quick look at two different views of our revenue streams and how that shapes our totals. The left chart is a representation of our revenue grouped by vertical industry. The technology business makes up the largest portion of our revenue at about 30% of the total. Automotive, aerospace and defense is the next largest making up an additional 21% of the total. Media, entertainment and telecom as well as retail, travel and logistics each make up about 16% and the balance of 12% and 5% respectively is with manufacturing and energy and utilities.

On the right, we have represented our revenue by service line. Our portfolio of services is diverse as the vertical industries that we're in and it's important to have a sense of the revenue mix through both of these views. You may recall from our earnings report that customer experience previously accounted for 35% of the total Commercial sector's revenue and then included standalone customer care. Now we have adjusted how we map our service lines by moving the portion of customer care business that we're divesting to the non-core segment.

When you look at the business going forward, the portion we're retaining is now bundled into our omni-channel experience service line. So, omni-channel makes up 43% of our total revenue followed by HRS at 32%. And I'll be going to some more detail for you on HR services and omni-channel in a couple of slides, and it'll give you a sense of the solutions and the investments we're making in those areas. The balance of the service line, which includes finance accounting and digital processing and learning, each make up a little less than 15%.

Now that you have a sense of our revenue and blend from both the vertical and the horizontal view, let's take a deeper dive into the structure and makeup of the Consumer & Industrials sector of Conduent. We bring deep industry subject matter expertise and focus on managing digital interactions for our clients at massive scale seamlessly, intelligently, securely and in real time in order to deliver meaningful value back to our clients.

We bring deep industry subject matter expertise and focus on managing digital interactions for our clients at massive scale seamlessly, intelligently, securely and in real-time in order to deliver meaningful value back to our clients.

Our customers' business goals, their investment goals, their business challenges, and their end-user engagement improvement goals are where we start. We manage millions of interactions every day for some of the world's most impressive companies. Six of the largest global automotive manufacturers and four of five of the top aerospace firms are our customers today.

So, what does managing digital interactions to deliver value really mean? Let me walk you through just a couple of examples, which are highlighted on the right hand side. For a consumer goods company, by helping them to launch their new employee healthcare and total rewards program, we significantly increased employment participation. Through our portal, employees were provided with a modeling tool that they could use to compare the value of their current program benefits with the new benefits. Personalized data provided employees with greater insight into the changes that were coming and allowed them to have an individualized experience to better understand the changes. Within six months, our clients saw 90% utilization of the portal and they achieved 98% participation in the annual enrollment process.

In this case, managing those digital interactions at massive scale while focusing on the end user meant we delivered individualized, immediate, intelligent rewards and information experiences to our customer's employees and delivered value by ensuring their most important asset which is their employees felt confident in the important decisions they were making and had the right data to do that at the right time.

In another example, a Fortune 500 Midwest steel manufacturing company needed to transform its employee benefits and drive down costs. With all of those employees having access to an employer plan, the company needed to reverse the cost trend that they were struggling with. They turned to Conduent for help and by partnering with our BenefitWallet team, a leader in the nation's health savings account industry, they introduced a full replacement HSA plan as their primary health coverage option.

Through [ph] BenefitsWallet (48:18) digital engagement tools and customized communications strategy for their employees, we helped our consumers align their health insurance and savings account strategy with the retirement and financial well-being for their employees. We provided a digital platform and tools that empowered employees to make the best health and savings decisions. And as our relationship has evolved with this company, over the past few years, we've developed value by working with them to redesign all of their healthcare benefits package and manage their costs in a better way. The results have been well exceeded. Our client's expectations are also well exceeded and they've achieved over 95% participation in HSAs which is a 72% increase in their employee contributions.

A quick third example of delivering value in the work we've done is with a very large commercial institution to help them transform their learning environment. The organization relies largely on in-person instructor-led training to educate new hires. In today's world of immediacy, our customer needed a learning solution that helped get the right information and the right training to the new hires as quickly as possible and in the best possible format.

They've had to take costs out and they had to consider learning needs and they also had to consider the time to competency, all of that built into the Conduent solution. We implemented a digital blend of e-learning and virtual instructor-led training, and these assets were made all available on desktop, laptop and mobile.

We focused on delivering content using digital platforms and technology solutions and we were able to reduce the design and development duration by 60%. We increased the speed to competency for new hires by putting the right tools to learn directly at their fingertips. These are just a couple of examples of how we focus on the business challenges and goals of our customers, so we can help them drive improvements through the delivery again of an individualized, immediate and intelligent digital experiences for our customers and for their end users.

As we focus on our core business of platform business, scalable, technology-led solutions, we know there is opportunity for growth. The market for us in C&I is very strong. With the diversity of the vertical industries we serve and the strength of our key service offerings, we see great potential.

The Consumer & Industrials sector currently has about 2% of the market overall. Our strategy in 2018 has been to divide and conquer and go deep on these industry challenges our clients face. Our key offerings across the bottom which are global integrated employee engagement, essentially, it's our human resource services and our workers' compensation office – offering. Two, our digital processing and our omni-channel customer experience are all needed by all of our customers regardless of the industry.

There is a strong growth trajectory for Conduent because we're focused on creating digital business platforms and services that enable repeatable, personalized, secure and intelligent interactions at massive scale.

I'd like to take a quick moment and dive into one example of how we're improving the digital interactions and experiences within an industry. The automotive industry is one that is having to reinvent itself and reinvent how it interacts with consumers, and how it's managing the way it goes through significant disruptions in the industry.

Manufacturers are having to address massive change in how consumers perceive and choose mobility, and they need to be more nimble, more innovative as they take on building new business models that address these changes. They also must deliver better digital experiences to consumers whose preferences are becoming more sophisticated every single day.

On screen, I'm sharing a few examples of how we're partnering with a large European auto manufacturer to strengthen their customer interactions. We're turning into a more efficient insight-based, loyalty building customer lifecycle management system. One component of that work has been to help reinvent the way they remain connected with their customers through more interactive communication channels such as video chat and an online interaction.

In the past, once a customer purchased a car, they drove off the lot, and that was the end of the transaction until the owner made the choice to schedule service, make a new purchase or trade-in their car. And today, through the integration of real-time data, analytics is gathered from the vehicle and pushed to our data centers. We're able to make immediate proactive outreach about the need for service whether general maintenance related or as a problem is identified.

In the future, we expect to use predictive analytics to integrate all the information provided to service departments, provide immediate scheduling for maintenance, and intelligently tailor messaging interactions to the individual driver.

Now that we've gone through an industry example of our work, I'd like to take a few minutes to go through some details on a couple of our service offerings to give you some additional context around them. I'll spend the next few minutes describing our omni-channel services offerings and our human resource service offerings.

The first offering I want to highlight today is our omni-channel and digital experience management, and what Conduent is doing to lead the way in improving how customers interact with their end users. In today's technology-driven world, customer expectations of individualized experiences may be more sophisticated, but many businesses aren't keeping pace.

According to our research at Conduent experience report, customer satisfaction has declined by 10 percentage points in the last two years even though Forrester says 72% of businesses indicate that improving customer experience is their top priority. Omni-channel experience integration is the battleground for improving customer engagement, driving loyalty and monetizing touch points. And this is an area that Conduent is investing in. We know consumers now demand personalized, intuitive, interactive, intelligent and secure experiences.

So let's take a quick look at an application of how we're advancing these experiences. In the not so distant past, interacting with the company involved making a call. There were only agents. There were not multiple channels to communicate. There were no predictive analytics to determine why you might be interacting with a company. And there were no continuous learning feedback loops. It was you, a phone, an agent, maybe a little bit of hold music.

One of the most important aspects of our approach to omni-channel is the fact that we know a customer is going to be the driving force, the decision-maker behind how and when an interaction takes place. Our clients have to ask themselves different questions. Here are a few of them.

Do you know when someone is going to interact with your website? Do you know when someone will try self-help, email you, communicate with you? Do you know when they will pick up the phone out of frustration or when they might engage with social media or more importantly, what they're going to say on social media?

Through the application of intelligent automation, machine learning and analytics, we're able to deliver our omni-channel services through our digital processing platform. To give you a concrete example, we enjoy a great partnership with a leading cruise line and the cruising industry as a whole has seen a 19% rise in the number of passengers worldwide from 2010 to 2016. According to Cruise Market Watch, this rise has created an opportunity of around 1 million to 2 million additional bookings annually.

We engage with our client to ensure that their digital workflow processes, their case management systems, their analytic tools and their digital platforms could take advantage of this market trend and keep sophisticated pace with demand. We provided a foundation for single configuration for multiple channels, channels such as SMS or chat, and through automation and improving digital interactions across channels, we've increased overall response and closing rate of increase and this helps to drive greater value and monetization of each and every touch point made, whether this is a direct booking, could be an upsell or cross-sell opportunity as well.

And through a data driven intelligent approach to completing critical processes throughout all phases of the customer journey, we're building more personalized intelligent and intuitive experiences. In turn, this helps aid to convert a touch point into a revenue generating opportunity. And as we invest in our platforms, we will be moving toward predictive and then prescriptive interactions that inform all of the consumer touch points along their journey.

Now, I would like to take a minute and describe a bit about our human resource services business. This is a key part of our growth plan and we are making investments in our HRS capabilities platforms that support the entire recruit to retire employee continuum. When you think about today's workforce, there are so many employee types or personas that must be on-boarded, they must be engaged and rewarded, managed, helped, retired and more.

And they're all very diverse from young millennials at the beginning of their careers to baby boomers who are nearing retirement. And for the first time in history, these generations have wildly different expectations for interacting with technology. So company needs tools and they need platforms that engage employees at every step along their employment continuum in ways that are as personalized as possible based on preferences and expectations.

Within the HR services group, we have three key digital offerings. The first Life@Work Portal is our total benefits and human resource solution which provides the technology underpinnings in an end-to-end employee engagement experience.

The second is RightOpt. This is a health exchange alternative that is an integrated benefit delivery system with a focus on simplification and personalization. It also helps with cost management and of course drives employee engagement.

The third is BenefitWallet. This is our digital solution for consolidating administration of all health-spending accounts on to one common platform including health savings accounts, health reimbursement arrangements, flexible spending accounts, health incentive accounts and a number of other specialized solutions.

An important additional point here is that while these three offerings underpin the solutions we bring to the market, there are a number of sub-offers and sub-platforms that power the delivery of an end-to-end solution through digital processing, data analytics, intelligent automation and human expertise.

Let's go just a little bit deeper on this one. Employees are one of the company's most valuable assets, if not the most valuable asset for most of our customers. Programs that are offered help them to be more physically, emotionally and fiscally healthy. That enables them to become more engaged in their jobs and leads to a higher performing workforce.

Engagement in today's world is very complicated. Employees expect the same immediate, intelligent and individualized interactions at work just as they do at home and outside of work. In the past, employee information was presented at the company or division level. So support for engagement depended on the availability of your local HR resource and only system data was generally available to that HR team. And today engagement can be supported through our Life@Work platform. It serves up individualized, relevant content based on demographic data. Self-service functionality of the portal allows employees to have immediate access to the information they need and complete actions when they need to.

Our solution integrates and leverages all available structured and unstructured HR data and employ physical and fiscal wellness information to create targeted action plans and messaging for all employees. We make it available and easy to use, an integrated way, any time, any place on any device and in any language.

This hyper-personalized experience ultimately leads to improved employee productivity and reduced costs. As we invest in our platforms, the future of engagement will be even more powerful. We will be able to present even more individualized information to the employee and to the management proactively before they know they need it based on past and predictive behavioral data which will be inserted into the platform.

More intuitive features that are tailored to the person will be possible across platforms and an integrated omni-channel experience will support the full lifecycle of the employment engagement journey. A business will be able to derive insights from cognitive and predictive analytics to tailor information based on a segment of one.

I've walked through some examples of offerings and this is a good time to highlight that it's not just about Conduent making a claim that we deliver value. We are recognized for it by the top analyst firms across the business. Up on the screen behind me, is a sampling a few of the analysts recognitions and I'd like to highlight some of these because they're directly related to the strategy that Ashok spoke about and some of the pieces I'm presenting today.

From NelsonHall, we have been recognized as a leader in intelligent technologies for the multi-process HR services NEAT report. We are also recognized as a leader in their CMS client experience improvement focus NEAT report. NelsonHall also recognized us as a leader in their CMS self-service focus NEAT report. And finally, we've been recognized in industry reports by Gartner, Everest and several others. I highlight these because they provide external third-party recognition on our leadership position as a technology-led digital interactions company that works with our customers to create excellent, meaningful and seamless end-user experiences.

The Consumer & Industrials sector is well-positioned for growth. We're confident in that because I mentioned at the beginning of my remarks we only hold about 2% of the market share in an expanding market. We're confident in our ability to drive that growth, the delivery of all of our service offerings to the diverse vertical industries that we serve. And our plan to achieve this is based on the following four areas of focus.

First, we are modernizing our base by making strategic investments in key platforms where we see the greatest market opportunity. Our human resource services portal Life@Work will be further developed to provide an integrated end-to-end recruit-to-retire employ me – excuse me, employee engagement platform. Likewise, we will invest in and apply our digital processing platform, an omni-channel experience and engagement across all of our verticals.

Second, the opportunity for organic growth is driven through improving our service line penetration. With the expertise and go-to-market structure we have in place, we are well-positioned to increase the number of services we implement with each of our customers in each of their industries.

As we're doing with you here today, we are refining our messages to our customers so they understand the depth and the breadth of all of the offerings and don't view us through a single service lens. Our go-to-market model with deep industry expertise supports this and we are also in the process of increasing our sales resources which will help us to capitalize on this growth potential.

Third, our offerings are the door openers to expanding our role in emerging value chains. We are focused on the disruptions and the challenges faced by our customers and have both the innovative mindset along with the expertise and technology to address those challenges. I gave you an example earlier of this with the automotive industry and how we're working with our client to address the disruptions they face by innovating with them around specific needs for better customer and employee lifecycle management.

I also provided the leading cruise line example where we're transforming omni-channel experiences to help them take advantage of specific industry trends. We will also keep evolving and cross-selling our key offerings like global integrated employee engagement services, digital processing platform, and omni-channel services management in order to be opportunistic in markets that are undergoing significant transformation.

The fourth and final area of focus is our approach on inorganic growth and partnerships. For example, in the media and entertainment industry, they are going through great pressure to oversee and moderate the extraordinary amount of content that is shared through their platforms. Moderating content can be an insurmountable task. By applying our automation and analytics services to the process, we can help them streamline and automate a great amount of the work. There are also a number of ways we can help with our legal and compliant services. We help large numbers of mergers and acquisition activities that are occurring across a number of different industries but especially media, entertainment and telecom.

We can also automate the review of contracts and forms for deficiencies inconsistencies and conformance with standards and other risk standards in areas that proactively identify potential exposure for our customers. Look, these are just a few of the examples of newer inorganic ways for us to position ourselves in vertical industries. But I would – I thought I would at least share a couple of them with you.

We're also focused on building partnerships that drive and deliver incremental value to our clients. Ashok mentioned a couple of those today. Across all dimensions of growth approach, we expect to continue to evolve industry specific offerings and solutions similar to the ones I reviewed earlier. Our offerings must be tailored to our clients, they must be tailored to our clients specific industry needs and they must ensure we solve industry-specific challenges and reinforce our position as experts in the industries we serve.

As I mentioned at the beginning of my remarks, we have reorganized the C&I sector into six industry segments. I've provided information about the investments we're making in our HR Services and Omni-Channel platforms. Part of our strategy and plan is to transform, implement, integrate and execute to ensure we deliver on our plans so that we drive value for our clients and delight their end users.

In closing, we're confident that we have put the mechanisms in place to drive success for our company. And as we execute against our investment and growth plans, we're moving quickly toward delivering exciting new workforce solutions, learning solutions, industry-specific solutions and more that differentiate us in a marketplace and establish our position as a different, more sophisticated category of competitors. Ultimately, our roadmap will help us to remain deeply connected to those critical digital touch points between our clients and their consumers. Thank you so much for your attention today. And to quickly remind you, the Commercial business is made up of two sectors, Consumer and Industrials, which I've just covered, as well as Financial Services and Healthcare.

And so with that, I would like to introduce my colleague who will provide an overview of the financial services and healthcare sector for our commercial business. Please, help me welcome to the stage our group Chief Executive for Financial Services and Healthcare, Mr. Pratap Sarker.

Pratap Sarker

Group Chief Executive, Financial Services & Healthcare, Conduent, Inc.

Thanks, Christine, and thanks all of you for making time to be here today. Let me start by giving you a quick pictorial snapshot of the businesses that constitute Financial Services and Healthcare in Conduent. We serve four industry segments: Healthcare and Insurance, our largest segment that represents close to 60% of our overall financial services and healthcare revenue; Pharmaceuticals; Provider; and Banking and Capital Markets. Our clients in these segments consume multiple services, and as was mentioned before, we not only serve our clients but have a direct impact and in several instances, a direct relationship with our clients' customers. From an offering standpoint, we offer industry-specific services of digital platforms that we currently have, intellectual property that we currently own, as well as other horizontal services that are applicable across industry segments.

If I zoom in a level deeper, it's important to note that the Healthcare business specifically – if you include the Pharma as well as the Provider segments, constitutes 75% of our overall Financial Services and Healthcare business. That should give you an order of magnitude view of our size in this space. We do have a substantial presence in the Banking and Capital Market segment as well, and are doubling down on our investments in platforms, sales and client partner resources. From a service standpoint, we have a healthy mix of industry-specific and horizontal offerings and I expect to continue to have a balanced mix of vertical as well as horizontal offerings going forward. So, if I delve a little deeper, there are two points that I would like to highlight on this slide.

Firstly, we have an extremely strong set of clients in the segments in which we operate. And the second point being that we offer services today, all of which you see in the examples out here are entirely platform-based, that dovetail into the outcomes based philosophy. Our clients not only expect but are required to extend in turn to their own customers. So let me elaborate on the first point briefly before I talk about the – before I take you through a few examples. 11 of the top 12 Fortune 500 commercial banks are our clients. We work with each one of the top 20 healthcare insurance companies in the U.S. There are 6,000 hospitals, approximately 6,000 hospitals in the U.S. 40% of U.S. hospitals use our platforms to essentially manage case management analytics and other things that they do in administering their hospital facilities.

14 of 15 top global pharmaceutical companies are our clients. If you look at it from a few other data points, 70% of U.S. insured patients are touched by our services in some way, shape or form. There are a billion plus commercial and government claims that we process every year in our operations. 45 million, close to 50 million patients in our provider systems every year are processed in some way or form. And there are close to $50 billion in provider payments that we manage every year. And in some instances, we are directly responsible for making these payments to the providers in a frictionless manner. On the second point, here are examples of some of the outcomes we are driving for our clients. Bear in mind that in each of the examples, as I stated before, we offer services of our technology platforms.

The first example relates to the workers' compensation space where the information we gather on accidents that take place in the workplace help employers drive a 15% to 20% drop in incidents on an annual basis. Bear in mind, 50% of all workers' compensation claims in the U.S. flow through our Bill Review Systems, which gives us a view of the market, which is frankly second to none. While the first example was about leveraging data, the second one is about deploying a team of nurses to help triage situations as they occur, leading not only to a reduction in unnecessary visits to the ER, but more importantly making sure that people receive the right care at the right time. Our omni-channel platforms helps clients drive significant savings in print and postage costs while driving the adoption of digital means of communication.

I've only highlighted the print aspects of this, but very clearly our omni-channel platform encompasses much more than this. On the account opening example, we've helped a major wealth management organization drive cycle time reductions of 90% in account opening functions from what used to take several days to a few hours and all by leveraging a combination of our workflow and digitization platforms. In the legal and compliance services space, our eDiscovery and Compliance Technology platforms specialize in leveraging analytical models to increase reuse of attorney work product. In fact, our AI tools have learned from 30 billion odd decisions on documents that attorneys have made over the years. Their decisions are things like relevant, not relevant, confidential, not confidential and so on and so forth.

Those decisions on those underlying documents are accounted for in our AI tools and helped guide our clients intelligently when their own documents are entered and processed. And when this is done, it saves a ton of time, money in future reviews. If I now juxtapose what I just said against the market opportunities, a few clear themes emerge. The industry segments in which we operate have client imperatives that dovetail into capabilities we have and once we are building frankly. In banking and capital markets for instance, it's about Fintechs and nimbler competitors offering flexibility and choice through enhanced digital interactions and/or experience. In healthcare, our clients are faced with the triple aim of driving towards improved health outcomes, reducing the overall cost of care and enhancing individual experiences of care.

In the provider space, it's about transitioning from a fee-for-service to a value-based outcome-based model. And Ashok alluded to this in his presentation as well. And lastly in the pharma space, it's about value-based engagements between pharmaceutical companies and payers, which get the right medication to the people who need them the most. One of our biggest differentiators is that we have digital platforms that address industry-specific problems. And what you see here is a snapshot of some of our relevant platforms. And as has been called out before, we have a suite of horizontal services that we take to our clients and which our clients consume at any point in time on a day-to-day basis. Before I take you through a synopsis of a healthcare use case, I'd like to emphasize that healthcare is one area where we are uniquely positioned as being right in the center of the healthcare ecosystem, delivering a wide range of high-value services to both government as well as commercial clients.

To try and bring this to life, every day physicians, doctors all over the country depend on our data – of our Midas platform in this case, to help them maximize patient care and safety while simultaneously reducing readmission rates to hospitals. Doctors, nurses and other practitioners are educated about new life-saving medications because of our team's efforts. And patients on the other hand receive both financial and clinical support allowing them to experience new groundbreaking therapies, drugs and so on and so forth. Pharma companies depend on us of our [ph] Health@Work (01:18:47) platform which you might get a snippet of in the innovation lab that we have out there to navigate complex financial and clinical authorizations, to get their patients on therapy. Beyond the work that we do on the clinical side, we have extensive relationships with healthcare insurers as well as providers supporting member enrollment and end-to-end member health outcomes.

We also perform extensive work for government entities through our Medicare and Medicaid specific expertise. And lastly, it would be remiss of me not to mention that employers depend on our workers compensation team to get their employees back to health and get them back to work. So, Conduent has technology assets, processes and people that serve every aspect of healthcare. In a nutshell, we see ourselves as being at the center of all these data flows from which we extract analytics and insights that are and continue to be of immense value to our clients as they drive towards better healthcare outcomes. So, I guess the question that I keep asking myself is how does Conduent help healthcare participants drive towards improved outcomes? If you look at the traditional way of doing business, patients were treated in a reactive mode while being treated for an illness and healthcare providers were reimbursed on a fee-for-service basis that related more to quantities of visits and services than value delivered or outcome achieved

There were no readmission penalties in place through either the government or commercial payers. As patients experienced ongoing complications, the treatment was delivered through return visits to the hospital or the primary care physician would sometimes direct them to specialists, but with some trepidation as they were concerned about losing control of and potentially future revenue from their patients. The system was less than efficient in optimizing outcomes versus cost. A problem that is frankly fairly well-known in healthcare circles and even outside of healthcare circles. In today's environment, the whole reimbursement process has gone through significant change. We are moving from a fee-for-service to an outcome space model. And the change continues to pick up at a fairly accelerated pace.

Where we come in is we allow our clients the ability to leverage our technology and people, of course, to make decisions that help drive improvements in health outcomes for their patients and members, while maximizing the value from every dollar spent on healthcare. Participants in the healthcare ecosystem use our services to drive better outcomes, reduce readmission rates, optimize costs, and so on and so forth. We are also using the data we have to address problems that are very pertinent to our society as well as our environment as large, and Ashok alluded to this as well, and you'll probably hear a little more of this. But we are in the process of working with clients to help them address the opioid crisis by combining the data that we have from multiple sources to prevent and/or predict the abuse of opioids.

The social ramifications of offering solutions to a problem of this nature cannot really be underplayed. The last point I would like to make is that while there are multiple viewpoints on what healthcare will look like in the coming years, there is broad agreement that the industry needs to and is shifting from historically reactive disease management focus as in returning people to a state of wellness after they've fallen ill to a proactive concentration of wellness and diagnostics, preventive care and diagnostics, genomic-based medicine and all the other things that you have out there, with active involvement of consumers, that is each one of us, in what we term as connecting health and behavior; this whole concept of connecting health and behavior.

This is likely to manifest itself in multiple ways. Consumers will continue to assume a greater role in addressing their healthcare needs; the ubiquity of mobile phones with sophisticated mobile health applications, sensors, wearables. Most of you in this room probably have a wearable on right now. Sophisticated diagnostic attachments, remote monitoring, and personalized service self-monitoring will render consumers more receptive to changing their behavior. Additionally, this will likely be used by insurance providers to reward consumers that adopt healthy lifestyles. Care delivery is also likely to change. There could very well be a shift from hospital based care to lower cost sites. Healthcare delivery systems will place greater focus on long term prevention and management rather than short term treatment and improve or expand their proactive engagement with consumers.

And needless to add, science and technology will continue to drive improvements at every level in the healthcare ecosystem. I see Conduent as continuing to play a significant role almost as a central organism, if I could call it that that combines data and analytics to help provide additional insights to ecosystem partners. The charter that we've laid out in healthcare will help our clients accelerate and I'm repeating this, their triple aim goals; driving towards improved health outcomes, reducing the overall cost of care, and finally, enhancing the individual experience associated with care. The second use case while primarily focused on the banking industry segment as an underlying set of technology assets that have applicability in any industry that involves, A, the conveyance of documents and B, the processing of data to make decisions. Any of you who have gone through a loan application process for a consumer loan have probably witnessed firsthand the reactive, slow and paper-intensive process that it entails.

The more illiquid and expensive the asset, the worst it gets frankly. I mean think about mortgages. What we do in consumer lending aims to not only remedy the inefficiencies of the traditional process, but infuse a level of digitization and intelligence that is much needed in the process today; to firstly improve customer experience; secondly, facilitate efficient and timely loan processing; and lastly, of course and this is critical, right, I mean satisfy compliance and regulatory requirements. Our expertise in consumer lending is underpinned by multiple technology assets that we have. The first one is BlitzDocs. It might be a name that's familiar to you, very well known in the industry. BlitzDocs is our intelligent document management repository that while specializes in mortgages can be used for other applications as well. We have a consumer loan servicing and collections platform that again on which we have a tremendous amount of experience in auto loans, but could be frankly retrofitted to any asset class involving installment loans.

And we have other technology assets in workflow, analytics, document intake, digitization, print and so on and so forth. Today, we are helping our clients achieve a few things in this space. We're helping them achieve intelligent digitization of paper document flows in the consumer lending business. This is not just about digitizing physical documents but extends to performing quality checks on them as well as extracting information that could be analyzed to support decision-making and compliance requirements. We are also helping our clients take a customer lifecycle view over the entire lending value chain to drive consistent experiences where people like you and I frankly from the origination through the servicing process, ensuring that customers get the information they need when they need through any channel they prefer to interact with the financial institution, or for that matter the app that we are using to solicit a loan.

Our services are very well equipped to handle the evolving needs of our clients as well as their clients. So, if you think about the evolving needs of our clients and the technology that reduces the cost to originate and service loans while maintaining high quality as well as regulatory compliance is of paramount importance to them. Smart interactions that allow like skills within that organization to perform like work across the enterprise is something that they extract significant amount of benefit from. The ability for the sales organization to deepen relationships and seamlessly offer multiple products as needs change creating customers for life as opposed to looking at a customer as an individual transaction and then moving on from there.

And finally, of course, the ability to use the underlying data to extract and monetize insights about their customers. The needs of consumers should resonate with all of you in this room. The first one is fairly straightforward; simplification in the processes through clean handoffs and interactions with their financial services organization. Transparency in loan terms and costs. Transparency in the entire application process, frankly. Control and flexibility in document and information exchanges and decision-making, just making it for an entire streamline lending or borrowing process depending on what perspective you look at it from. I've taken you through to industry-specific examples and would now like to touch upon one from our horizontal service offerings. This one relates to our legal and compliance services business.

Our solutions here are designed to help the legal compliance personnel at our clients' companies swift through litigation and ensure compliance with global government regulations of all kinds. We do this through proprietary as well as generally available tools. Viewpoint, for instance, our eDiscovery platform is an industry leader that most people in the industry are very, very familiar with. We also do this through processes driven by legal knowledge teams that we have and an extensive use of artificial intelligence on automation.

Now, our tools essentially provide the structure and insight to analyze disparate datasets, structure as well as unstructured data. So, let me take you through a few use cases that will illustrate what we do in this space. A real customer example that I could give you is rooted in the growing recognition of governments around the world of an individual's right to access as well as privacy. GDPR for instance is now a reality in companies doing businesses in Europe, and we may see similar legislation here in the United States in the not too distant future.

It grants individuals much greater rights to their PII than prior data privacy laws did. The responses to information request must be responded to within 30 days, and penalties from regulators are dramatically higher. They could be as high as 4% of an annual turnover for a default or an organization that is not taking the necessary steps to protect their clients' data.

Sometimes, these requests under GDPR are very large and signal potential litigation. Our technologies for instance can see through voluminous amounts of structured as well as unstructured data, and help identify not just potential exposures to violations, but facilitate compliance and regulatory reporting, something which is critically important in this space.

A second customer example has to do with a pharmaceutical company that was faced with a challenge after it had introduced a new drug in the marketplace. To be prepared to address looming issues with the FDA and as you can imagine the possibility of millions of dollars fines, the company asked us to identify key communications over five years between employees, doctors, vendors and patients. Millions and millions of documents, the pharmaceutical company tried to essentially parse through using a manual incomplete and expensive review process. We essentially did it in a much, much more simpler manner and got them to accomplish what they were trying to accomplish in this entire process.

So, how are our services differentiated in this space? Not so long ago, companies would review these matters and documents manually, perhaps even retaining staff or outside law firms to assist them in their work. In place of such reviews, we offer our clients the following services and the following capabilities. Our experienced services organization helps identify and collect all data; structured, unstructured, written, audio, visual, data that can be in any possible form that you can think of out there. Our data engineers then extract this information and presented on our Viewpoint and other platforms.

And finally our data scientists work with our clients to apply our artificial intelligence and machine learning tools, would sort by relevance, importance, risk and confidentiality, and essentially at the end of this, the time and money saved applying our solutions is truly dramatic and game changing for our clients. As much as we offer, today we can and will do more for our clients. Our solutions will continue to improve to a point where we can offer automated intelligent solutions embedded with the client areas of risk such that prescriptive recommendations are made to minimize risk, litigation or regulatory investigations.

Look, industry credentials in the service industry are critically important. And while both Ashok and Christine have provided a snapshot of the recognition we have received across our services portfolio, I'd like to draw your attention to a few that are pertinent to financial services and healthcare. Everest has assessed us as a leader and major contender in the bank and insurance segment space respectively while HFS has rightly called us out as an execution powerhouse across banking and financial services and insurance. Just think about that, execution powerhouse. That's what this industry segment wants and that's what we've been providing over the years and continued to do so.

Black Book Research, a prominent market researcher in healthcare has rated us as number one in multiple areas. And we are very confident that we will continue to retain and earn these industry validations and of course our client support as well as we deliver services to them.

Our approach to growth in financial services and healthcare can be broadly categorized into two segments. Investments that we're making in our current portfolio of technologies and data-centric capabilities and inorganic growth and our partnerships to fill gaps in our portfolio.

We believe that the investments can drive growth in three ways. Firstly, it can help us modernize our base. Additional revenue can be earned through improvements in key platforms, platforms that we've identified and invested in. We also believe there is organic growth in existing segments that can be gained through an enhanced focus on relationship and solution-based selling.

And of course by expanding our role to expand – to encompass the value chain in which we operate essentially doing more things in the value chain than we essentially do today is one way of driving that growth. And is it pertains through inorganic growth, we are actively looking at acquisitions and partnerships in some of the areas that we have listed below. In my view, the TPA, the third party administration space and the payments industry as well would represent the largest opportunities and would be the most logical fit to the portfolio of services that we currently have in the organization.

I'd like to conclude by saying that we've embarked on our digital journey and the destination looks very, very different from where we are today. In the middle of last year, we made a decision to invest in a whole suite of digital platforms. Where we are today is that every solution that we take to the marketplace has an incredibly strong digital outcomes focus and the results of some of that are being felt by our clients – being felt by our internal resources as well. And the trajectory that we've set ourselves on, we strongly believe will get us to a position of digital solutions leadership. I don't want to leave you behind with the impression that we're not there in several areas. We're actually there. What we're doing right now will just ratchet up the game for us as well as, of course, the clients we serve.

So what will this really mean? Our service mix is obviously going to look very different from what it is today to what it is tomorrow, more platform-based, more artificial intelligence, more data centric and so on and so forth. But our competitive mix is also likely to change. There are several segments that we interact or compete with players that we are unlikely to compete with tomorrow.

Our clients are likely to become our partners. Our clients in some instances are likely to be our competitors. But everything that we're doing to essentially augment our capabilities and augment our technologies, I believe will get us to the growth trajectory that we are – that we've laid out and will essentially make for a stronger Conduent.

Thank you very much for your time. I believe we have a 15-minute break right now before I hand over to Dave to take us through his presentation on the Public Sector. Thank you very much.

David A. Amoriell

President, Conduent, Inc.

Good morning. We can get folks to sit down here, that'll be good. We got Alan? All right. Good morning. My name is Dave Amoriell. I'm privileged to provide you an overview of our public sector business. We touched millions of citizens around the world for our client focused on improving people's lives each and every day.

From our daily commute to work or school, to the government benefits received on convenient, payment cards, to helping doctors effectively manage patient care, our digital solutions help millions of people around the world each and every day. We modernized service delivery through automation, analytics and human-centric digitally-enabled process design. We have strong market positions in three deep verticals around public transportation, healthcare and payments. In transportation, we are focused on solutions that improve the travel experience for the citizens while improving the safety and on roads we travel. Let me forward the deck here.

In government healthcare and payments, we are focused on solutions that streamline and improve critical citizens benefits such a social security, child support, prescriptions, Medicaid, and numerous other benefit programs. We will cover each of these in depth on later charts, but fundamental to all these solutions is a need to provide these services on digital channels that are convenient for the citizens.

Last message to leave to with you is on this chart before I move on, is we touch citizens' lives each and every day. For example, on average, we process over $110 million in healthcare claims, process over $230 million payment funds and a $100 million transport tickets globally per day. In summary, we process digital interactions at a massive scale.

Taking you to the next chart give you financial overview. The public sector is a healthy, profitable business unit. We have identified our core business units and investing in growing our core. This is a predominantly a platform based business where we bundle our service offerings such as transaction processing, payments and customer care with the platform. We have expanded our margins over the last year and closed Q1 of 2018 at 15.6% EBITDA margins which is consistent with our overall target for EBITDA margins for the business.

The margin improvement was by the continued focus on signing profitable deals, right sizing the business as well as strategic transformation program. We have identified core businesses, we have announced three divestitures, firehouse which we completed last year in the third quarter, off-street Parking and commercial vehicle operations that Ashok mentioned earlier which we'll target to close the end of Q2.

The firehouse and off-street parking business represent what we call long tail, are businesses that comprise many small deals under $500,000. CVO is a business with a single client that does not readily scalable to other clients both consistent with our strategy. Our fourth non-core divestiture has been identified for roughly $100 million in annual revenue. We are focused on investing and growing our digitally enabled core business.

Let me transition to you to the transportation business. Transportation is an attractive and growing market with global reach. Sprawling urbanization, traffic congestion and safety on the roads continue to drive the need to provide fast, safe and reliable transportation services to the public. It's a $12 billion addressable market that's growing around 4% where the strongest growth is as the two largest segments; public transit and electronic tolling.

For transportation, we are well-positioned at about approximately a 6% market share. The core business is in transportation or electronic tolling, public transit, on-street parking and public safety. All of these businesses are underpinned with technology platform surrounded by services to enable the citizens. These platforms enable us to continue the digital journey as a technology evolves. We are in the top three in each of these core markets.

For electronic tolling, we have a very strong market position in the U.S. We provide the entire end-to-end solution including lane solutions that allow cash transponder in open road tolling technologies to front office solutions that accept the toll transactions [ph] handle the (01:42:38) financial processing and provide the citizen facing services.

For our public transit business, we have a very strong market position globally. We are present in 27 countries. Once again, we provide an entire end-to-end solution, citizens can purchase fares, gain access to the trains, buses and trams through our gates and validators for the trip. This is all supported by processing of financial transactions and associated management systems.

We also provide the fleet management systems, which allows the management of the bus fleet in real time, provides information to the agency and to users on status and arrival times. For on-street parking, we have solutions that handle the end-to-end parking process. For paying for the parking space by cash, credit card, or phone or processing park of violations to collection of overdue patients and the associate management systems around that.

On the public safety market which includes photo enforcement for speed and red light violations, we provide the end-to-end solution to installing the photo enforcement equipment and collection of the fines in the associated violations.

Transportation demands are growing worldwide and we are continuing to make investments in our platforms to provide the continued digital journey. This includes processing vehicles at highway speeds, enabling access through mobile and web, to providing account-based bank card payments capabilities in the transit business, to analytics and congestion management algorithms in the parking business.

Let me take you down one level in our transit business. Public transit has been a significant market evolution adoption in an adoption of digital technologies over time. You have seen us go from cash token-based payment methods which are inefficient and prone to revenue loss and revenue leakage. The smart guard base payment systems with web and mobile based access which secures the revenue stream for our client, to going forward, account-based bank cards systems that allow the citizens to manage all their transactions and make payments to their choice of channels while providing the transit clients better cash management.

Conduent has been in this business for decades and have been at the heart of this evolution. We provide the hardware and software to enable the payments, provide the communication channels to the citizens. This includes smart card based systems that provide travel on all forms of public transit systems including bus, trains, and trams.

We provide real-time information to the users and transit agencies on the health and timing of vehicles. We have deployed account-based systems that will enable the agencies to handle all forms of payment processing including bank cards, mobile phones, and other payment methods as they evolve. We are investing in our core platform to provide seamless travel and easy payment options to our customers and riders.

In addition to the account-based multi-payment enabled systems, we are developing advanced analytics. In Europe, we've worked with the transit client to develop analytics around their passenger traffic patterns that allow them to help optimize the transit network including equipment and access points. We are also in the process of providing a solution that provides end-to-end trip experience. This allows a rider to plan their trip from start to end and to determine the best travel route using public and private modes of transportation.

Now, let me switch gears and cover the government market. Government includes federal, state and local markets which are broad and diverse in their needs. Citizen benefits, reduce costs of administration is driving the growth in this market. This is a $23 billion addressable market that's going around 4%. Conduent is well-positioned in two very deep verticals, healthcare and payments. Conduent has a strong market position in state and local with over a 7% market share and a very low market share in federal, which provides us a market opportunity in the future. We have identified the healthcare market separately from the state and local market given its size and complexity, and we are in the top three in the healthcare and payment markets that we compete in.

Given the diversity of the market, let me give you the next level detail where we play in each of these markets. We have a strong market presence in the state and local health and human services agencies. And the benefits processing area, we have historically strong platforms surrounded by service offerings.

With these offerings, we provide unemployment insurance, child support what we call Supplemental Nutrition Assistance Program referred to as SNAP, women and infant children and social security benefits. In most cases, these benefits are provided through our prepaid bank card solution.

As an example, for our largest benefits program, we provide monthly payments to those citizens through prepay bank cards. On a monthly basis, we reload approximately three-plus million active cards with about $2.8 billions on a monthly basis. We typically disperse within the first 30 minutes of funds availability on a $100 million, provide the entire end-to-end solution including payments processing, customer interaction through web, mobile and IVR along with analytics for service improvement and fraud management. We provide eligibility determination support for SNAP and Medicaid.

Clients are increasingly focused on providing case management solutions to the citizens that allow a single view of their benefits for more efficient processing. For healthcare, we have a very strong market position and a Medicaid processing programs and pharmacy benefits. We have health solutions that's in 16 states across the U.S. For Medicaid processing, we work with providers to enroll in Medicaid programs and validate their credentials to provide those services.

We provide payments to the providers and a fee-for-service model. And in a managed care model, the monthly payments to the health plans aka HMOs. Pharmacy benefits, we provide payments between the state and the pharmacists, we validate prior authorization, drug utilization management, and [ph] at first (01:48:57) drug interactions that enable the pharmacists to provide the needed prescription in timely basis.

Long-term care management, we provide performance assessments with our clinicians who visit recipients homes typically the elderly, and provide them community as long with possible reduction of overall cost. We are making investments in the government business around our platforms enabled to continue digital journey This includes mobile applications, advanced fraud analytics, real time pharmacy claims processing and account based management solutions for citizens benefits.

Now let me take a time and bring it down a level on our pharmacy benefits and what we do there. This is market has evolved for a paper-based and fax submission with limited citizen communication channels to electronic submissions, automated streamline processing and analytics to detect abuse and fraud. The future will continue to integrate and automate with electronic medical records, strong drug utilization adherence and analytics across the value chain.

Clients look to us for guidance on successful client clinical management programs to ensure the safe and cost effective use of drugs. By example, our award-winning research and product innovations offer clients trendsetting solutions for fighting opioid epidemic. Today, our client analytics involved comprehensive criteria sets that lead to thoughtful and evidence-based decisions. The outcomes curtail rising drug costs as well as fraud waste and abuse.

Our emerging strategy with advanced analytics helps clients visualize trending and program policy opportunities, and our solutions are easily intimidated and adapted to client population needs, to interact with medical and pharmacy data which can be used across the provider spectrum and automate workflow in the areas of electronic medical records and prior authorizations.

Investments are focused on our platform, secure in the cloud environment, scalable and cost competitive, and building a team to develop leading clinical management solutions such as the Morphine Equivalent Prior Authorization Program previously mentioned. So, let me bring you a deep dive into the payments part of this business. Evolution of the payments market went from non-digital communications method, basic disbursement channels and only macro level analytics. The payments process has now evolved to mobile, live agent, web and chat for digital customer experiences, increased benefit, access capabilities along with smart fraud reduction technologies.

Conduent processed over $85 billion in disbursements for our government payment portfolio in 2017 which includes social security, unemployment, child support, foster care, SNAP, WIC and numerous other programs.

Key element of these programs includes real-time processing at massive scale. We'll access through mobile, web, chat and live agents, and advance fraud analytics to complement with neural networks.

We look to the future. We are investing in technologies to enable individual account controls and exploring account service integrations through Artificial Intelligence interfaces. We are also investing in data warehousing to bring an enterprise approach to our fraud detection capabilities. The financial technology world is evolving at historic rates, and we will continue to seek new partnerships that add value for our government clients and their mission to distribute benefit payments to their constituents in the most efficient and effective manner possible.

So let me focus here a bit about – we focus on touching our clients each and every day. This is our version of the brag chart in the public sector. We process more than 400 million government healthcare claims per year. In 2017, as I mentioned earlier, we processed more than $85 billion in funds to 54 million registered payment cardholders, leading to our standing as number one prepaid card processor in U.S. government.

We also process more than 100 million public transport tickets daily, we have a 44% market share for the U.S. parking solutions and we service 46% of the U.S. electronic toll collection market. Our innovations have led to many awards that you can see on the left-hand side, such as a 2018 International Parking Institute Award for Merit, for Park Indy and ParkDC and a 2016 Best of Intelligent Transportation Society Award for our Vehicle Passenger Detection System which you can see in the Innovation Gallery in the back.

In summary, our solutions make a difference in the world.

Let me now focus you on the growth approach. As discussed earlier, the public sector has made significant investments in the digital platforms for many years. The investments in towing, transit, payments, government healthcare, and others, has allowed Conduent to differentiate our offerings and provide value add to our clients. This chart just gives you a summary of what we have already talked about in the previous charts. We will also continue to focus on the value chain and make critical decisions on make, develop our own solutions or buy, partner [ph] a car or we have gaps (01:54:24).

In transportation, tuck-in acquisitions provide additional technology capability and allow access to adjacent spaces. In government healthcare and state and local, the focus is on tuck-in acquisitions or partnerships that bring the technology platforms that broaden our offering and completes the value chain with the focus on health and human services. In federal, an acquisition will focus on gaining contract vehicles and capabilities that increases the addressable market and the largest overall market in the U.S.

And finally, the growth roadmap to summarize it all, as I mentioned, public sector has historically been a client-centric, technology-enabled business. We continue to invest in emerging technologies to meet market needs organically or inorganically, and this will allow us over time to be positioned to shape deals and win new business.

Thank you for your time. And it's my honor to introduce Brian Walsh, our Chief Financial Officer. Brian?

Brian Webb-Walsh

Chief Financial Officer & Corporate Vice President, Conduent, Inc.

Thank you, Dave, and good morning, everyone.

You've heard a lot about the future of our company and our progress to-date, the markets that we operate in and how we engage with our clients. I want to get on the right slide, okay.

I'd like to spend the next 20 minutes tying all of this together from a financial perspective. Similar to the other presentations that you've heard, I'll focus on where we are today, what our core business looks like and how we're leveraging technology to pivot to revenue growth and drive continued margin improvement. I'll also discuss how this growth, along with the divestiture actions that we've announced, will lead to increased free cash flow, a stronger balance sheet, and I'll close the discussion on our outlook and our long-term model.

Before we look at the future, let's start with a look at the current business. On this slide, you can see our recent performance over the past five quarters. We are pleased with the progress that we've made in improving margins, moderating the revenue decline and improving our free cash flow conversion. I won't spend a lot of time in the slide as you've all likely seen this detail in our earnings deck. However, I'll note that, excluding strategic actions, revenue would have been flat in Q1 2018. I'll also note that we have provided the detail of our revenue by segment with our non-core business now separated out.

Once we close on the divestitures, we'll move these businesses to the other segment for historical reporting purposes. In our most recent quarter, we grew both operating profit and adjusted EBITDA year-over-year, driven by our transformation savings program and the strategic actions that we have taken. As Ashok discussed, we are stabilizing the base and building from it. We're on the right track to show improvement in our core business on all fronts.

Now, let's discuss our outlook for 2018. We have provided an update to our full-year 2018 guidance to account for the most recently signed divestiture, the commercial vehicle operations business. Similar to the guidance revision on our Q1 earnings call, the only change we are making to guidance are as a result of this divestiture. We now expect revenue to be between $5.4 billion and $5.6 billion in 2018. This assumes that we close all the signed deals on June 30. At the midpoint of our range, we still expect to grow organically in Q4 of this year.

Adjusted EBITDA is now expected to be between $662 million and $688 million. This implies an adjusted EBITDA margin of between 11.8% and 12.7% for 2018. That's up more than 100 basis points at the midpoint compared with 2017, despite the impact of divesting higher margin businesses and continued investment in our people and core platforms.

Lastly, our free cash flow is still expected to be between 25% and 35% of adjusted EBITDA or $166 million to $241 million. Although this assumes a certain amount of interest savings from debt pay down, keep in mind that we'll have the impact of lost EBITDA for the signed divestitures in the back half of this year, it would not yet have the benefit of taking out the stranded corporate costs. Again, if not for the signed divestitures, all of our guidance metrics would be unchanged.

Let's move to an update on our divesture initiative, including both the deals that we have signed and those that we're currently working on. First, we have provided more detail on the financials for both the signed and unsigned divestitures, including revenue and adjusted EBITDA.

In 2017, the signed divestures generated approximately $390 million in revenue, $95 million in adjusted EBITDA before addressing the standard costs or $65 million after stranded costs were taken out. The unsigned divestitures, a set of government businesses in the public sector and the stand-alone Customer Care Contracts that we now see is non-core, generated approximately $600 million in revenue and $50 million in adjusted EBITDA before stranded costs take-out, and approximately $10 million after addressing these costs. All in, we expect to divest approximately a $1 billion of revenue and $75 million of adjusted EBITDA after the costs take-out.

In terms of the timing for addressing these costs, on average, we would expect to support these businesses for approximately six months post-close. Our current outlook would be that about $30 million of the stranded costs would be addressed by January 1, 2019, and the rest would be later in the first half of 2019. This assumes that we'll be able to close the remaining unsigned divestitures by year-end. And based on all of these assumptions, we'd expect to have a $20 million to 25 million impact from stranded costs in 2019.

We expect the signed divestitures will generate approximately $600 million in pre-tax proceeds and approximately $500 million after-tax. This cash will be used to pay down debt. We are very pleased with the valuation of our signed divestitures which we achieved through a competitive process. More importantly, these proceeds will allow us to pay down debt, improving our near-term free cash flow. We believe that this is the best use of this cash to create shareholder value. We will provide the details and the expected use of proceeds on the unsigned divestitures after we close those deals.

Let's move on to discuss what our core business would look like, excluding the $1 billion of revenue that we're planning to divest, removing the stranded costs, and including the benefit of that pay down. I'll refer to this as our full-year 2018 core or just our core. It includes the assumptions that I just mentioned which you can see on the right-hand side of this chart.

Post all of these items our financials would look as follows. Revenue of our core would be between $4.6 billion and $4.8 billion. Adjusted EBITDA would be between $632 million and $658 million, implying a 13.2% to 14.3% adjusted EBITDA margin, an improvement of over 100 basis points to our initial 2018 guidance. This is driven by the fact that the businesses that we expect to divest are at a 7.5% adjusted EBITDA margin on average.

Our adjusted free cash flow conversion would improve to 30% to 40% of adjusted EBITDA, reflecting lower interest expense from debt pay down. We would expect our core net leverage to be approximately 2 times after this debt pay down. Again, our goal here is to grow these numbers, so let's discuss how we get there on the next slide.

The starting point on this revenue waterfall is our initial 2018 guidance that we provided in February. As we discussed, the signed and to be signed divestitures represent approximately $400 million and $600 million of revenue, respectively. This brings us to our core full-year 2018 revenue of between $4.6 billion and $4.8 billion.

In 2019 and 2020, we would expect to achieve organic revenue growth from new business, and we'll execute on acquisitions providing inorganic contribution. This should result in 2.5% to 4% of annual growth with 2019 likely towards the lower end of that range and 2020 likely being at the higher end.

Now, let's discuss the drivers that get us there. You've heard throughout the day today how we plan to grow revenue and capture market share. We're investing to do so across our business, and I'll spend a few minutes discussing how these investments will drive growth. First, in terms of our sales force, we expect to continue to hire new resources and aim to grow our sales force of approximately 325 salespeople today by another 20% in the next 12 months. This is on top of the expansion of our sales force since the spin. Our focus is signing new logos and working to identify opportunities within existing client relationships.

We've been hiring professionals from within the industries in which we operate to be client partners and engagement managers. These professionals identify needs across their clients business and bring our wide span of capabilities to the right person within the organization. We have an impressive roster of client logos, but on average our top 40 clients have two to three service offerings with us. Our aim is to significantly end these relationships and bring more of what we do to each client.

As Ashok mentioned, we are also investing $200 million through a three-year program in technology and platform-based offerings to enable growth on several fronts. These investments are a differentiating factor in winning new business. Having these platforms in place also positions us to shape the deals that we want to win and ramp more quickly when we do so. Second, technology allows us to expand our role in the value chain of our clients. We're better able to serve them throughout the entire life cycle of their end user interaction.

In terms of inorganic growth, our focus will be on acquisitions that provide capabilities, technology or IP to support our offerings in markets where we have a competitive advantage we're seeing opportunity to take market share.

We see automation as particularly important capability in the next generation of offerings in the business services space. As you've heard earlier, we have the market expertise and a number of platforms in the healthcare and transportation spaces. We are looking to support these areas by adding bolt-on capabilities and technology through acquisitions. We're also looking at opportunities to supplement our key horizontal offerings. And as Dave discussed, we see the opportunity to expand our footprint in the federal services space by acquiring a business with contract vehicles.

We would expect that acquisitions will be funded primarily through free cash flow, and we have significant financial flexibility to pursue a range of inorganic opportunities. We have $300 million on the balance sheet earmarked today for acquisitions and expect to generate over $200 million more from free cash flow by the end of this year.

Let's discuss our margin profile and how we intend to improve profitability between now and 2020. The starting point in this graph is also our initial 2018 guidance. As we have discussed through divesting the signed and to be signed businesses, adjusted EBITDA will come down by approximately $95 million and $50 million, respectively. We will then address the $70 million of stranded overhead costs from the divestitures. This brings us to a core adjusted EBITDA of $632 million to $658 million, which would imply a 13.2% to 14.3% margin.

Excluding the impact from the divestitures and timing of the stranded take-out costs, we expect to show annual adjusted EBITDA growth of between 8% and 12% year-over-year in both 2019 and 2020. Our expectation is that we will expand our adjusted EBITDA margin to over 15% by 2020. We'll achieve this through the revenue growth and our next phase of transformation.

Let's dive into that in a more detail on the next slide. I discussed our strategy and investments to grow revenue; however, it's not revenue at any margin. We have guardrails in place for our sales force to drive us higher than a 15% adjusted EBITDA margin. So, we expect incremental dollars coming in from new business to be accretive on average to our margin profile once fully ramped.

Importantly, as we continue to leverage platforms and technologies to serve our clients and their end users, we should be able to realize increased operating efficiency.

In terms of transformation, let's start with the stranded costs. These costs take-out will be focused on right-sizing our corporate functions and IT spend to reflect our reduced revenue. These are expenses that are in place today to support the business and that buyers will not be inheriting. We also have a strong pipeline of cost initiatives that we're currently working on. For 2018, we're on track to achieve our plan of $225 million in savings for this year. Given the phasing around some of these initiatives, we will also have an incremental 2019 benefit for these cost actions.

The next phase of our transformation is going to be largely focused on a few key initiatives. We have a global delivery model today, but, as Ashok discussed, our goal is to more effectively leverage our global footprint through accu-shoring. We're creating a best-in-class workforce that delivers from the locations where we have access to the best talent at the right cost. We'll continue to grow in lower-cost countries and we'll focus on our hub approach. Our aim is to move from 45% of our workforce in low-cost countries to 55% by the end of 2020.

We are also leveraging technology and automation in two important ways. First, we're investing in our internal systems and benchmarking corporate functions to be best-in-class in terms of automation and process efficiency. As an example, we are currently working on implementing both procure to pay and order to cash systems that will come with improved processes and automation of work.

Second, as you heard, Christine, Pratap, and Dave talk about, we are utilizing automation to improve our client service delivery from both the cost and service level perspective. Labor is roughly 50% of our cost structure and our largest single expense item. So, when we focus on automation and accu-shoring and reduce our labor costs, it will have a meaningful impact to our bottom-line.

Now that I spent some time on the growth model, before I turn to the long-term outlook, I want to spend a few minutes on how we will invest the cash that is both currently on the balance sheet and what we expect to have by year end. We had about $460 million of cash on our balance sheet at the end of the first quarter. Given expected free cash flow generation in 2018, before other actions, the balance should grow to approximately $725 million by year end.

We also expect to have approximately $500 million of after-tax proceeds from the signed divestitures which we are targeting to close within the next month or so. This implies a total source of cash of approximately $1.2 billion before any additional proceeds from to be signed divestitures. We would expect to use between $200 million and $300 million of this cash for acquisitions by year end. In addition, we expect to use $400 million to $500 million to pay down debt. This would leave us with a balance of $300 million to $500 million, a portion of which we'd expect to use to fund acquisitions in 2019.

Let's now look at a summary of our 2020 outlook. In 2019 and 2020, we expect to achieve between 2.5% and 4% annual revenue growth. This will be driven by M&A and organic growth. In 2019, we would expect to be towards the lower end of this range and plan to be at the higher end in 2020. We anticipate 1 to 2 points of growth annually from acquisitions within this range.

Our adjusted EBITDA will also grow with margins expanding to over 15% by 2020, driven by revenue growth in our next phase of transformation. However, we'll likely be below 15% in 2019 as we address the stranded costs take-out associated with the divestitures. In terms of free cash flow, we'll see the benefit of lower interest and lower restructuring charges. We will also benefit from a lower tax rate as a result of tax reform and our ongoing tax efficiency strategy. Our tax rate is expected to be between 27% and 30% for both 2019 and 2020.

Our conversion from adjusted EBITDA to free cash flow is expected to be between 35% and 45% in 2019 and 2020, a meaningful increase from our 2018 guidance range of 25% to 35%. Overall, we are well-positioned to meet these goals, and as you've heard today, we have the team, the vision and the strategic direction to get there.

Now, let's take a quick break for lunch and for you to see our Innovation Gallery, which showcases some of our technologies. We'll then regroup for Q&A. Thank you.

Alan Katz
Senior Vice President-Investor Relations, Conduent, Inc.

Hi, everyone. Hopefully, you're finding the presentations helpful. We will have about an hour for Q&A. If you could please just raise your hand if you have questions and let us know your name and the firm that you're with. We can get started. So we have mics being passed around, and if you could just raise your hand, and we'll get started. Thanks.

QUESTION AND ANSWER SECTION

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Hi. Good afternoon. Thank you. Bryan Bergin from Cowen. First question here, is there – can you just talk about the divestitures, where you stand on the $500 million of Customer Care divestitures, your confidence in transitioning those, and what the current mix of duration is across those businesses right now?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.

A

So we're actively working a process around the Customer Care divestiture. And as we're engaged with potential buyers and we're working that process, there's tender on the contracts. Some of them expire in 2019, some 2020, and a few going to 2021. But over the next three years, most of them would expire.

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Okay. And then on the cost savings opportunities you have across the platform, can you go into details on the workforce component, the accu-shoring, how much that gets you over the next two years?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.

A

Sure. So a 10% change in the mix from low cost to high cost is about 7,000 employees. And on average, you save $20,000 to $30,000 once you're through the transition. Sometimes for the client delivery side of it, you have to sometimes share those savings, depending on the contract.

But when it's internal resources, which part of it is, you don't have to do that. But if you just take that $20,000 to $30,000, it's like $150 million to $200 million. And then, you have to figure out how much you have to save, how much you have to share with the clients, but it's a big opportunity for us.

Brian Essex
Analyst, Morgan Stanley & Co. LLC

Q

Hi. It's Brian Essex from Morgan Stanley. Brian, I had a question for you on the longer-term guidance. So just back-of-the-envelope math, given what you're calling the core business, the standard like 2.5%, 4% growth rates and 15% margins, you kind of get to a $250 million to $350 million free cash flow number.

If we look at what you're – what you've got for divestitures over the next few years in stranded costs, how clean is that number and is that something we can really anchor to and what would move it from the bottom to the top of that range?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.
A

So by 2020, the model is clean. We hope the revenue side of it will be clean by the end of this year. So we hope they have everything divested and have clean revenue for next year. And then the stranded costs, well, we said $20 million to $25 million of noise in 2019 due to stranded costs, but outside of that, it should be a pretty clean baseline in 2019 and fully clean in 2020.

And it's a big improvement in free cash flow conversion. And just how we perform on the profit side and where the tax rate falls within the range, how much restructuring we need to do. Right now, we're assuming in the out years $25 million of restructuring. But if that was a little higher, then conversion might be a little lower. So those are the elements that could make the low end to the high end of the free cash flow range.

Brian Essex
Analyst, Morgan Stanley & Co. LLC
Q

Okay. That's really helpful. And then maybe, Brian, either for you or Ashok, if you think about those 15% margins or it looks like you had a greater than signed in front of it – I see Ashok kind of smiling there which is good to see. What is your longer-term outlook in terms of rationalization of cost or greater efficiency for optimizing your labor period? What are the larger items that might move that north of 15%?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.
A

Yeah. So at the midpoint, in 2020, it's actually 15.5% if you take the 8% to 12% adjusted EBITDA growth. And with divesting the stand-alone Customer Care Contracts, we probably see our long-term margin after 2020 16%, 16.5%. That would be where we see the peers right now, based on our mix of revenue.

And our big leverage to get there growth will get us about a third of the improvement. The other two-thirds will come from continued cost transformation. We still have further IT and real estate savings to drive. We have the accu-shoring opportunity we talked about. Automating corporate functions through technology is still a big lever for us. And so we have a lot of things we're working to make sure we get there.

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP
Q

Hi. It's Jamie at Susquehanna. Ashok, I was hoping you could talk to the European opportunity. You had articulated something about that in the prior Analyst Day. What are your updated thoughts about that?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

So I have the Head of Europe here with me, Srikanth Iyengar. I'll just briefly introduce that, for us, we actually believe, given how we have sized our businesses and what we are calling core, we see a fairly expansive opportunity in Europe. Srikanth, you want to fill there.

Srikanth Iyengar
Group Chief Executive–Europe, Conduent, Inc.

A

Sure. I think, like Ashok said, Europe is a huge market, as you can see. I mean, the UK in itself is a significant market, but if you look at markets like Germany, France, Netherlands, big markets in themselves. If you look at Europe as a share of the company, we're roughly at about 10% or 11% of overall revenues, which means there's significant headroom for growth over there.

If you look at our service client spread across Europe, it's actually pretty good, but very importantly, we have some very good clients to start off with. Ashok mentioned MICHELIN is a client in one of the slides. Christine talked about the large European automakers. We've got a good base to work off, so we're pretty optimistic and we've built the sales force in the last few months. Put it together, we've got the brand investments in the market.

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP

Q

If I could just ask one follow-up, Ashok, about the – how would you characterize the risk profile of the contracts today versus yesterday? So the institutional memory with the company is that there were some challenges in that regard. So where are we in the risk profile and how do you mitigate that?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So we are definitely in a better place than we were I would say this time last year. And recall that we've taken out a significant number of the long tail which is part of this issue that we had with the contracts, but more importantly the six large clients that we've remediated. And one of the purpose of the remediation also was to look – take a hard look at the contractual terms, not just the pricing. We've instilled a significant amount of discipline, terms and conditions, approval metrics with regards to how we signed for new deals, what kind of terms and conditions are applicable.

And that probably has a – so you reduce the tenor what you have signed up for especially in public sector business because those contracts they tend to push the liability to the service provider to acquire the next tenant. Some of course you cannot avoid, so you had to figure out different ways to mitigate them, but a lot of them you have to take back and negotiate.

So what we've done is, in a nutshell, we've taken existing contracts, taken them back to the client. The last one as you all know remediating the last, the sixth contract took longer because it was very, very [ph] hairy (02:19:04). But on the other side, we have taken – we've instilled new discipline, new metrics, new approval authority. And the discipline is actually helping drive get contracts which are more palatable to us.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Shannon Cross, Cross Research. Ashok, you're clearly trying to move the business to more of a consultative model or a higher value-add service provision. When you think about the resources that you have and following the divestitures, like how much of what you need from a technology, a head count and R&D perspective, do you think you have right now in the core Conduent? And how much of it will need to be sort of added in from incremental investments in technology, and then also potential acquisitions?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

Yeah. I would say about – we probably have 50% to 60% of the capacity that we need. We cannot continue to just keep getting the talent at the speed and pace that we want unless and until we do a – we take in an inorganic action. There is a lot of very good talent available. Putting that to fit or repurposing that to what we want to do would take extraordinary amount of time. We have the technology jobs. We have the process jobs. We need a little more of the domain and industry competency. And we need to be able to get to a place where as that technology change is happening, we're sort of bridging that, and that is why the partnership ecosystem, we have maniacally focused on that.

We're talking to very large technology firms, we're talking to very small Silicon Valley firms as well who have bunch of very smart people, but they don't have access to the market. We have clients, they have smarts. We're talking to the large enterprise software companies and technology companies, for example, similar to, let's say, a Microsoft like, a Microsoft or a Google, and these are the people that we are partnering with.

Given where we are and what we do, I think the opportunity, we're finding it, we are finding some of these companies, being extremely proactive to want – to have that conversation. But, at the end of the day, which is why we've – one of the reasons we've also gone into accu-shoring is because this more for talent is really – is becoming one of the big things and we have to source talent from wherever it's available. So we have to go out there.

I mean, today, we can get somebody with a PhD in real math in Romania and Poland for the same price that you could once get a software engineer in this country. I mean, so there's a huge dramatic difference in terms of where we can get the talent. But we have to be very careful that we don't again go back to that strolling model in real estate footprint that we have.

Shannon S. Cross
Analyst, Cross Research LLC
Q

And then just a follow-up. Given where unemployment is and the need for talent, and then clearly if you go offshore, there's probably better opportunities. But how challenging is the maybe push-up in terms of what you have to pay people or to attract the right people versus how quickly can you turn the automation engine on such that, ultimately, you can balance out and you won't really see a lot of pressure in terms of head count costs and that given improving economy which seems to have some legs?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

Yeah. The economy definitely has legs. It's definitely improving. But tech unemployment has always been extremely low as against the rest of the employment in the country, in the economy. So, this is not something new that we have faced. So it 0.5% to 1% tech unemployment has been something we've been facing for over 10 years now. That's one part of it.

The second part of it is that, yeah, these are expensive resources to get an enterprise architect with iOS, I mean, 27-year-old, they won $1.5 million and you have to pay them because he cannot get them and our competitors are willing to pay. So at one end of the spectrum, I'm actually competing with – at the lower end of the job spectrum, and the other one, I'm competing with people who would rather go and join a Facebook, Twitter, et cetera, and I'm sitting there trying to see how I can get them in. It's not going to be easy. It's going to cost money.

And it has to be done with not just money, but also give them the challenge of what we're trying to build. So it's a combination of many things.

Keith Frances Bachman
Analyst, BMO Capital Markets (United States)

Q

Hi. Keith Bachman from Bank of Montreal. I wanted to ask two questions. One's a micro, one a macro. And, Christine, I was just going to start with the micro for you. You talked a lot about omni-channel and digital experiences. We actually cover a bunch of software companies, and all the characterization, you sound a lot like IP and software.

So in the areas that you are focused on, the software companies provide solutions represented in IP. Not clear to me what Conduent is actually doing in this regard, that's different from the software companies. Is it the services element on implementations? If you could kind of go back to that in relation to the question, Ashok, I want to follow up with you.

Christine Landry
Group Chief Executive, Consumer & Industrials, Conduent, Inc.

A

Yeah. I'm happy to. So when you think about our omni-channel services, you need to think about the entire customer lifecycle, the end-to-end spectrum. So the difference between us which is really the core of your question and the software companies is, well, we have a platform that underpins all of our offerings. You're right. We do provide the end-to-end services. So it's human interactions. It's the insights. It's the technology. But it's also the industry expertise. So we're bringing a good deep domain understanding of what's going on on our customers' business and helping them solve their problems, and then we leverage those platforms and the insights to do that.

Keith Frances Bachman
Analyst, BMO Capital Markets (United States)

Q

Ashok, my follow-up question is to you and it's really about confidence around growth. And I'll start up by saying it, I think when new leadership came in, perhaps the magnitude of the strength of the contracts that existed at the time where we're underestimated. And the companies had some revenue challenges and part of that's manifesting now and selling a greater part of the businesses then I think you first contemplated.

And so, as you go through the course of this year, you've obviously identified a big $1 billion number for the divestitures. Are you comfortable that there's not going to be more that's going to need to be divested? And at the same time, as you well know, every company is looking to do M&A, right, all your previous legacy companies and so it's a very competitive market out there for almost all assets that are interesting.

And so I wanted to come at just your confidence on growth potential given some of the markets you're in, the competitive dynamics around M&A, the existing contracts that are in place. Just talk a little about confidence on growth.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So a few things here, one is that we – now that we have identified what our core business is, one of the lenses that we look at the business was to see which – in which businesses we had a leadership position, one, two or three. And I think we have sort of eliminated those businesses that we did not think we had a competitive positioning where we could be, either we didn't have a market share or maybe the business was dying and the investments required to really revive that would have been too much.

The second is that given our pipeline and given the quality of the pipeline, we finally cleaned our pipeline. When I joined, we got a pipeline of $25 billion with two deals in Uganda. So it's a little hard to really be convinced that this is a real pipeline, now we believe this is the real pipeline. Our conversion rates are high. We've missed a little bit of the [ph] board (02:26:47) in the first quarter on new business signings which is, of course, sort of a signal to us that that needs to ramp up, but our sales team has just come onboard.

So we seem to be tracking to the metric, the kind of deals that we are doing has increased discipline despite that renewals are happening. So I think the market is resonating, our clients are resonating with regard to the solutions that we are bringing. Our sales team is – we've changed the KPIs. We've changed the compensation metric. The leadership is right in the market today. So we feel pretty confident with the numbers that we have put up there.

With regard to the competition, I think the – as mentioned in my prepared remarks as well, I think the legacy business that people have had in continuing to sort of drive that mess for less with different tools, I mean, from labor to automation is still addressing the same thing is not necessarily addressing what we are hearing our clients want address.

And I think this whole digital interaction space and that experience space, which is sort of becoming fundamental, the experience of the end user is becoming fundamentally in driving what the enterprise's operating model needs to look at. I think being the bridge to that is creating a huge opportunity.

If I just look at the digital space, if I look at platform space, it means 60% of my revenue today is on platforms. It's not software or products here, but it's on platforms, which means I have the opportunity and the headroom to grow that. And digital platform is actually expanding my market.

So the places that I would never have thought were adjacencies are suddenly becoming adjacencies because these are so repeatable and they're so scalable. And there's a transaction process which I can bundle on to that.

So I think the way we are positioning the company, the way we are looking at the assets and the kind of conversations that we're having with our clients, and we've declared 2018 to be the year that we're going to drive profitable revenue growth, and we are pretty convinced that we will get there.

Q

[indiscernible] (02:28:40: 02:28:47)

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

So, I wouldn't call it that. But for this phase, we started this whole divestiture program, some of the parts in the summer of 2017. We finished by around the end of summer, and we identified certain parts of that. We're going exactly to plan to that, including – I mean there's nothing that we have added that we did not have in the summer of 2017. It's a competitive process as Brian mentioned, so it does take time and we are fairly convinced that there is a value that these assets have and we want that value for us. So there's no fire sale happening here.

Puneet Jain
Analyst, JPMorgan Securities LLC
Q

This is Puneet from JPMorgan. As you remix towards digital platform and increasingly pursue accu-shoring and automation, talk about like the pricing impact of all those actions. Like what's baked in your revenue growth guidance and will contract terms like the type of contracts that you sign? Will that change in your business model?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

Yeah. So, Puneet, there are two or three elements to that. When you get into digital platforms, of course, you are bundling a lot more services. So you have the opportunity to price this in a more outcome fashion rather than at a discrete level.

Secondly, when you do platforms, you do to a certain extent increase your risk profile. So you – you cannot sign up to something of that contract, unless you are being adequately compensated for it, which basically means that you need to understand exactly what you're signing up for. The tenets of the contract typically remain around the same. You have the opportunity to accu-shore this more aggressively, but which means that you have to have sophisticated technology cloud, I mean you have to really have – you can't say 40% of my stuff on cloud and the rest 60%, you would be able to wing it. You have to have many sophisticated cloud practice and you have to have very sophisticated insight and analytics practice.

So at one end, it sort of improves your revenue and margin profile and expands the market that you can address. At the same time, you're disciplined around how you deliver, what you deliver and how – what you have signed up for in terms of risk and outcomes, you have to be very, very – you have to be much more sophisticated than I would say probably where we were last year. So it's a mixed bag which you have to balance appropriately. But the outcome or the result for us if we do this, even half fell, is traumatic.

Michael Anthony Cadiz
Analyst, Citigroup Global Markets, Inc. (Broker)
Q

Good afternoon. Michael Cadiz from Citigroup. To continue on the platform idea, how far along are you in moving contracts more to the platform to realize higher margins?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

Yeah. So, let me just give that in two ways, and I'll ask Dave to talk a little about the public sector. Most of our public sector business today is on platforms, and I'll ask him to give you a few examples to that. When you say moving a contract, all the new deals that we're doing, for example, if there's any automation opportunity, Pratap and Christine have our Conduent Automation suite as part of that solution. If I look at – say, if I look at 50% of the business, the new business that I signed in the first quarter, 50% of that business is actually on platforms. If I look at the revenue that I'm generating today off the platforms, that's 60% of them. Now, I have the remaining 40%, which I have to figure out whether, A, it can be platformized because some of these things cannot be platformized; B, how do you actually sort of make that more of a bundle model; and the proxy we use for that is service line penetration.

The lower the service line penetration in the individual services that we are selling, which cannot be platformed, basically means that we are falling behind on the projected model that we want to be. So, the way to look at our business is how much of the business, new business is actually getting – is being sold on a suite, a platform, or a software. So MAVEN, and Pratap and Christine talked a lot about them. On Tolling is, for example, a business that we talked – which is all platform-based but before I hand it over to Dave, the journey has actually picked up speed as our platforms and tools and software. We've invested money, and they have become more modern. We started with about 280 platforms at the start of the company. We're down about 24 of them because a lot of them were – we sunset them, we threw them out of the window and some of them were really good assets, which we pulled back and invested in them. Let me hand it over to Dave.

David A. Amoriell
President, Conduent, Inc.

A

On the platform side, I'll speak – I'll give you an example in public sector, but it certainly applies to the commercial side. So as Ashok mentioned, we had typically been platform-based on the public sector side, but the big thing we did a year ago with the investments is starting to modernize those platforms. So that journey continues and, by and large, the contracts we have already have those platforms in place. It's about putting the new features and functions, and you do it for one or two reasons, right? First reason, you continue to put those features and function in, not only does it drive automation it sets the bar higher for your competitors down the road, right? So when we go out [indiscernible] (02:34:09) it's both how do I improve efficiency in my platform given multiple channels, as I continue to differentiate my platform, I differentiate myself in the marketplace. So that's one point.

Second thing we've done, I kind of referred to it in my charts, right, there are places that we are building out platforms where we're seeing new benefits programs, right? So you may have heard a benefit programs called, for example, EVV, Electronic Visit Verification. It's a new mandate around employing home visits and being able to track, right? So it's being able to take the platforms that we have and retool them into that environment. So that is happening as we speak, right? And that's the kind of thing we look at in terms of the platform, but it's really not so much taking existing contracts and trying to put platforms underneath it, right? It's taking existing contracts that we have and expanding the platforms and then going after new deals that are platform-enabled, right? And obviously, you can imagine as part of that process, we have been in a very strong mode of building up and beefing up our ability to build these platforms, right, which doesn't just serve public sector, kind of serves all the industries.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Christine, Pratap, would you like to – in the commercial sector?

Pratap Sarker
Group Chief Executive, Financial Services & Healthcare, Conduent, Inc.

A

Yeah. So from a financial services standpoint, I mean, there are a few things that I would like to share. If I look at my current business, close to 75% of my current book of business are of some platform or the other. So that's point number one. Point number two is as we are taking newer solutions to the marketplace or as we're taking improved solutions to the marketplace, which are a result of the platform investments, a significant portion of my current – my existing pipeline, my new business pipeline is essentially coming off clients asking for solutions, which are of those platforms. The way I look at it from a financial services standpoint that there are very few solutions that customers are looking for, which are not of a technology underpinning or an intellectual property right underpinning, and if they are, it's very likely that those solutions are highly commoditized and might even be areas that we – not want to play in. So the whole platform strategy that we have for financial services and healthcare as well as for Christine's Consumer segment is heavily dependent on us taking technology solutions, driving those digital interactions and essentially not just increasing our share of the clients' wallet, but solving real client problems, which cannot be really solved by non-technology solutions.

Q

Last year, when we – actually 18 months ago, when we spoke with you, you talked about centralization that will consolidate your operations. And one promised benefit was you can leverage skills from one part of business and use them in unrelated areas. So can you share examples like how successful you have been in achieving that? For example, say in healthcare, like you have business in public sector as well as in commercial, so how you are able to leverage mutual expertise like from one area into another?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So I will – I think in my prepared remarks, I gave an example in my presentation about the healthcare, and I can ask Dave and Pratap to address that, especially in the healthcare space, things like our MAVEN platform, which we use in the commercial space now has applicability in the government space as well to combat this opioid crisis, or the fact that if you look at MCO – I mean, if you look at the healthcare ecosystem, we participate payer, provider, pharma, government. We can be an MCO. We're an ACO. So the way this pharmacy benefit management is – insurance companies are buying or pharmaceutical company or pharma companies or retailers are buying insurance companies and how Walmart buying up Humana, CV, Aetna. So this whole ecosystem is going through a massive disruption. And we sort of sit somewhere in the middle of it, including our capabilities in workers' compensation and that whole ecosystem.

So we do find significant amount of opportunities. So, for example, you probably have heard of our celebrated attempt to build MMIS systems which we sort of stopped now because thanks to our performance, but there are certain amazing capabilities from that huge monolithic of a system that we built like Pharmacy Benefit Management, which are applicable across the board. So that's on the healthcare part. Let me give you one of our transportation. We actually think that more and more companies that are non-automobile manufacturers get into the automobile space whether it's autonomous car or whatever that is. We are actually being asked by our state agencies that we support to bring that capability in and we're being asked by our auto manufacturing companies that we bring in that technology capability. And that ecosystem that's getting created, whether it's a license plate that can be rent by a tolling, whether it is about driving autonomous cars in New York City or it's about mapping or any of that stuff or using cloud-based capabilities, we are actually getting – we're seeing that convergence happen. Any other examples that...?

A

Yeah. I mean, the thing I would to add is the other thing we've done when we kicked off the new organization was really centralize under Carol, right, all of the infrastructure and development. So for the first time, we have somebody responsible for looking at the end-to-end platforms and the end-to-end capabilities. So it's the first time we kind of have somebody looking at how do I leverage the modules and the assets across the business. It's not something we've historically done. We [indiscernible] (02:39:58) more in silos, right? For example, we did it well in transportation or we did it well in government healthcare, but it was never done where you took a look at that and how do I get it over. So that's been a huge step. That whole platform rationalization that Ashok alluded to earlier, enduring down a number of platforms that we're going to modernize was driven by Carol's group. It's driven by going through that, right, and rationalizing what are those platforms we want to invest. So we have for the first time, that single view across the business, right, where – we have seen instances where I've done deals and I've used platforms out of the commercial side that probably wouldn't have happened before.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

Also I think – remember that a platform by its very definition is 80% generic. So, if I take my Conduent and Automation, so if you look at this business at the end of the day, right, it is about having a process capability than customizing it and are you getting enough of a yield on the customization cost? Because this is your fixed cost, right? So you have to get a particular yield on that and how much have you got maintenance on that fixed cost and you have the variable cost, that could alternate and how do you actually make that lesser and lesser and lesser so that you're using common systems and processes. I mean, I'm just giving a very generic kind of an answer. But at the end of the day, how less of customization can you do and how much of that process can you keep repeating will get you the yield in the business? At the end of the day, that's where we are, our technology platform thinking is. That's how we think [indiscernible] (02:41:28).

Q

Can you talk about pipeline composition as far as how much is farming the existing base versus how much is targeting new clients? And then within your assumptions on exiting in growth, at what point do you need to inflect the new business bookings as far as what's baked into your assumptions?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.
A

Yeah. So if I look at my pipeline, we have a healthy mix of new business, but we have – so we sort of categorized them differently now in terms of stages so we only include those that are above a particular stage, what we call the proposal stage. In terms of the renewals, we have four stages and we sort of start including them at a two or a three level once they're there.

But if I look at my overall pipeline, it is – the bulk of it is – it's a big year for me for public sector renewal perspective. I have a fairly large pipeline of new deals, but I have to be careful that these are real deals, and then these are happening at the price points that I think. A lot of these we noticed new deals when we get invited to, we have no relationship, no prior background, somebody is just calling us in to test the pricing in the market. I don't want to participate necessarily in that.

So I have to be a little cautious. So, the bulk of my business – excuse me, bulk of my business actually runs on my renewal activity. And the new business, again, I have to be careful that it's not overly focused on three months deal, six months kind of deal. So it has to be at least an annual [indiscernible] (02:43:00) trending towards that, but not a 10-year deal but, again, narrower.

I feel actually pretty confident that the harvest that I'm getting from this, again, new business is slower again because it's going to take time for us to ramp up. The market really does – I mean, I'm talking digital interactions, I go to my client. A lot of them can reciprocate [ph] if that (02:43:20) resonates with them. But a lot of them actually still think I'm a call center company. Hey, we hired you because you were a call center company 25 years ago, you're doing a great job, go back and continue doing that. And we're going back to them and saying, we're not going to do that anymore.

So, you're making sort of a transformation in the language and the responses that we are giving to the clients, so it will take some time to pick up on that. But I think the right way to sort of measure that would be to keep a very close eye on new business growth, on new business – especially the yield and the kind of deals that are happening and, of course, the tenor of the deals.

We have to remember that even though we are saying we are going to be – we are going to pivot to revenue growth, we're not saying that at the expense of profitability. I always – every time I talk to my team, it's always about profitable revenue growth. We've been, I think, in a journey many years ago where we tried to do revenue growth and forgot the profit part.

Q

And then, Brian, anything within tax planning strategies where you think you continue to drive that rate lower? Or is that kind of a normalized rate, the 27% to 30%?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.

A

Yes. So that includes tax strategies, tax efficiency planning. And really it's the planning plus the base erosion tax, which is a minimum tax. That's only really relevant when you're losing money on a GAAP basis. So as we make more profit, that becomes less of an issue. That's how we go from the 30% to 35%, down to 27% to 30%. But at least over the next two years, that's where we see it.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Mayank Tandon from Needham. So for Brian, Brian, as the mix improves on revenue and you get some of the benefits from accu-shoring, can we expect gross margins to expand and be more in line with the other BPO companies? They tend to run in the mid-30s, and obviously right now, the gross margins are pretty low. What's your expectation longer term?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.

A

As you think about the improvement we're calling in EBITDA margins over the next couple of years through 2020, that's going to come from gross margin. Our SG&A is low at about 10%. We'll see a remix in that, more selling expense less G&A, but the expansion is going to come from gross margin. So as we get to 15.5% at the midpoint, that four point improvement will come from our gross margin.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Great. Thanks.

Q

Hi. Maybe three questions I'll put out there. First is just when you're going up to get new business, could you highlight maybe a public peer that you're going up against the most, so we could help us benchmark who you're winning against or who you're playing against? Second, just on the importance of the revenue growth, how much of it do you think is from M&A and filling the gap of competency you don't have versus just ramping the new sales force? And third, if you could highlight some public transportation deals, I know the MTA came up, Boston came up, what it would take for you guys to win one like that?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Okay. So let me just order this, so that I have the right people responding to it. I'll have Dave respond on transportation. And, Christine, if you could talk about competition in the Commercial sector; Srikanth in Europe; Dave, come back to public sector competition. And I'll take the last one.

David A. Amoriell
President, Conduent, Inc.

A

Start, okay. So, I think your particular example is really around the transit business, right? So, if I look at the transit business, it is going through the transformation as we speak, right? I think you mentioned the MTA deals in New York and Boston. Both of those were kind of the – what we call open payment deals, bank card-enabled deals, right?

We won one of those several years ago, right, with one city that we're getting ready here to deploy shortly. [ph] The shares (02:47:27) are ought to be fully enabled in that bank card system. And that, from our perspective, there's going to be a wave of cities, right? If anybody knows anything about the transit business, they typically keep their existing infrastructure 10, 15 years, 17 years was the amount of money you put in. And at infrastructure, you're going to keep it for that length of the time, right?

So, as we start seeing cities across the globe, because this is a global business, right, start transitioning and get to that point where they got new, new transit systems, we're very confident that that open payment of that bank card-based payment pipeline is going to continue to grow.

We feel very good about it, we feel good about where we're positioned. A lot of the investments I've mentioned on my charts, in my prepared speech were targeted in that direction, right? But we will continue to be disciplined on the deals we go after, right? We will make sure that we've got the appropriate guardrails, right? We'll make sure that we're signing at the appropriate terms and conditions on these very large deals, right.

And one of the things that's made us successful in this space in transit is back to what Ashok said earlier, where typically 75% to 80% of the requirements could be met by the platform that we have. So your risk profile with those deals we have to customize, 20% to 25% is much lower than if I'm going after a deal, and I've got to customize 50% to 60% of the deal, right? Those are the kinds of deals that are higher risk, higher profile which full circle why are we doing the investments we're doing is to build out that base platform set.

So when we're going after a deal in that space, we're not customizing 50%, we're customizing 20%, 25% It allows us from a guardrail and risk profile to feel better about where we are, so we don't get ourselves off that off track in terms of what's there. But long story short, it's the next wave. And as transit agencies' infrastructure, right, get to the point they got to replace, then those deals will continue to fill up the pipeline.

Christine Landry
Group Chief Executive, Consumer & Industrials, Conduent, Inc.

A

Okay. So when it comes to competition in the Commercial sector, look, it really varies by the line of business that we're in. And a couple of pieces we spoke about in our plan today, as you think about Conduent going forward, we're also somewhat changing where we're playing. And so in our core businesses, by service line, we compete against pure plays, we compete against some of the technology and, to your point, earlier, the software companies. I think the differentiating in value that we bring is that end-to-end solution that's all underpinned by technology. Srikanth, anything you want to add from a Europe perspective?

Srikanth Iyengar
Group Chief Executive–Europe, Conduent, Inc.

A

Yeah. I think, along the lines of what Christine said, if you look it by service line, we typically compete with special service line providers. So if you're [indiscernible] (02:50:00) example, you would have the traditionally large F&A providers. In Europe, there are a couple of country-specific providers we tend to compete with.

But I think the thing I want to add is, as we pivot to being a multiservice provider to our clients and go-to platforms, many of the new deals we're bidding tend to cut across service lines. And in those cases, we are finding that we are at an advantage because there are very few competitors who cut across this range of service lines that we do, and so that is helping us in the market at least from European perspective.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

And to the last part of your question, not looking to do inorganic and acquisitions to purely drive revenue growth. So we're not going to buy contracts, any of that. Our focus is going to continue to be on acquiring IP, methodology and technology. Clearly, there are gaps in our offering that has to be plugged. So I would actually – you saw the laundry list of acquisitions all my team wants to do. So we've got to be careful that we balance the fact that we are generating cash, which is burning a hole in the balance sheet versus what the opportunity available out there is, and again, continue to be very focused on making the appropriate balance between the cash on our balance sheet that is burning a hole and the valuation expectation which is, in my opinion, quite out of the whack.

And I think we need to continue to be – we need to continue to beef up our technology IP capability. At the same time, we need to build, if you will, a war chest at the day it starts raining on these so-called software crazily-valued companies, and that I think is not too far away.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Ashok, Mayank Tandon from Needham once again, quick question on RPAs, all the rage these days. Could you talk about how much of that is hype versus real, impacting your business today? And is that more of a threat or an opportunity both from a growth standpoint for you and also from a profitability perspective?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. No, RPA is real. But the thing with RPA is that everybody sort of has jumped on to the bandwagon and believes that robotizing a process, automating that is just something that a tool or a technology can do. It's far from that. It is complex. It requires a significant maturity of understanding the domain, the process, and then – and it has a lot of iterations to it before actually the RPA becomes effective.

So like any industry, [ph] snake (02:52:40) that's being sold, a lot of people have jumped on to that, which I really don't believe they have the benefits. A lot of our clients increasingly began to believe that they could pull this off. It requires a combination of technology, process and domain capability to really make that a success. I would say there's a lot of interest. We signed, I think, in my – I said in my fourth quarter earnings that we did 50 deals on that. But the jury is still out on it as to the timing of the benefits and the consistency of that benefits.

But I think that the only players who will survive this, just like Pratap was making the point about TPAs, the disintermediation is going to be so dramatic and so rapid that there'll be very few people who will really be the experts at any kind of process automation. And I think somebody like us – and I feel very happy about the positioning that I'm in, I should be in a position to be able to really benefit from that given my technology, my process, and my domain capability.

Mayank Tandon
Analyst, Needham & Co. LLC

Q

Thank you. Just another quick follow-up, so should we think about that financially maybe cannibalizing revenue but then it should help your margins because that would be more outcome based?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

No, no. It's not cannibalizing revenue at all. It is actually going to expand the entire market space. If you look at what I'm calling in my presentation a 5% growth rate of the market, that has changed from what I said last time. The market's not gone through any dramatic difference. What's gone through a dramatic difference is my expansion and my adjacencies have gone up because of digital platforms, because of RPA because of the fact that these platforms and these tools have actually expanded me to go into other things.

So I actually believe that – I don't want to comment on employment, but I'm just going to comment on the expansion of the market from a revenue perspective and from a profitability perspective is going to be accretive. Question is timing and consistency.

Mayank Tandon
Analyst, Needham & Co. LLC

A

Thanks.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

It's still not there.

Keith Frances Bachman
Analyst, BMO Capital Markets (United States)

Q

Ashok, can you effectively compete in F&A? Is that a business against Genpact and Accenture that have pretty strong positions?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So the – we compete in that marketplace because...

Keith Frances Bachman
Analyst, BMO Capital Markets (United States)

Q

No, I know. Can you going forward effectively compete in it?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

So, I'm going to hand it over to Pratap who actually – it's part of his portfolio. But let me just quickly respond that the – it is an important part of the overall solution set that we deliver, compete with Accenture and Genpact.

Pratap Sarker
Group Chief Executive, Financial Services & Healthcare, Conduent, Inc.

A

Absolutely. So the F&A story, not just for Conduent but all its predecessor firms, is a very interesting story because in some of the previous organizations that I worked for, seven or eight years back, the assets that we have were significant assets and some of the companies that you name had a tough time competing against the assets that we brought to the table in F&A.

Over a period of time, some of the efficacy of those assets have been reduced. And as part of our technology spend, we are revamping what we do in F&A for our existing clients and the new solutions that we take to the marketplace. An RPA for instance – I know there was a question on RPA and process automation overall is something that the market is looking for and we can deliver.

The second thing we've also done is we've invested in new leadership for the F&A space. So if anything, it's one of our segments that we are actually doubling down our investments. So we have earmarked technology spend, which will benefit our clients, and some of those implementations are being rolled out as we speak. We have a new general manager who is heading the F&A practice. We are building consulting capabilities in our F&A business. And I just think that there's going to be a resurgence of what we have done in the F&A which we haven't done for the past several years.

Q

[indiscernible] (02:56:32-02:56:43)

Pratap Sarker
Group Chief Executive, Financial Services & Healthcare, Conduent, Inc.

A

100%. And all your data points are spot on, right? But I think the one data point that you might want to reflect on is we've had very little customer attrition over the period of time that we've been in the F&A business. We haven't grown, but we've retained the core customer set. And one of the reasons we've retained the core customer sets is a lot of what we do in F&A is more technology-oriented than a lot of what the other competitors do out there. Right?

And once you are there with your technology, the stickiness factor is extremely high. And now, as we are revamping the technology as well as looking for newer partnerships out there, what we offered to not just our existing client base who have not left us and new clients is going to be dramatically different.

And the last point I would like to make is I actually – if we play our cards right, this might be a tremendous opportunity because we are not necessarily tied to any one way of doing things out here. We're willing to make bets which can completely change our positioning in F&A as opposed to trying to milk out everything that we have from what some of the other organizations have done in the past.

Brian Essex
Analyst, Morgan Stanley & Co. LLC

Q

It's Brian Essex from Morgan Stanley again. Ashok, if I could just – maybe just reflect on a couple of things, I mean if we look at the business years ago before you stepped in, there is relatively high customer concentration, the business is underinvested and you've done a great job kind of pivoting the business. What would you say like – when you're looking at your plans going forward, maybe give us a little bit insight in terms of what you anticipate customer concentration to look like now that you're getting rid of some of these businesses, how concentrated will it be?

And then how do you anticipate that to trend over time? I guess with the perspective of, is this transition relying on existing customers, or are you going to ramp this to a whole bunch of – more of a skew towards new business and a more diversified customer base?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So that's a great question from a – especially because I've looked at this very, very carefully, even post divestitures with the numbers that Brian put up, my largest client is going to be 6% of my overall revenue. Number two is that if I look at client concentration, if I look at my top 40 accounts and see where the distribution is, or if I look at how many clients do I have more than $200 million, I have about two of them which are more than $200 million.

If I look at number of clients between $150 million and $200 million, I have 20 of them. And if I look at clients less than $50 million, which are Fortune 100 companies or Fortune 500 companies, I have a significant number of them, which tells me that I have headroom to play.

The other one I look at is service line penetration, and I look at the competitive landscape, and the same client has been doing one service line with me and is not even either aware, she's not aware that I can do other services, or the fact that they are using somebody else for that, it gives me a competitive opportunity. So I am at this point in time not too overly worried about client concentration because I seem to have a fairly widespread client base.

I'm worried about the service line penetration aspect of it, as I said, it's doubled, but it needs to go a long way, and that's a good proxy for me, whether I'm bundling my capabilities, whether I'm actually really doing platform stuff or just selling anything and calling it a platform. So there are multiple elements to that.

And most importantly for me, as I ramp up Europe, as I begin to get to a place where Europe begins to give more than 10% to 11% than it is today, I think I will see a different distribution of clients. And again – my competitive landscape again is also changing with the kind of solution set that I am taking. So I have to be prepared for that, for that aspect as well.

I mean typically if you look at the base of clients that we have. If you look at nomenclature, we call ourselves Commercial & Industrials, that's what Christine runs and Financial Services and Healthcare. And in Commercial & Industrials, our biggest client base is technology companies. I think it's about 30% or 35% of our total book which basically tells me that we need to carve that out and we stop because we were so old, stack and chimney kind of companies that we were dealing with, our mentality is still that. We're now pivoting to a completely different set of clients who have a different set of expectations. So that's going to make the whole profile and concentration very interesting.

I mean we do business with clients who I don't think will exist or industries that will exist in 24 months. So we've got a – so that is more than interesting opportunity because they're going to go transform. They will not exist if they continue the way they are. That's an interesting transformation opportunity. It also tells you – I mean these are blockbuster moments and converting to Netflix. A blockbuster moment moving to Netflix moments and it sound very, very large industries like [ph] payor (03:02:11) I mean, Pratap talked about third-party administration, I think that should have died a long time ago.

Eric Beyrich
Analyst, Arbiter Partners Capital Management LLC

Q

Hi. Eric Beyrich from Arbiter Partners. I have a few questions. First, in the business cycle, typically later in the cycle, you start to see clients ringing your doorbell more than you ringing theirs as they have bigger projects to complete or they need to expand their capacity or become more efficient. First question is, are you seeing that and how is the business evolving with the cycle?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

So, it's a combination of things. The typical cycle of buying is, there – usually you have to go through the RFP route or there's an advisory route. Word of mouth plays a big role. We've gotten very more – we've gotten better in terms of tracking the client executives and we're really now using SFDC. And so, we – and we are progressively pushing our clients, existing clients to give us references, et cetera. So, it's a different thing. But in this business, you have to be the one ringing the doorbell. You can't just be sitting at home with a very fancy asset and say, hopefully somebody will ring the bell. No, [ph] it's the network line (03:03:28).

Eric Beyrich
Analyst, Arbiter Partners Capital Management LLC

Q

Okay. Thank you. The second question has to do with a little bit more on numeric clarity on M&A and targets. We all see the multiples are very, very high for the types of things that you'd like to buy in the U.S., but they're extraordinarily cheap, say, in Europe or other areas in comparison sake. That would lead me to believe, along with your comments with European desire to grow, that most of your acquisitions would tend to be offshore where the math makes more sense. But maybe you could elaborate on just your thought process more about that and so forth?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So, we are not going to categorize this in terms of in the U.S. or outside, because it's a question of talent, it's a question of deployability, it's a question of installed base as well. As you know, I have – we started by working in 60 countries, and we're down – whittled it down to a five. And so, it has to be – I mean, I can't do an acquisition in parts of the world where I cannot – where my clients are not there and I find it difficult to deploy.

Having talked – valuations, you're absolutely right, it resonates with me that they're completely out of whack. Our expectations are not real anymore and I think it'll probably take some time to get real, because the economy is really heating up, and everybody thinks that they have the next best idea.

But we're building the war chest for that day when it begins to rain on that parade. But it'll probably be in the U.S. I mean if I look at one big area I want to do this is the Federal Government space. Clearly, that will have to be a U.S.-based company. If I look at some of the tech capabilities, especially around automation, especially around digital experiences and design, that's all in the U.S., the big names are in U.S. Yes, there are a few Swedish names that have popped up here and there. But the bulk of the innovation is happening here in the space that we are looking at. So, I don't think it's a good idea to start shopping the world, but rather than just wait for sort of real reality to set in in terms of valuation expectations.

Eric Beyrich
Analyst, Arbiter Partners Capital Management LLC

Q

That's very helpful. One last question, what is the skill set or the tools that the clients need most right now? We hear all the buzzwords, but I'm just curious what they really are coming to you or what they really need to develop whether it's a specific trader skill or a transformative component that they're looking for? Thank you.

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. Most of the conversations that I have are about how do you transform – I mean, so they want to know the journey that Conduent has, very short journey, very small journey. I keep reminding them, it's only a year or year and half. And how they can sort of derive lessons from that and what is – what are the technology interventions that they need to do to sort of make themselves current? And I think that seems to be a predominant worry.

And the fact that – like everybody says, I have great technology, I hired a great CIO, I hired a great CTO, et cetera, et cetera, but my operating system is so rigid that none of these technologies can actually make a dent or a change while – and everybody is worried about they would get Uber-ized, Amazon-ized, Airbnb-ized or Blockbuster-ized, Netflix-ized. And everybody is basically worried that their operating model is not current, it's not providing the right kind of experience level, and it's just not even adhering to the regulatory changes.

I mean, data privacy is such a – I mean, GDPR has got probably people on the wrong – more people on the wrong foot than I have ever seen. And this is mad scramble to try and see, so how do I change my operating system or what do I change on reporting site? And these are more than just tweaks, because the install base of the systems and processes is so, so rigid. I mean, even if you look at ourselves, I mean, Carol has been struggling with that to pull out our own stuff and do this in a much more fluid manner, much more flexible fashion, that's a huge problem.

And the fact that they are – and the expectations of their end user is to have an operating model that is sort of customized. I mean, think about it, every person who calls a telecom service provider wants their own customized billings, all of that is possible without having to touch their back end, but it is a huge climb for them. And that's – essentially, those are the kind of conversations where we are coming in.

And we are advantaged in a way, which is why sometimes I wonder why we're sort of bracketed in this whole BPO space. We sit in the middle of and interact with the end user on behalf of our clients as the agent, as well as have the opportunity to look at the client's operating system and influence that based on the feedback from the end user.

And sort of again influence the end user to the tolling example that we gave. I mean, we saw the reaction. I mean, on the SNAP payments, for example, we know that within 30 minutes, $100 billion of payments will be pulled out of the system. I mean, you have the whole month to do it. Now, but as soon as you get the SNAP card, 30 minutes, boom. So, you got to build a system that is – has to be able to handle 100 million transactions in 30 minutes. It doesn't have to last a month. You know what I mean as a comparison?

So, these are operating models, and you're building a monolithic system that can take care of 100 billion transactions over a month, no good. 100 billion transactions, 30 minutes, that's what the change needs to be. So, there are many examples of that, but mostly these are the conversations that I'm having.

Christopher Weldon
Portfolio Manager and Founder, Stamina Capital LLC

Q

Sorry. This is Chris from Stamina Capital. Just one quick question around, when you go-to-market and you don't win the business that you're seeking, what is the main reason for that, is it price, is it not having the right platform, service levels, what would you classify it as?

Ashok Vemuri
Chief Executive Officer & Director, Conduent, Inc.

A

So, two aspects of that. One is, if it's a prospective new client that we don't – have not done business, it could be reputation, it could be pricing, it could be we just didn't understand what the heck they're asking for. If it's an existing client, new business or renewal, it again could be performance, it could be pricing, it could be a whole host of things. And it could be a situation where we don't want that business.

New business, we will only go after if you want that business, so those are clear. But in the renewal, it could be that, apart from the fact that we may have just done a poor job, we don't understand the changing dynamics in that organization, or we just don't want that business. It could be a reason for that.

I mean, specifically, pricing is sort of more or less steady. I'm not seeing any dramatic stuff happening. In terms of the kind of deal structuring, again, we're not seeing anything different. But we are now increasingly coming into the whole digital interactions platform space, whereas a different competitor set, different outcome-based pricing as against the previous pricing, and therefore, the contractual terms and conditions are also a little different. So, we've got to get – so we have to sort of manage the win rate. So we sort of have to address that win rate in light of the fact that we are still coming up to speed on some of these capabilities.

Alan Katz
Senior Vice President-Investor Relations, Conduent, Inc.

A

All right. Well, I think we have one more.

Q

Can you discuss the optimal balance sheet for the company going forward in terms of debt equity? Any potential for buybacks at any point?

Brian Webb-Walsh
Chief Financial Officer & Corporate Vice President, Conduent, Inc.

A

Yeah. So right now, our focus is on paying down debt from the proceeds. We want to keep our leverage in the near-term around 2 churns. And so, it would be two churns or less. We will use free cash flow for M&A in addition to that. And right now, in the near-term, we're not thinking about buyback or dividend.

Alan Katz
Senior Vice President-Investor Relations, Conduent, Inc.

All right. Well, thank you everyone for joining us. We appreciate the time and the questions. Obviously, we have our Innovation Gallery there, so hopefully you have some time to spend and look at some of the offerings that we bring to the market every day. And we know we put a lot of information out today, so feel free to stay in touch and let us know if you have questions or any follow ups. And we look forward to continuing to update you on our progress as we move ahead. Again, thank you very much.

Ashok Vemuri

Chief Executive Officer & Director, Conduent, Inc.

Thank you.