PARTICIPANTS

Corporate Participants

Alan Katz – Vice President, Investor Relations, Conduent, Inc.
Ashok Vemuri – Chief Executive Officer & Director, Conduent, Inc.
Brian Webb-Walsh – Chief Financial Officer & Corporate Vice President, Conduent, Inc.

Other Participants

Shannon S. Cross – Analyst, Cross Research LLC
Brian L. Essex – Analyst, Morgan Stanley & Co. LLC
Frank C. Atkins – Analyst, SunTrust Robinson Humphrey, Inc.
Puneet Jain – Analyst, JPMorgan Securities LLC
Bryan C. Bergin – Analyst, Cowen & Co. LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.
Keith Frances Bachman – Analyst, BMO Capital Markets (United States)

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Conduent's third quarter 2017 earnings conference call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I'd now like to turn the conference over to Alan Katz, Investor Relations. Please go ahead, sir.

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

Good morning, ladies and gentlemen, and welcome to Conduent's third quarter 2017 earnings call. Joining me on today's call is Ashok Vemuri, Conduent's CEO; and Brian Walsh, Conduent's CFO. Following our prepared remarks, we will take your questions.

This call is also being webcast. A copy of the slides used during this call was filed with the SEC this morning and is available for download on the Investor Relations section of the Conduent web site. We will also post the transcript later this week. As many of you would have seen, we've added an Excel-based metric sheet to the Investor Relations section of our web site. Hopefully, you will find this new information helpful.

During this call, Conduent executives may make comments that contain certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 that by their nature address matters that are in the future and are uncertain. These statements reflect management's current beliefs, assumptions and expectations as of today, November 8, 2017, and are subject to a number of factors that may cause actual results to differ materially from those statements. Information concerning these factors is included in Conduent's Annual Report on Form 10-K filed with the SEC.

We do not intend to update these forward-looking statements as a result of new information or future events or developments except as required by law. The information presented today includes non-GAAP financial measures. Because these measures are not calculated in accordance with

U.S. GAAP, they should be viewed in addition to and not as a substitute for the company's reported results prepared in accordance with U.S. GAAP.

For information regarding definitions of our non-GAAP measures and how we use them, as well as limitations as to their usefulness for comparative purposes, please see our press release, which was issued this morning and was furnished to the SEC on Form 8-K.

With that, I will turn the call over to Ashok for his prepared remarks. Ashok?

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

Good morning everyone and thanks for joining our third quarter earnings call. Together with Brian, I'll cover our financial and operational performance and the progress we are making to transform Conduent into a profitable, predictable, sustainable and market-leading enterprise.

On slide 3, we provide an overview of our performance for the quarter. Q3 was a very solid quarter for us with meaningful progress on a number of fronts. While revenue declined 7% compared with third quarter 2016, 40% of this decline was a result of strategic actions taken to improve revenue quality. Examples include exiting unprofitable contracts as well as accounts with limited cross-sell opportunity. We have also ceased operating in defocused geographies and exited segments which do not have clear synergy with our core portfolio.

Excluding strategic actions, the year-over-year revenue decline would have been approximately 4% and sequentially revenue would have been approximately flat. Profitability improved significantly this quarter. Operating margins improved 140 basis points versus a year ago. Adjusted EBITDA increased 11% sequentially and 3% year over year. Adjusted EBITDA margins improved to 11.8% in the quarter, this is up 130 basis points sequentially and 120 basis points year over year.

We also made progress across our go-to-market priorities, landing several high-quality wins and renewing 98% of eligible contracts this quarter. We grew net sales head count for the first time in over 24 months and reorganized our client-facing teams into two companion organizations, one focused on account management and the other on new sales.

Total pipeline was $13 billion at the end of the quarter, growing 9% compared to year ago. Despite this progress, we need to still improve our current revenue trajectory in our core portfolio.

Looking briefly at our key segments. We made great headway on the turnaround of our Commercial business with margins improving 240 basis points sequentially. The majority of this improvement came from better operational delivery, cross-selling, bundling services and increased adoption of outcome-based pricing.

Our Public Sector business remained consistent this quarter, with both revenue and margins down year over year as expected, but flat sequentially. We continue to see attractive opportunities in the Public Sector business, including our transportation and health and human service offerings within the state and local segment. In many ways, Public Sector illustrates the characteristics of our core business model, where technology platform assets are combined with a variety of business services to support a range of digital interactions with the constituents of our clients, in this case the citizens of federal, state and local governments. Later, I will describe this model on a Conduent basis with several more examples.

We also made continued progress with our other segment, where we renewed a sizable Medicaid Management Information System contract with new terms substantially exceeding our return threshold. Lastly, we made steady progress in creating more focus in our business by streamlining

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our portfolio and prioritizing our selling activity around select industry and capability segments, our core.

During the third quarter, we divested five businesses, resulting in $56 million of proceeds, which contributed to an improved cash position. Overall, I'm pleased with our progress for the third quarter. We are right where we expected to be at this point in our transformation journey.

Now, let me share some additional highlights from the quarter. I'm on slide 4. Consistent with what I have done on prior calls, I will share an update on our strategic transformation initiative. This is on track to deliver on our cumulative cost savings target of $700 million by the end of 2018, supported with a robust pipeline of savings initiatives.

Real estate is an area where we have made particularly strong progress. Our annual spend company-wide was around $300 million at the start of the program, and we are on track to substantially exceed our original savings target of $35 million. As we consolidate our footprint around the world, we are aggressively closing sites.

In the third quarter, we closed 24 locations and exited an additional 27 leases. We continued to make progress on overall expenses this quarter with SG&A as a percentage of revenue down to 9.7%, an improvement of 60 basis points compared with Q3 last year. An aggressive adoption of automation technologies, combined with process standardization and more modern work models are combining to help us achieve these kinds of efficiencies.

Headcount also continued to decline year over year to approximately 89,700 employees versus 94,000 in the prior-year period. Note that this was up slightly sequentially as a result of third quarter seasonality related to open enrollment and higher volume in some seasonal industries like retail and travel.

Going forward, we expect continued progress on all of these metrics as we continue to further streamline the company, standardize our operating model, and steadily modernize our solutions for lower delivery costs and a higher overall customer experience.

As I have mentioned on previous calls, our goal over time will be to remix our expense posture towards greater selling activity, where we believe we are under-invested compared to the market. Overall, we are pleased with the progress we are making here and expect to see increasing benefit from this work in subsequent quarters.

Moving on to slide 5. I will cover improvements to our operational approach contributing to our near-term performance, while setting the stage for future growth. This includes work underway to progress our go-to market, technology, infrastructure and delivery model strategies.

Last quarter, I described the way we have reset our go-to market approach around industry verticals to support greater cross-selling opportunities for higher service line penetration and revenue growth. Third quarter saw additional progress, as we achieved net incremental growth to our client-facing teams, as well as rolled out a new coverage model organized around existing account management and as well as new opportunities selling and development. We will continue to focus extensively on mining our rich and diverse client base across our key geographies and sectors, where we believe we have the maximum leverage for deploying our technology-based process capabilities.

The inventorying and rationalization of our extensive portfolio of technology platforms has been a focus since our separation. During the third quarter, we finalized this work and identified the 24 platforms around which we will build our business into the future. Over 60% of our business is delivered from platform-enabled services, and I see room for increasing that moving forward. We have earmarked a considerable investment for additional modernization and competitiveness, particularly around analytics and digitalization.

The highly fragmented structure we inherited included a disjointed IT infrastructure that has impeded productivity and performance as an organization. During the third quarter, we made major strides in centralizing our technology ecosystem, including standardizing our internal systems, investing in tools, and consolidating disparate internal platforms. Collectively, this work is contributing to a more agile, productive, and contemporary work environment.

Finally, given the global nature of our industry and delivery model, we have seen great opportunity to rebalance our workforce management for higher efficiency and utilization. While a third of our delivery team currently sits in low-cost locations, there is opportunity for us to continue to improve our delivery footprint and leverage high-value lower-cost locations over time. Collectively, we believe these actions are contributing to an operating model in line with our business strategy, leaner overall structure, and sharper execution that will support the results we are targeting going forward.

Moving to slide 6, I will share the progress we are making on signings, renewals, and our sales pipeline. We had a range of notable wins and renewals during the third quarter. As examples, in customer experience, we expanded our relationship with one of the largest brands in the travel industry by winning two new three-year deals.

In the healthcare insurance segment space, we expanded our relationship with a very prominent health insurance company to include support for member contract services, like benefit and claim status inquiries. In public sector, we were awarded a contract with a rail operator Trenord and seven other agencies in northern Italy to provide a comprehensive ticketing system that will be used by hundreds of thousands of citizens every day.

In Conduent Europe, we added new work and renewed for five years the cable tech support contract for a large European telco.

Looking at signings, we are down on both a quarterly and year-over-year basis as a result of several factors. First, our new business TCV was down year over year, impacted by two large deals that slipped into the fourth quarter. We have since then successfully converted these in October and are well positioned in terms of new business for the fourth quarter. Our year-over-year renewal TCV was down as a result of fewer renewal opportunities due to the strong renewal activity completed in 2016.

Renewals were exceptionally strong during the third quarter, hitting 98%. This reflects not only continued client satisfaction, but the impact of a higher quality book of revenue, strong account management, and taking advantage of our historically deep and long-tenured client relationships.

We also continued to see healthy demand for our service lines, as evidenced by the growth in our sales pipeline. Total pipeline was approximately $13 billion, up 9% year ago. Public Transit, State & Local, Insurance & Payment Services were segments contributing to our improved pipeline position. We are still early in the deployment of our new go-to-market strategy. And as a result, I am optimistic about the prospects for our pipeline growth as I look ahead to future quarters.

Now let's turn to slide 7 for an update on recent actions we have taken to create more focus in the very diverse portfolio of businesses we inherited post-separation. In the third quarter, we completed the sale of five businesses, one of which we discussed on the last call. These businesses generated $60 million in revenues and $5 million in adjusted EBITDA in the first three quarters of the year. We received $56 million in proceeds from the sale, which we will use to grow the business both organically and inorganically.

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In addition to the $80 million of annualized revenue that we've already divested, we are evaluating an additional $250 million to $500 million of revenue for potential strategic actions in the fourth quarter. This extends our effort to right-size the company along a set of core services and capabilities that we intend to amplify going forward.

The process of streamlining our portfolio is enabling higher focus around businesses we consider core to the future of Conduent. These businesses are well positioned with scalable technology assets and where we see potential for achieving or maintaining market leadership. They are segments where we can differentiate on the basis of our technical, domain, and process expertise. And most importantly, they're in line with a vision for how we create value for our clients, managing and operating digital interactions with the people they serve at massive scale, where each interaction is personalized, secure, compliant, on demand, and on brand, whether it's a payment, disbursement, question, or transaction.

As we transition Conduent to a more verticalized structure, we will build specific bespoke technology solutions, focused on platforms that address specific industry issues, thereby moving away from generic solutions to those with greater industry specialization.

Before I hand over to Brian, I will recap our results with several observations. During third quarter, we gained further traction on our turnaround plan, with early results most visible in our Commercial segment. This is our largest segment and the area where we see the most opportunity to turn the business around. This progress is encouraging, and I look forward to providing additional updates here on future calls.

We grew adjusted operating income and adjusted EBITDA in line with our game plan. We have strengthened our balance sheet by both paying down and lowering the cost of our debt by refinancing our term loan and monetizing non-core assets. This is creating the financial capacity we need to invest back in the business and position ourselves for longer-term growth and margin improvement.

Our investment in technology and automation will allow us to better serve our clients and be more competitive in new business opportunities. And finally, we have the team, resources, and offerings to create a strong position as a best-in-class provider of technology-enabled business service solutions.

With that, Brian will take us through the financials in more detail. I'll then make some brief remarks on the focus of our business and what makes us uniquely positioned to take advantage of the continuing trends towards automation and digitalization. We'll then take some Q&A. Brian?

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

Thank you, Ashok.

Slide 9 provides an overview of the third quarter financial results and a walk through the P&L. As Ashok discussed, revenue of nearly $1.5 billion was down 7.3% as reported and about 7.5% on a constant currency basis compared with Q3 2016. The year-over-year revenue decline was driven by lost business and lower volumes as well as strategic decisions, including the run-off of the student loan business and New York MMIS, not renewing certain unprofitable contracts, and the prior-year government healthcare losses. In the quarter, approximately 40% of the year-over-year revenue decline was the result of these strategic actions. All of these factors were partially offset by the ramp of new business.

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Gross margin was 17.6%, an improvement of 80 basis points versus the prior-year period, reflecting transformation-driven savings and improvements in the other segment. These items were partially offset by dis-synergies, investments, and the impact of the revenue decline.

SG&A declined by $20 million year over year, also driven by strategic transformation, partially offset by corporate dis-synergies and investments. Dis-synergies were approximately $19 million in the quarter and $59 million in the first nine months of the year. Given these trends year-to-date, our full-year estimate for dis-synergies is now approximately $75 million.

Q3 adjusted operating margin of 7.5% improved 140 basis points compared with the prior year, driven by the improvements in gross margin and SG&A. Adjusted EBITDA in the quarter was $174 million, an increase of 3% year over year, while adjusted EBITDA margin improved 120 basis points to 11.8% versus the prior year. This improvement was despite a $3 million impact to adjusted EBITDA from the hurricanes. Adjusted EBITDA growth was driven by the Commercial segment as well as the Other segment.

Moving below the operating margin line, restructuring cost increased by $14 million in the quarter as we continue to close facilities. Restructuring charges have been running slightly above our prior expectations and we now expect this line item to be about $95 million in 2017. In the quarter, we recognized a gain related to the businesses we divested, which resulted in $16 million of income. Our pre-tax income was $13 million, $11 million better year over year, driven by the increase in operating income, lower separation costs, the gain on sale divestitures, partially offset by higher interest expense and restructuring costs.

GAAP net loss in the quarter was $17 million or $0.09 per share driven by the tax impact from the termination of our deferred compensation plan. As we discussed in our 8-K filed on October 4, the company made a decision to terminate its deferred compensation plan. This resulted in a one-time tax impact this year, but we expect we'll have future cash flow benefits.

Our adjusted tax rate in the quarter was 36.8% compared to 39.5% in the prior-year period. Adjusted net income was $48 million, a decline of $4 million compared with the prior-year period, as operating margin expansion was offset by higher interest expense. Adjusted EPS was $0.22 in Q3, an increase of $0.06 sequentially, but declined modestly year over year given higher interest expense.

Turning to slide 10, we'll provide an overview of Commercial segment results. Q3 revenue declined 6% compared with Q3 last year, impacted by strategic actions, lost business and lower volumes from existing clients. Approximately 25% of the year-over-year revenue decline in this segment was strategic.

Segment profit grew 26% year over year, driven by cost improvements from strategic transformation and the impact from our customer experience contract remediation efforts. Year-to-date, this service offering is still operating at a negative margin, primarily due to the handful of large relationships highlighted last quarter.

However, we successfully remediated two of those contracts since the last earnings call and we expect this to continue to benefit us in Q4 and beyond. Segment margin improved 150 basis points compared with Q3 2016. Adjusted EBITDA increased 9% versus the prior-year period and adjusted EBITDA margin increased 160 basis points.

We were very pleased with the improvement we saw in the Commercial segment results during Q3, which was the product of the hard work from the operational teams and progress on our strategic transformation. We'll continue to work as quickly as possible to improve profitability in this segment, while positioning and investing in the business for future growth.

Now, on to the Public Sector segment results on slide 11. Revenue was as expected, flat sequentially. Compared with Q3 2016, revenues declined 8%, of which about 20% was strategic. In Q3, we continued to feel the impact of prior year's strategic decisions at our government healthcare business, which is contributing to the revenue decline.

In addition, top line is being impacted by lost business in state and local and payments. Trends in our transportation business were stable, with revenue increasing sequentially, although declining modestly year over year, as growth in transit and photo and parking was more than offset by a decline in our tolling business.

Segment profit and adjusted EBTIDA were down $19 million and $22 million respectively compared with Q3 2016 driven by the revenue decline, dis-synergies and investments in our core offerings.

Moving on to slide 12, I'll provide an overview of the other segment. Revenue within our other segment was $76 million in the quarter, a decline of 15% versus the prior-year period. This was largely driven by the New York MMIS contract, which declined by $13 million. Our discussions with our client for the New York MMIS contract have progressed and we have reached a preliminary agreement. We will provide an update once we have a final agreement signed by all parties.

We have remained diligent in our efforts to improve profitability in this segment, which has led to this business being nearly breakeven in the quarter, a $22 million improvement year over year. This improvement was driven by both the Health Enterprise and Education businesses. The Education business, which includes the student loan portfolio, made an adjusted profit of approximately $3 million, and the Health Enterprise business lost approximately $4 million in the quarter.

During Q3, we also successfully finalized a large MMIS extension. This deal extension was completed within our profitability requirements and the new terms of the relationship have taken effect in Q4, improving profitability moving forward.

Slide 13 provides an overview of our cash flow in Q3 and year-to-date. Cash flow from operations was $104 million in Q3 and $65 million year-to-date. Free cash flow was $73 million in the quarter, although remains a usage of approximately $1 million year-to-date. Through the third quarter, this is over and $150 million improvement year over year on free cash flow. We still expect our full year free cash flow to fall within our prior guidance range of 20% to 30% of adjusted EBITDA or approximately $130 million to $200 million. This will be driven by a strong Q4 which is in line with our typical seasonality.

CapEx in the quarter was $31 million and $83 million year-to-date. We would still expect CapEx to be around 2% of revenue for the year. Cash flow from investing was $141 million in the quarter, largely due to the inflow of $56 million from divestitures and $116 million from the termination of the deferred compensation plan.

I want to highlight that the proceeds generated from the termination of our deferred compensation plan will be disbursed to employees primarily in 2018. This will ultimately flow through our operating cash flow which was not contemplated in our prior free cash flow guidance and will be adjusted out accordingly.

Turning to slide 14, I'll provide an update on our capital structure. During Q3, cash excluding the $116 million in proceeds from the deferred compensation plan, increased $43 million in quarter over quarter. We also fully repaid our revolver, which had an outstanding balance of $70 million at the end of June.

Our treasury team, again, opportunistically repriced our Term Loan B, which was completed in October. The repricing resulted in a 100 basis point reduction in the interest spread. With the second repricing, we have now reduced our interest spread by 250 basis points since the start of the year. While the most recent repricing will not have a major impact in Q4, it will result in more meaningful annual interest savings beginning in 2018. Given improvement in our adjusted EBITDA, pay down of the revolver and growth in our cash balance, our adjusted net leverage ratio is approaching our target of less than 2.5 turns and currently stands at 2.6 turns.

Moving on to slide 15, before I close, I want to discuss our 2017 guidance which reflects the Q4 impact of the completed divestitures. We still expect 2017 revenue to decline between 4.5% and 6.5% in constant currency for the year versus GAAP revenue of $6.4 billion in 2016. However, given the trends to date and the impact of the divestitures, we would expect it to be in the lower end of the range. Given the same factors, we now expect the adjusted EBITDA to grow about 5%. We estimate that the Q4 impact from the divestitures combined with the impact from the hurricanes had about a 1% impact on adjusted EBITDA growth.

Finally, as I mentioned earlier, our free cash flow is expected to be 20% to 30% of adjusted EBITDA. As Ashok mentioned earlier, we are making progress on our core versus non-core work and are aiming to divest an additional $250 million to $500 million of revenue in the near term, in addition to the roughly $80 million completed in Q3.

Through these portfolio actions, we believe we will strengthen our core business and position the company to achieve our long term targets of revenue growth in the mid-single digits and an adjusted EBITDA margin in the mid-teens.

Before we take your questions, I will now turn the call back to Ashok for some additional remarks.

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

Thank you, Brian. Before we wrap up, I'll spend a few minutes to present a more distilled picture of our company, our offerings, and how we are positioned in our clients' value chain. Hopefully, this provides some context for our broad portfolio and illustrates the role of technology in our business model.

As you can see on slide 17, we are an essential participant in the value chain of our clients. Across a range of industries and service situations, we are the interface with the people they serve, whether they are patients, employees, citizens, doctors, or insurance members. We work on behalf of our clients to manage data-intensive, repeatable, individualized interactions happening at massive scale. Our service offerings are delivered through a combination of technology platforms bundled with a range of complementary business services, covering all stages of end user interaction, from enrollment to transaction processing, from account management to customer care.

To gain an appreciation for the scope and scale of our business, here are some reference points. We manage approximately 50% of the automated tolling systems in the U.S. We manage customer care interactions for some of the largest telecom, healthcare, and auto manufacturing brands in the world. We process over 50% of the workers compensation claims in the U.S.
We manage the funding for a range of government payment programs across the country, ensuring approximately $100 billion is provided to citizens for their benefit every year. And we provide full HR outsourcing and benefit administration to some of the largest companies in the Fortune 500 list.

Together, our deep client base, broad offering portfolio, and decades-long operating history provide the basis for our bold ambition to become an industry leader. We are a partner with some of the largest and most valuable companies in the world and manage essential aspects of their operations while interfacing directly with the people they serve.

Looking at the bottom layer of this diagram is our technology and platform solutions that support over two-thirds of our revenue. Some examples of our technology platforms include: BlitzDocs, our

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award-winning mortgage processing platform providing a quicker and more secure way to process home loans; BenefitWallet, our next-generation product for employers, health administrators, and consumers to manage multiple health accounts on one integrated platform; Life@Work portal, our HR portal solution that integrates multiple HR data sources for a personalized employee experience; Strataware, our workers compensation medical bill review platform supporting approximately 40% of all U.S. workers compensation claims; Merge Parking Management System, which makes it easier for cities to manage transportation, processing instant information for on-street and off-street parking spaces; Vector, our technology behind our ability to rapidly design and deliver electronic toll collection solutions; Midas, used in over 2,200 U.S. hospitals, helping organizations manage, measure, monitor, and improve both clinical and financial outcomes; and lastly, our Maven disease surveillance and outbreak management solution, which is used by multiple states and cities in the U.S. and internationally.

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 and investors. While there is clearly more work to do, we've made significant progress, and we will continue to drive all the necessary changes to achieve our company's vision.

I am committed to seeing through our work to create an industry leader and over time a great company. I'm fortunate to have the support of all our stakeholders supporting our transformation, and the opportunity to lead this organization is exciting and dynamic on many levels. I look forward to sharing the progress with you for many more quarters to come.

With that, let's open up the call for Q&A.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And our first question today will come from Shannon Cross of Cross Research.

<Q – Shannon Cross – Cross Research LLC>: Thank you very much. Ashok, maybe you could follow up on what you just – you commented about your commitment to the company and address some of the news articles that have been out there related to the CEO opening at Infosys. I don't know perhaps how you think about the opportunity at Conduent, just anything more you can give to comfort investors' concerns.

<A – Ashok Vemuri – Conduent, Inc.>: Yes, I'll do that, and first of all thank you for the question, Shannon. It gives me the opportunity I think to clear the air a little bit. So I want to emphatically state that I am committed to Conduent, our clients, employees, and shareholders. We are in the midst of a very exciting transformation journey that is progressing well, and I have the support of my clients, my board, and my team.

This, as you all know, is a multiple-year journey, and I intend to see that to completion. I'm committed to building Conduent that is an industry-leading, profitable, and market-leading enterprise that will be sustainable over many years. I intend to be part of that journey for years to come and cannot think of a more exciting and professionally satisfying place to be than here. Given the above, whenever I have been approached for an assignment such as you described, I have not engaged and rejected any such overture. As far as I am concerned, that is the end of that.

<Q – Shannon Cross – Cross Research LLC>: Thank you, that should clear the air. And I guess just one follow-up question. Just talking about some of the remediation of the contracts that are out there right now, you remediated two during the quarter. I'm curious as to what the conversations are like with the customers, how you're thinking about margin potential on some of these contracts that have been challenged, and sort of the scale of how they're re-signing them. Are they smaller contracts? Are you just able to basically say look, we can't do this unless you give us more margin? Just how is that working? Thank you.

<A – Brian Walsh – Conduent, Inc.>: Good morning, Shannon. It's Brian. We had been working a number of contracts over the last year that were smaller. What we talked about last quarter was having a handful of large contracts that still needed to be remediated and we made progress in the quarter in Q3 on two of those. And so they're larger client relationships. And then in addition in the other segment, we made progress on MMIS contract. In the discussions with the clients, we need to meet our profitability requirements or we need an exit plan. And that's kind of how we're framing the discussions when the contracts are losing money

<Q – Shannon Cross – Cross Research LLC>: And the customers are willing to, for the most part, accept your terms and move forward or are you seeing a lot of pushback?

<A – Brian Walsh – Conduent, Inc.>: So in some of the smaller discussions, there is some pushback and that's part of some of the strategic actions we've taken. But in the recent discussions, they've been going well and we'll see how they progress. But obviously, there is sometimes pushback. But in general, clients that view as a strategic want us to be their partner going forward, will work with us, in general they understand that a company needs to make some money on a contract, and so the discussions have been going fairly well.

<Q – Shannon Cross – Cross Research LLC>: Great, thank you very much.

Operator: The next question will come from Brian Essex of Morgan Stanley.

<Q – Brian Essex – Morgan Stanley & Co. LLC>: Hi. Good morning and thank you for taking the question. Brian, a quick question for you. You guys are starting to build up some cash on the balance sheet. I just wanted to get a better understanding of how much cash do you need to run the company, how much is restricted, and how might we anticipate the prioritization of that cash, whether it'd be for utilization of M&A or pay down of debt going forward?

<A – Brian Walsh – Conduent, Inc.>: Hey, Brian. So of the $468 million that we have on the balance sheet at the end of the quarter, $116 million is related to the deferred comp plan. We're going to pay $50 million out to employees in Q4 and $101 million will be paid out next year to employees related to the termination of that plan. That is all restricted.

In addition, there is about $25 million more that's restricted related to that plan, that once we make the final payment that will free up for corporate purposes, so that's pretty much all of the restricted cash. When we think about what we need to run the company, we probably need $200 million to $250 million balance to deal with working capital fluctuations and to deal with the international requirements we have to fund our operations overseas, so that's the cash balance we would look to target.

Obviously, we want to continue to make progress in getting to our leverage ratio target of under 2.5 turns, which we're nearly there. But that's how we view the cash needs of the company. And then the rest of it's available to invest into the business and we've said we would use our free cash flow to invest in the business with acquiring companies. And then we've also said proceeds from divestitures would be used to invest in the business or opportunistically to pay down debt, and our view hasn't changed on that.

<Q – Brian Essex – Morgan Stanley & Co. LLC>: Got it. And then, you reached a preliminary agreement for the New York MMIS contract, and I understand you accrued for some liability there. What do you anticipate might be the cash impact from the exit of that agreement?

<A – Brian Walsh – Conduent, Inc.>: The cash impact is anticipated to be $20 million, and about half of it will be spread between Q4 and Q1. And then the other half of it will be spread over five years, assuming we finalized the agreement.

<Q – Brian Essex – Morgan Stanley & Co. LLC>: Okay. That's very helpful. Thank you.

Operator: And the next question comes from Frank Atkins of SunTrust.

<Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.>: Thank you very much. I wanted to ask a little bit about the pipeline. How much of that is industry-specific or kind of higher value-added work, and what are you doing to maintain discipline on profitability in that pipeline?

<A – Ashok Vemuri – Conduent, Inc.>: So our pipeline, we verticalized the company about a couple of quarters ago. That verticalization is actually helping us create more industry-specific solutions, tailor our platforms and our capabilities in addressing some of these problems. So if I take, for example, in financial services, our compliance business is finding great traction.

I would – you know, to your question, I would probably say about 30% of the pipeline is of a higher value chain order. Clearly, we are not yet in the higher end of the analytics space. We're still doing the process work on that. But if I look at automation, for example, we signed 50 RPA deals, of which 20 were with net new clients. So that's a huge progress and where I think more and more of the deals that we will get in the future will be RPA oriented, which is sort of distinct from labor kind of deals.

So I continue to stay fairly satisfied with the way the deal pipeline is shaping out in terms of both the value, both the tenor and the value that we're delivering to the clients. And I think some of that is becoming a pattern, albeit in a small way with the results that we have in the commercial segment, this quarter.

<Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.>: Okay, great. That's helpful. And so my follow up, I wanted to ask kind of a status update and some actions you're taking in terms of your global delivery engine, the mix of offshore versus on-site capacity. Can you comment there?

<A – Ashok Vemuri – Conduent, Inc.>: So from where we started earlier this year, I think we've made significant progress on that, albeit I think it's important to point out that as compared to some of our competitors, we are little behind. So today, I would say a third of our delivery gets done from global centers. We intend to increase that. We've increased that from about 20% to 33% now, but we intend to increase that more.

Of course, we are impeded by the public sector business, which does not provide us the opportunity to use the global delivery model as aggressively as we can do for the commercial sector. We've clearly identified the Philippines, India, Jamaica and Guatemala as our global delivery hubs, and that's where we intend to not only deliver services to our clients, but also sort of consume if you will our own services from those centers, which at this point in time are sort of concentrated in the U.S. So, both on what we do for ourselves and how we deliver to our clients, we will be using the global delivery model much more aggressively.

<Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.>: All right. Great, thank you very much.

Operator: And the next question comes from Puneet Jain of JPMorgan.

<Q – Puneet Jain – JPMorgan Securities LLC>: Yes. Hi, thanks for taking my question. So Ashok, like lot of software vendors like Oracle, Salesforce are including AI based chatbots in their core solution. So what does that mean for Conduent's customer care business? Does it reduce the addressable market or increase adoption rate?

<A – Ashok Vemuri – Conduent, Inc.>: Yes, so Puneet, as I was mentioning earlier, if you look at the sizable deals that we have done in the past two quarters, significant number of M&A, I pointed out 50 of the new deals that we did in the third quarter were actually RPA based. So in terms of the improvement in performance of the entire customer experience value chain, some of it is remediation to the point Brian was making, but remediation also needs to be driven by a lot more technology.

So we are talking about replacing, if you will, people on the seats with bots on the seat, if you – you know, from a technology perspective. So clearly, when we go in for remediation and ask for an improved yield on the deals we are doing with our clients, they have the same expectation. So it's either a higher degree of efficiency, a higher degree of productivity. All of that only can be achieved by deploying any kind of technology, whether it's robotics, whether it's chatbots, because a significant amount of our customer experience business is chat – is Web-enabled support, et cetera, and not just picking up the phones.

So even on picking up the phones and the voice part of it, we are using a significant amount of AI. We're using – we've created a lab both in the U.S. as well as in Bangalore, India, which is focused on this particular aspect of the business. So my view of the customer care business is twofold. One is we need to go back and remediate with our clients the kind of contracts that we have, the terms and conditions that we have therein, but also drive a higher degree of efficiency and productivity through automation, through robotics, through AI.

Now, what it will do in the short term is that it will have an impact in terms of my labor number. But I do not think it will have an impact on my revenue number and definitely it will have a very positive

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impact on my profitability. So we are all in. Some of the names that you have mentioned are people that we are talking to. This is a very large ecosystem. We do not pretend to have all the answers or be able to create that level of technology competence within, but we are fortunate that we have a significant number of players who are willing to partner with us, not only the names that you've mentioned but also other companies, much smaller in size but with technology jobs that are much superior to us.

<Q – Puneet Jain – JPMorgan Securities LLC>: Got it. And divestiture target obviously increased, and you intend to deploy cash in strategic acquisition. But as the run rate for divestiture increase, can you acquire fast enough to replace EBITDA and revenue impact from divestitures next year?

<A – Brian Walsh – Conduent, Inc.>: So, the timing – there will be a timing difference, and we will work acquisitions as quickly as we can, but they also has to be the right fit and has to be based on what's out in the market. So there could definitely be a timing issue. But it is part of our 2018 plan to acquire companies. We continue again to, we'll use cash that we generate, the free cash flow for that and proceeds from divestitures will be used for that or to opportunistically pay down debt, and the timing will be gated on what's available and what the opportunities are.

<Q – Puneet Jain – JPMorgan Securities LLC>: Got it. Thank you.

Operator: And our next question comes from Bryan Bergin of Cowen.

<Q – Bryan Bergin – Cowen & Co. LLC>: Hi, guys. Thank you. I wanted to start on cost take-up progress. Can you detail how the year-over-year improvement is spread across your various categories? And then relative to your plan, any positive surprises or more challenging areas anticipated as you start to think about 2018?

<A – Brian Walsh – Conduent, Inc.>: Yes, so the $430 million is on track for this year, and that's cumulative savings and $210 million incremental year over year. The parts that are more positive, as we mentioned, was real estate. That was originally around a $35 million target, and we'll overachieve that significantly. We've talked about customer care, customer experience remediation taking longer and not yielding as much this year. And although we're making progress, that is still true given where we are in the year. A lot of the impact will be in Q4 and beyond.

So a lot of work this year around G&A and the support functions, that's driving a lot of incremental year-over-year benefit and real estate. Those would be the two areas I'd call out. IT, we're making some progress, but a lot of those benefits will come next year, given the Europe transition, and there's a lot of transformation happening in the IT space.

<Q – Bryan Bergin – Cowen & Co. LLC>: Okay. Thanks, Brian. And then can you just clarify on the guidance metrics for 2017, just as it relates to the dispositions and the 1% change on EBITDA versus – and revenue? Thanks.

<A – Brian Walsh – Conduent, Inc.>: Sure. So on revenue, again, we're sticking with the 4.5% to 6.5% decline. But given trends to date and the impact of the Q4 divestitures, the divestitures being out of Q4, we're guiding to the lower end of that range. On adjusted EBITDA, about 5% growth is the guidance, and there's a $2 million impact in Q4 from not having those divested businesses any longer. And then we had the $3 million impact from the hurricane in Q3. If it weren't for those two items, we'd be at the higher end of our original range, and so that's why we're calling about 5%.

<Q – Bryan Bergin – Cowen & Co. LLC>: Okay, thank you.

Operator: And next, we have a question from Jim Suva of Citi.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thanks very much, Brian and Ashok. Could you maybe help me better understand or bridge the difference between total pipeline seemed to meaningfully increase, yet total signed contract value, even if you adjust for the contract that has slipped into Q4 for closing, it still looks like it's down meaningfully year over year and quarter over quarter. How should we think about that? And was the $200 million the combination of both of those contracts or $200 million each?

<A – Brian Walsh – Conduent, Inc.>: Yes, so the $200 million was in total new business TCV for two contracts. We're making progress on our sales transformation. This was the first quarter we actually increased the number of salespeople we have. We're also doing a lot of work to clean up that pipeline and to progress the pipeline. So we had decent new business progress in the first half of the year.

The third quarter was a little bit light because we had these two deals slip, but we expect a strong Q4, and those two deals are now signed. But there's been a lot of work to realign the sales force in industry verticals, and we've finally made progress in actually incrementing the number of sales people we have. So we feel comfortable where we are with the sales transition, and it was just a light quarter given the two deals.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Okay. Then a quick follow-up is, you mentioned you increased your head count, but I thought I heard seasonal. So was that increase purely due to seasonal such as open enrollment and seasonal trends, or was it due to increased total signings in new business?

<A – Ashok Vemuri – Conduent, Inc.>: So two things, one is that the overall head count for the company on a sequential basis went up because of seasonal business like enrollment as well as the travel and retail industry. I think what Brian was pointing out more specifically and one we are excited is about finally is our net sales head count, that is both net new salespeople as well as engagement management team has for the first time in 24 months become positive. So we are much more excited about that.

We are also ramping up in anticipation for the deals that will happen in Q4, again around enrollment as well as around the travel and hospitality industry. But what is most exciting for us is that our net head sales count, both on the sales side as well as the client engagement side, has gone up.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Great. Now I fully understand it and thank you so much for the details and clarification, much appreciated.

<A – Ashok Vemuri – Conduent, Inc.>: Thank you.

Operator: And next, we have a question from Keith Bachman of Bank of Montreal.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Hi, thank you, and I apologize for the background noise. I'm over in Europe today. I had a question on revenues, particularly for calendar year 2018. I was hoping you could at least provide some directional metrics associated with it.

And I break it down in a couple of different areas, A), organic revenue, what do you think your base business – can it be a positive number? B), I assume that you're going to have what you call strategic actions, where effectively you're going to continue to walk away from business you can't make profitable because presumably some of these deals will come up in calendar year 2018 as well as 2017. Is that going to be an impact in 2018?

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And then the last question is the net between divestitures and M&A, if you could just – I didn't quite hear the number about what the impact of that's going to be in calendar 2018. And then I have a follow-up. Thank you.

<A – Ashok Vemuri – Conduent, Inc.>: Yes, so, Keith, directionally we feel good about our positioning and the transformation program that we've embarked on, which is not just about cost saving, but reorienting the way that we go to market, the capabilities we build, the kind of solutions that we sell into the market. I believe we are on track.

As is typical, we intend to provide the official 2018 guidance on our Q4 earnings call in February. But having said that, that's also a result of some of the things that you mentioned. There will be an impact as a result of the transactions that we close out in the short term. It will be impacted by some of the decisions that we will take, especially around long tail and strategic decisions around deals that we do not want to entertain as and when they come up for renewal.

But keeping in mind all of these portfolio actions which are part of our plan, they are back into our expectations. We believe that our longer-term targets that we have established remain unchanged, but we will give a much more clearer picture as we come into our Q4 earnings call in February.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Okay. But just to be clear, there will probably be strategic actions that impact top line growth is a fair assumption that we're assuming for calendar year 2018 as well?

<A – Brian Walsh – Conduent, Inc.>: So clearly anything we divest will impact us. And as we go through contract remediation, if there are decisions we take to exit, there will be impacts. Some of that's been contemplated in our modeling. And again, we're getting to the point where a lot of those discussions are getting behind us and we're making progress, but we have to see how the rest of them go.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Okay. And then my follow-up and then I'll cede the floor is – excuse me, on the previous comments surrounding EBITDA growth, making these decisions to get out of business that I think is entirely appropriate. But we'd have to adjust our EBITDA assumptions for next year for calendar year 2018. So the growth potential as you said, there's going to be a timing difference between M&A and perhaps disposition, so probably have to adjust that down I would assume? And that's it for me. And again, I apologize for the background noise.

<A – Brian Walsh – Conduent, Inc.>: Yes, and so for the transactions completed to-date, the EBITDA impact, if you trend it out is $7 million. And again, we said a $2 million of an impact in Q4 and that's on revenue of about $80 million. If you turn the revenue out, so it's about an 8.5%, 8.7% EBITDA margin, which is lower than the company average.

So those are the transactions to-date, as we progress the additional transactions we're working, as we are closer to having final deals and complete transactions, we'll give those impacts. And there will be a timing difference and we'll start to look at the business with and without those transactions and show you both views when we get into 2018.

<Q – Keith Bachman – BMO Capital Markets (United States)>: Okay, fair enough. Many thanks.

Operator: And this concludes our question-and-answer session. I'd like to turn the conference back over to Ashok Vemuri for any closing remarks.

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

Yes, thank you. And thank you everybody for joining us for the Q3 call. I would actually characterize our Q3 journey to be a fairly exciting. I'm very pleased with the performance on our commercial business. We've seen our cross-selling service line penetration metric really improve. The fact that we were able to close out contract remediations with two of our very large clients in a sort of a troubled service sector, service segment excuse me, has been very gratifying. We signed quality deals, albeit two slipped over into Q4 signings, these are substantially large, and we are excited that we were able to close that.

We've made significant progress on our strategic transformation; we highlighted real estate. I'm finally glad that we've got our sales and engagement team in place. Obviously, that number will only increase as we go forward and as we redefine and implement our go-to-market strategy.

Divestments, and we talk a lot about divestments, but we want to now start talking more about amplifying our core, because we don't want not only tell you the business we don't want to be in, but also talk a little about the amplification of the businesses that we believe we are in.

So with that, being a satisfying quarter and I'm happy that I was able to clear the air about myself, so I think which could have been a distraction. But thank you again very much for joining us on this call and hope to see you and talk to you in the quarter. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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