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# Conduent, Inc. (CNDT)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

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## OTHER PARTICIPANTS

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**Christopher J. Sakai**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to the Conduent Q1 2025 Earnings Conference Call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, David Chen, VP of Investor Relations. Thank you. You may begin.

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**David Chen**

*Investor Relations Contact, Conduent, Inc.*

Thank you, operator. And thanks, everyone, for joining us today to discuss Conduent's first quarter 2025 earnings. I'm joined today by Cliff Skelton, our President and CEO; and Giles Goodburn, our CFO. This call is being webcast and a copy of the slides used during this call as well as the press release were filed with the SEC this morning on Form 8-K. This information as well as the detailed financial metrics package are available on the Investor Relations section of the Conduent website.

During this call, we may make statements that are forward looking. These forward-looking statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially from those statements. Information concerning these factors is included in Conduent's Annual Report on Form 10-K filed with the SEC. We do not intend to update these forward-looking statements as a result of new information or future events or developments except as required by law.

The information presented today includes non-GAAP financial measures because these measures are not calculated in accordance with US GAAP, they should be viewed in addition to and not as a substitute for the company's reported results. For more information regarding definitions of our non-GAAP measures and how we use them as well as the limitations to their usefulness for comparative purposes, please see our press release.

And now I would like to turn the call over to Cliff.

## Clifford A. Skelton

*President, Chief Executive Officer & Director, Conduent, Inc.*

Thank you, David. You've just heard a new voice in David Chen, our new Head of Investor Relations. David has been with the company for a few years and also heads up our mergers and acquisitions team. Given the continuation of our portfolio rationalization efforts, we thought a strong connection between M&A and IR was important. So, welcome, David.

Now, as you can tell already, you will also hear the voice of Giles Goodburn, our former Head of IR and FP&A, who now succeeds Steve Wood as our Chief Financial Officer. Steve has done a great work over the last four years, has been a critical confidant to me and has been preparing Giles for this position along the way as his successor. I'd like to thank Steve for his hard work, wise counsel and strong leadership as he moves on to another phase in his career. As always, I'll preface the quarter. Turn over to Giles for the detailed numbers and I'll close with some strategic thinking on why we feel optimistic in what some may call uncertain times.

Let me start by saying Q1 represented a strong start to the year for us. We feel good about the adjusted revenue print of \$751 million and particularly good about adjusted EBITDA and EBITDA margin of \$37 million and 4.9% respectively. Nevertheless, we need to keep the pedal down in Q2 to meet those first-half-revenue expectations we laid out last quarter. We remain optimistic and still see Conduent achieving those guidance numbers and our 2025 exit rate metrics.

New business signings were improved year on year and we're expecting a relatively strong Q2 in sales. The good news is that while many suffered through macroeconomic uncertainty and the known and unknown effects of tariffs, we feel somewhat fortunate not to feel most of those headwinds. We only have one business, transportation, where we have very slight exposure to tariffs regarding equipment sales and implementations, but for the most part we are insulated. Of equal or more importance is the fact that while government efficiency efforts may create headwinds for some, despite what may be the perception in the market, we see far more opportunity on the horizon given that nearly all of our government business is conducted at the state and local level and some of the federal entitlement push down efforts like Medicaid and SNAP fraud reduction expectations play well for us as we roll out new and improved fraud prevention capabilities. We'll talk about that here in just a few minutes.

Now, for the past two years, we've discussed the character of the company as one of significant breadth. With breadth of products, services, industries and public versus commercial segments comes higher cost in the center, management bandwidth consumption and higher technology costs. We've consistently stated that a comparison of scarcity value on the outside versus synergy and growth opportunities on the inside will help us craft our portfolio rationalization plan. We've said that the rationalization efforts will allow for accelerated growth and use of proceeds that can reduce debt, increase profitability and/or free up cash and capital for other efforts such as share buybacks, and in our case, buying out our activist shareholder.

Over the past six months, we've considered where we are in the journey and concluded there are more assets to adjudicate and the cost in the center can come down coincident with running the company in a more segmented way.

Let's turn to slide 5 and talk about what we have done. We completed three divestitures in 2024, generating nearly \$800 million of net proceeds. We said we would deploy roughly \$1 billion and 85% of that target is complete, resulting in \$639 million less debt and 61 million shares repurchased. Yet still, we believe there's more

to do in 2025. We've targeted assets we think will generate another \$350 million of proceeds, then surpassing our \$1 billion target. Importantly, it's the capital deployment and the reduction in growth impediments that will add real value. While these potential rationalized assets would benefit greatly from the scale and synergies outside of Conduent, when the dust settles, we'll be in a far more opportunistic place.

Slide 6 depicts that transformation journey where we land on an optimized portfolio, two operating units serving different markets, a thin center with a strong balance sheet and positive growth. Meanwhile, in a minute, I'll describe why I'm excited about where we're doubling down with respect to talent, portfolio growth opportunities and proof points for the future.

But first, let me turn it over to Giles for the numbers. Giles?

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## Giles Goodburn

*Chief Financial Officer, Conduent, Inc.*

Thanks, Cliff. As we have done in the past, we are reporting both GAAP and non-GAAP numbers. The reconciliations are in our filings and in the appendix of the presentation. Let's discuss our key sales metrics on slide 7 and 8.

We had a stronger start to the year in 2025 than we did in 2024 with first quarter new business ACV up 14% versus the prior year at \$109 million. And with Q2 shaping up strongly, we expect to be well positioned at the midpoint of the year. In the quarter, we signed 10 new logos and expanded relationships with 20 existing clients through new capability sales. Government ACV was up sequentially again this quarter and we believe this trend will continue in Q2. New business TCV was up 96% versus the prior year at \$280 million with approximately one-third of that TCV being generated by an eight year deal in our international transit business with our client in Lima, Peru, which also helped drive the average contract length up to 4.2 years for the quarter. The net ARR activity metric, our combined measure of wins, losses, pricing effects and other contractual changes was positive and sequentially higher again this quarter at \$116 million.

Our qualified ACV pipeline remains strong at \$3.2 billion, which is up 16% year over year and 3% since the beginning of 2025. Both our Government and Commercial segments have grown their qualified ACV pipeline significantly over the last 12 months, positioning us well to hit our growth targets in the near term.

Let's turn to slide 9 and review our Q1 2025 P&L metrics. Adjusted revenue for Q1 2025 was \$751 million compared to \$821 million in Q1 2024, down 8.5% year over year. This was predominantly driven by our Government segment, which we foreshadowed in Q4 earnings and I'll discuss in more detail in a moment. Adjusted EBITDA for the quarter was \$37 million as compared to \$36 million in Q1 2024. And our adjusted EBITDA margin of 4.9% is up 50 basis points year over year and sequentially higher versus Q4 2024. There were an unusually high number of one-time items in the quarter which on a net basis and due to the mix of items drove almost 0.5 point of deterioration in revenue, but had a positive impact on adjusted EBITDA margin of almost 1 point.

Let's turn to slide 10 and review the segment results. For Q1 2025, Commercial segment adjusted revenue was \$402 million, down 4.1% as compared to Q1 2024. New business continues to outpace lost business in this segment. However, we are experiencing some volume degradation in our largest commercial client, which is driving revenues lower. We previously announced the decision to add around 2,500 additional seats of capacity in some of our offshore delivery centers, which go live later this quarter. To date, we have increased approximately 1,500 revenue generating seats in these geographies to fill some of that capacity. Adjusted EBITDA was down 11% year over year and adjusted EBITDA margin of 10% was down 70 basis points year over year. The drivers

here were lower revenue, higher usage of central technology costs as well as some residual impact of stranded cost as we complete the transition of the casualty claims business to the buyer.

Government segment adjusted revenue for the quarter was down 16% at \$216 million. Adjusted EBITDA was \$38 million, down 31% year over year, and adjusted EBITDA margin of 17.6%. We laid this out in the fourth quarter earnings where we said total company revenue would be down in the first half of 2025 with most of the impact coming from the Government segment in the first quarter. The primary driver here is the effect of a large government healthcare contract where the contract was terminated for reasons other than performance in Q1 2024, which at this point has now been fully lapped.

This segment was also negatively impacted by approximately \$8 million top and bottom by the one-time items I mentioned earlier, predominantly related to the establishment of reserves for operational service levels. Our government services business in partnership with Microsoft has been making strong progress with their investments in AI for earlier identification of fraud activity in our payments programs. And we're starting to see the return on these investments in our financials with decreasing fraud expense. This is just one of a number of solutions that could benefit our government clients as they look to drive efficiency and savings. Cliff will discuss this topic in more depth later in this presentation.

Transportation segment adjusted revenue was \$133 million, down 7.6% year over year while adjusted EBITDA was \$6 million in the quarter versus \$1 million in Q1 2024. Segment adjusted EBITDA margin was 4.5% for the quarter, up 380 basis points versus Q1 2024. This segment benefited from stronger operational performance levels in the quarter and also from the absence of employee termination costs incurred in the prior year relating to the non-retained portion of the tolling contract.

In the first quarter, our tolling business played an integral role in implementing congestion management pricing in New York City, the first of its kind in the United States by facilitating the toll transactions and payment processing through our market-leading Vector platform. This contributed to our Q1 financial results and also enabled significant revenue for our client. Unallocated costs were \$47 million for the quarter versus \$65 million in Q1 2024. This included an \$8.5 million benefit from the recovery of legal costs from one of our insurance carriers related to the State of Texas matter that settled in 2019 as well as positive impacts from our cost efficiency programs across our corporate functions.

Finally, in relation to the previously disclosed cyber event, while we did not experience material financial impact to our operations, we did incur \$3 million and accrued \$22 million of non-recurring expenses in the first quarter related to the event based on potential notification requirements. And we do maintain a cyber insurance policy for any excess.

Let's turn to slide 11 and discuss the balance sheet and cash flow. We ended the quarter with approximately \$293 million of total cash on balance sheet and our \$550 million revolving credit facility was largely undrawn. As a reminder, we are generally a user of cash in the first half of the year with positive cash generation in the second half. Our adjusted free cash flow for the quarter was negative \$74 million. This is significantly better than Q1 2024 when adjusting for the positive impacts of the tax refund and the operating cash flow from divested assets in the prior year. On April 30, we received the final payment of \$50 million relating to the Curbside Management and Public Safety divestiture. This completes the receipt of proceeds from phase 1 of our divestiture program.

Sequentially, our net leverage ratio went up from the prior quarter to 2.7 turns. We've said before that this will increase for the next couple of quarters as we annualize the divested adjusted EBITDA in the calculation, which will be partially offset by the sequential recovery in adjusted EBITDA as we work through our stranded cost and

efficiency programs. Once this work is completed during the second half of 2025, you'll see this net leverage ratio returning to around 1.5 turns and then moving more towards the 1 turn we've previously outlined in our mid-term outlook as we exit 2025. Capital expenditure for the quarter was 2.7% of revenue and we have no concerns in meeting our near-term debt maturity commitments.

Let's turn to slide 12 and look at our 2025 outlook. Our full year 2025 outlook remains unchanged as we stated in Q4 earnings. The assumption built into this guide is one of broadly stable macroeconomic conditions. Since we established this guide in February, there has been significant uncertainty relating to tariffs on international trade. However, our exposure to trade tariffs is minimal and contained a very small element of the supply chain in our transit business supporting our US clients. As a reminder, the majority of revenue in the transit business is generated internationally with supply chains outside the US.

The Government segment is predominantly centered on state and local government, where we provide technology, eligibility and payments programs to support essential services for their constituents. To date, we have not seen any material impact to these programs from the shifting federal administration landscape and remain engaged with our state and local clients. We expect Q2 2025 revenue to be sequentially higher than Q1, but slightly below Q2 2024 and adjusted EBITDA margin to be in the range of 4% to 4.5%. We continue to expect to post top line growth in the second half of the year and margin to expand as we work through our cost programs. These outlooks have not been adjusted for any phase 2 divestiture activity that Cliff discussed earlier and therefore are representative of the company as it exists today.

Lastly, I would like to thank Cliff and the board for the opportunity they have given me as CFO of the company. And I would also like to thank Steve for his partnership over the last four years and I wish him well in the future. That concludes the financial review of first quarter 2025.

And I'll hand it back to Cliff for his broader view of the business. Cliff?

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## Clifford A. Skelton

*President, Chief Executive Officer & Director, Conduent, Inc.*

Thanks, Giles. While it was good to hear the continuation of the British accent from our CFO, the numbers just described, well, now executed, represent what we've been foreshadowing for the last two years. We continue to be on track. And also, I thought it would be important to outline some other real opportunities going forward.

If you'll turn to slide 14, you'll see some of the nonfinancial performance proof points. Overall, AI and GenAI remain at the forefront of what we're utilizing on behalf of our clients and their end users. As I've mentioned before, AI in our space is not hyped or sold. It's used to drive quality. We've rolled it out in our right to work portal, in our call centers and in our payment fraud space, which I'll talk about here in a minute. In Commercial, we're seeing the fruits of our labor with our new client partner enterprise sales model driving sales, pipeline and clients, evidenced by all time high NPS scores and Supplier of the Year awards.

We've also been tapped by many of our commercial clients to help them achieve their efficiency and cost reduction initiatives. The government business is turning the corner just as we said it would. Strong sales pipeline, improved retention and new talent are lining up for the turnaround we were planning for. And in transportation, we're seeing particular progress in market share improvement in transit where our new fare gates and card tap-and-go fare collection capabilities are selling well. We recently finalized and signed our new scope and plan with our biggest flagship client in the State of Victoria in Australia. And new avenues are opening up in tolling as well. Just take a look at Governor Hochul's success in New York with congestion management pricing. That's our

technology. And many other states are watching closely because that is a perfect way to reduce congestion and drive revenue to the states.

Now, let me focus for a minute on government efficiency, where like in AI, there is perhaps a misconception or two. The reality is as follows. We work primarily for the state governments. While federal entitlement funds often flow through the states, entitlements haven't been challenged, and we get paid by states to help them administer those funds and the eligibility for them. As eligibility oversight increases, so does our work. By their very nature, entitlement programs are guaranteed programs. So, the work we do is non-discretionary. Most of the limited federal work we do is as a sub for the Direct Express program utilized primarily for social security benefit distribution. Again, a program that sees no signs of reduction regardless of what vendor the program relies upon.

Meanwhile, the President did say he's not touching social security payments. Absent this subcontractor business, less than 1% of our revenue is contracted with the federal government. We provide support to states for SNAP or food stamps as well as Medicaid eligibility work. As you know, a good portion of Americans across the political spectrum rely on programs such as SNAP and Medicaid. Regardless, even if there is a reduction in funding pools, our business model is not dependent on funding per recipient. On the Medicaid side, we implement and manage state's Medicaid technology administration platforms and process eligibility requests and enrollment programs, both of which likely become more voluminous if eligibility and fraud are further scrutinized.

Regarding SNAP, we earn revenue based on the number of cases, not the funding size per recipient. So, here's the bottom line. If unemployment rises, it's an opportunity for us. If states increase their focus on Medicaid fraud and illegal recipients, it's an opportunity for us. If Medicaid expansion goes away it's an opportunity for us to reregister end users. If work requirements get further scrutinized in Medicaid or unemployment insurance, it's an opportunity for us. And as payment programs work to eliminate paper checks through DOGE for efficiency purposes, it's an opportunity for us.

Finally, turning to page 15, the biggest opportunity for us is in fraud reduction writ large. The administration's efforts to reduce fraud, waste and abuse fall into areas we can help solution. For example, we have proven in our AI project in collaboration with Microsoft, in our payment card business, that we can and do drastically reduce fraud by increasing fraud detection before it happens. We increased fraud detection rates and account takeover efforts by 150%. DOGE and the Government Accountability Office are focused on fraud in government programs like Medicaid and SNAP. We believe there are value added services around account takeover fraud prevention and strengthening eligibility determinations using this address verification AI tool.

There are almost 42 million SNAP recipients in this country, representing roughly 12% of the population. Notwithstanding the administrative costs, when fraud occurs, generally the recipients suffer the monetary loss, not the government. We intend to help solve this problem with EBT chip cards and other fraud prevention capabilities being rolled out in our new card platform. We've now stood up a fraud prevention line of business where we intend to attack these problems in concert with administration efforts.

Let me close by saying we're at a strategic inflection point in the following ways, our renewed portfolio rationalization plan, leveraging government opportunities, new go-to-market program in the commercial space, congestion management programs, tap and go and new fare gate and new fraud reduction business and more. Meanwhile, our 55,000 associates work hard every day to make Conduent the best in quality and efficiency across our technology and business processing outsourcing landscape.

We have a strong suite of technology solutions that when coupled with our hardworking and dedicated associates provide outstanding results for our clients and their end users. In all cases, we want to be the best. Along the way,

we intend to hit those 2025 exit rate marks and build the confidence we need in our current and potential investor base.

Thank you for listening today. That concludes our program, and I'll now turn it over to the operator for questions. Operator?

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question and answer session. [Operator Instructions] Our first questions come from the line of Pat McCann with Noble Capital. Please proceed with your questions.

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**Patrick Joseph McCann**

*Analyst, Noble Capital Markets, Inc.*

Q

Hey, thanks for taking my questions. Congrats on the quarter. And a real quick congrats to Giles on taking over as CFO. My first question had to...

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**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

A

Thanks, Pat.

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**Patrick Joseph McCann**

*Analyst, Noble Capital Markets, Inc.*

Q

Absolutely, Giles. And my first question had to do with the – what you were just talking about, Cliff, with regard to the government business. I understand like what you said that much of your government business is at the state and local level, albeit some of that flows from the federal government, from federal programs. So, I guess I'm wondering if you could give a little bit more detail as far as how some of these aspects of the push for efficiency in the government actually lead to an opportunity for you in that space rather than a detriment to your business there? Maybe I'll leave it at that for now.

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

It's a good question, Pat. Look, there's two ways to answer the question. A lot of the federal funds for entitlements are distributed through the states and both Congress and the President have said they're not going to mess with or touch entitlements. The administrative costs for the states is where the opportunity is for us. And so, if you take SNAP for example, where we have 21 states distributing food stamps, we see that not diminishing. In the case of summer SNAP, 16 of those have summer SNAP programs. Most of those have renewed the summer SNAP programs.

All those dollars are federal dollars, but the administrative costs are shared between the states and the feds. All that is being reviewed, but all that looks to be not touched. And all the indications are that they're not going to be touched. Where the opportunity arises is in areas like fraud that I mentioned during my script, which if you think about the fact that what DOGE and the administration has said is, look, there's fraud going on. There are people receiving Medicare benefits that shouldn't be getting them. And there are people that are getting unemployment insurance benefits that shouldn't be getting them.

The opportunity for us is to find those folks that are not getting them and help the states ferret out the issues and the problems and get paid for that process. And so, we see it as upside. As I mentioned, with respect to fraud, we've looked at address take over fraud in our payment business and we found a lot of duplicate addresses that should not have been in the mix where people were receiving duplicate payments fraudulently. And we see the same kind of fraud process to address people that shouldn't be getting Medicaid benefits, for example, because they have duplicate addresses as a way to generate revenue for us.

Finally, you've seen in the press, where MCOs oftentimes are getting paid twice for the same Medicaid member because people move and they don't change their address. And so, what's happening is these MCOs are receiving federal funds that they shouldn't receive. Now, they try and pay those back. But that's another area where we can ferret out areas where the federal government is paying too much money to the states or MCOs. So, those are sort of some – an overview of how we're attacking the problem.

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**Patrick Joseph McCann**

*Analyst, Noble Capital Markets, Inc.*

Q

Great. Thanks. And then I also wanted to touch on the cyber event. Could you say a little bit more about what actually happened? And I'm getting the sense you guys are pretty much maybe through it. Can you touch on that as well as it is pretty much behind you now?

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

Well, look, all the costs of the cyber event are already baked in into our P&L. And so that's number one. Number two is, there was essentially no operational impact, virtually no operational impact of the cyber event. We were, in some cases, only down for a couple of hours. The environment was restored almost immediately. The issue we're dealing with is the records issue, how much PII and PHI, if any, has been exfiltrated. And that's a very complex process that we're underway with now with our clients. And so, yes, the event is behind us. All the aspects of what happened is behind us, all the protections and the vulnerabilities, if there were any, were mitigated. But the examination of the data is still underway. And that's why we've put reserve into the mix.

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**Patrick Joseph McCann**

*Analyst, Noble Capital Markets, Inc.*

Q

Great. Thanks so much. I'll leave it there and I'll jump back in the queue. Thanks a lot.

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

You bet.

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**Operator:** Thank you. Our next question is coming from the line of Chris Sakai with Singular Research. Please proceed with your questions.

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**Christopher J. Sakai**

*Analyst, Singular Research*

Q

Yes. Hi. Good morning. I'm in for Gowshi. Given your progress in AI driven solutions like fraud prevention and GenAI assistance, have you encountered any regulatory hurdles in deployment, particularly in sensitive government or healthcare applications?

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

Chris, we really haven't. We're using AI in a couple of different ways, much of it in the commercial space. But as I previously mentioned, with respect to fraud, we're also using it in the government space, primarily around fraud. In the commercial space, we use it for language smoothing, for language translation, for IVR enhancements, for portal enhancements, and as I said, for fraud reduction efforts in the public sector. But no, we really haven't encountered issues around privacy or mistakes from GenAI and we're not using it as a replacement for people. We're still heavily reliant on people. And where we're in the people business, we continue to see the same amount of need for people in the complex environments and AI is not really and doesn't appear to be a substitute for that. So, the answer to your question directly is no. We have not seen any regulatory hurdles in the way.

**Christopher J. Sakai**

*Analyst, Singular Research*

Q

Okay. Thanks for that. And you mentioned that your business is relatively insulated from macroeconomic and geopolitical shocks. Are there any less obvious second order effects such as shifts in client procurement cycles or changes in government funding priorities that you're monitoring closely?

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

We're not really experiencing that, Chris. So, I can tell you what Giles and I mentioned was the one area of slight vulnerability for us is in our transportation business, transit specifically, where we buy equipment and deploy equipment for fare gates and like most of that business is international, country to country as opposed to international to the US or China to the US. There's a little bit of transit business in the US, but very small in the grand scheme of things. So, we're not really vulnerable to the tariff situation.

With respect to other government programs, one of the decisions Congress made yesterday was that the Fed matching rate for Medicaid technology and technology implementations where the federal government supplies 90% of the funding for all those implementations in technology in the Medicaid space at the state level will not be touched. So, we're not really feeling any hurdles to the progress that Giles laid out. In fact, as I mentioned, we see real opportunities.

**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

A

I think the other piece, Chris, is that we maintain close relationships and close communication with our state and local government clients as well. So, we know what's going on with them and how we can support and help them as things move forward.

**Christopher J. Sakai**

*Analyst, Singular Research*

Q

Okay, great. And then, last for me, what criteria are you using to identify assets for divestiture and how do you plan to balance future proceeds between debt reduction, reinvestment and potential shareholder returns?

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

Let me take the first part of it and the second part I'll turn over to Giles. Look, we've said all along that the secret sauce is to figure out how we can be not as wide or as diverse and be more focused on synergies and growth

capabilities internally. By the same token, we believe there are synergies and scarcity value on the outside for some of our assets. And so that the test we've put in place is where are those scarcity value opportunities, where the maximum multiples we can get if we look to divest and versus what we can do internally with those same resources and we've identified what we see as another roughly, let's call it, \$350 million of opportunity along that process flow that we intend to pursue in 2025. But Giles [indiscernible] (00:53:44)?

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**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

A

Yeah, I think on the capital allocation side, that will be similar to the first phase, Chris. We will continue to maintain a balanced approach. We've only got \$85 million of debt left on the term A and we'll also continue to make investments internally, which is what we've done through phase 1. If you look at some of the investments we've made internally around some of the things that Cliff alluded to earlier with AI, with increasing our seat capacity at some of our international delivery centers, investments in our [ph] GHS (00:54:18), Medicaid modularization platforms, and then, what we've done with our Vector platform as well to support the New York congestion management pricing, significant investments that we've made. But we've been frugal in the way that we allocate capital internally. So, I think you can look to see kind of similar characteristics as we used in the first phase of the rationalization plan as far as capital allocation is concerned.

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**Christopher J. Sakai**

*Analyst, Singular Research*

Q

Okay, great. Thanks for the answers.

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

Chris, just one last point. Importantly, to follow on Giles' point, what it really provides for us is a remaining portfolio that's more nimble, easier to manage, lower cost in the center, higher growth rates. That's the bottom line on where we want to land.

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**Christopher J. Sakai**

*Analyst, Singular Research*

Q

Okay, great. Thank you.

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

Sure.

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**Operator:** Thank you. Our next questions come from the line of Marc Riddick with Sidoti. Please proceed with your questions.

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**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Q

Hey, good morning.

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

Hey, Marc.

**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

Hey, Marc.

A

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

So, first of all, congratulations both to Giles and David for the changes there and certainly look forward to continue working with you there.

Q

**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

Thanks, Marc.

A

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

I was wondering if you could...

Q

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

Go ahead, Marc.

A

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Absolutely, absolutely. I was wondering if you could start a little bit on the opportunity set and kind of dovetail to your comment, Giles, around the connection to your state and local contacts and what have you, maybe if you could share a little bit as to maybe what you're hearing from them and how that ties into the opportunities that you're seeing. I mean, maybe it's a little early, but I was wondering if you're getting much in the way of feedback from your state and local contacts as to the headlines and maybe what areas are taking the lead as far as priority [indiscernible] (00:56:11)?

Q

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

It's a mixed bag, Marc. I mean if you – some states are more progressive in trying to get out front and work with the administration to figure out how they can ferret out fraud and reduce cost from a disbursement point of view. Other states are sort of in a wait and see. So, it's quite varied. All the states are looking for efficiencies and always have been. So, it's a mixed bag. I can tell you that there's a specific effort around more efficiency in the administration of federal funds. But the exact details are going to vary state by state.

A

I can tell you one governor sent me a letter recently saying, how can you help us more with SNAP or food stamp fraud? Because as I mentioned in my narrative, the individuals that receive this funding are the ones that [ph] eat (00:57:20) the fraud. And you've seen many examples where people have had their card skimmed or address take over or various ways that fraud occurs. And the states are very agitated over the fact that their constituents are the ones that are taking the loss because those funds are generally not replenished.

So, it's a mixed bag. I mean, the one I just referred to is Utah. We've got a lot of capabilities around our new card platform that has chip cards in it. It has card turn off and turn on capabilities for other fraud reduction tools. But as

I said, some are more out front and it's a very significant opportunity and others are sort of holding back, waiting to see what really happens. Because if you look at the DOGE efforts, this target of \$1 trillion cost reduction is just not manifesting as fast as advertised. I mean, I think I saw numbers in the neighborhood of \$155 billion out of the \$2 trillion have been realized in some of the federal cost reduction efforts. So, it's going a little bit slower. So there's a wait and see kind of demeanor out there as well.

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**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Q

Thank you for that. And then I was wondering if you could talk a little bit about the new business wins being up year over year and maybe some of the catalysts that were behind that as well as maybe progress in the – I know we've talked in the past about efforts as far as gaining share of wallet. I mean, was that part of some of the new business win efforts? And how do we see that going forward?

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**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

A

Yeah, Marc, I think there's a couple of things there. I think one is we've invested wisely in new talent in our sales organization with some element of new structure with client partners and getting closer to the clients and really driving more new capability opportunities through that group. And the second is some of the investments that we're making that we've discussed earlier around Medicaid and increasing the seat capacity out in some of our delivery centers. We're filling those up. Clients are still looking to us to help them solve some of their cost issues. And we continue to see that into the second quarter as well. So, I think Q1, Q1, we were off to a relatively good start. Q2, we should be a little stronger and we'll see that continue throughout the year.

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**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

And Marc, I've mentioned this in the past, if you think about new business, it comes in three venues, it comes in a new logo, it comes in a new capability for current logo and it comes in with add-on volume from the same capability. That add-on volume typically comes from our account management teams and that's been pretty consistent in some quarters. That's been better than others. What we saw in Q1 and hope to see even more so in Q2 is that new logo, new capability with a particular emphasis on this new capability and expanding our share of wallet. With roughly 1.6 products per client in the commercial space, we think that should be double and that's why we've invested heavily in this client partner arrangement where client partners and enterprise sales executives can look at the breadth of the opportunity in the current client base. And we've got many of the healthcare clients, most of the healthcare clients out in the market are our clients.

And so, we see expanded opportunities from that client partner team and then in enterprise sales team. But we're just getting started. I mean, yes, it was a good quarter in new logo. We need to do even more of that because the new logos are your future. And if you don't feather that nest with new logos, you're not going to have add-ons to be available. So, we're very focused on it. And we expect to see some pretty good progress in Q2 and more so in the back half of the year.

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**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Q

And just to sort of complete a loop, I just wanted to double check on – so the leverage being at 2.7 times and this was covered in the prepared remarks. But just to confirm, that was as of the end of the quarter and then subsequently you got the \$50 million in April. So, that's already knocked down from where you were at the end of the first quarter, correct?

**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

A

Yeah, that's correct, Marc. And we should see that net leverage count come down as the adjusted EBITDA for Q2, Q3, Q4 starts to increase with the cost efficiency programs that we've got going on. And so as I said, I think we'll see a trend towards more kind of 1.5 turns as we think about the second half of the year and then as we exit 2025, we're targeting that 1 turn that we've always put as the target.

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

While those cost efficiency efforts, Marc, as you know, have lag effects to them. So, that's a benefit we're going to see in the back half of the year.

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Q

Excellent, thank you very much.

**Clifford A. Skelton**

*President, Chief Executive Officer & Director, Conduent, Inc.*

A

You bet.

**Giles Goodburn**

*Chief Financial Officer, Conduent, Inc.*

A

Thanks, Marc.

**Operator:** Thank you, we've reached the end of our question and answer session and with that we'd like to bring the call to a close. We do thank you for your participation. We wish you a great day. You may now disconnect.

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