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Conduent, Inc. (CNDT)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Conduent's Third Quarter 2021 Earnings Results 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 that this conference is being recorded.

I would now turn the conference over to our host, Giles Goodburn, Vice President of Investor Relations for Conduent. Thank you, sir. You may begin.

Giles Goodburn

Vice President-Corporate Finance & Investor Relations, Conduent, Inc.

Thank you, operator, and thanks, everyone, for joining us today to discuss Conduent's third quarter 2021 earnings. We hope you had a chance to review our press release issued earlier this afternoon. Joining me today is Cliff Skelton, our President and CEO; and Steve Wood, our CFO. Today's agenda is as follows. Cliff will provide an overview of our results and a business update. Steve will then walk you through the financials for the quarter, as well as providing a financial outlook. We will then take your questions.

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 afternoon on Form 8-K. This information, as well as the detailed financial metrics package, are available on the Investor Relations section of the Conduent website.

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

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

And now, I'd like to turn the call over to Cliff.

Cliff Skelton

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

Thank you, Giles, and good afternoon, everyone. Welcome to Conduent's Q3 earnings call. It's great to have you all with us today. I hope everyone's staying well, as these are certainly interesting times we live in.

To start with, Q3 was a quarter where we continued to deliver in all the commitments we've previously talked to you about, both in the previous earnings calls as well as at the start of 2021. It's the consistent performance that I hope you'll come to more appreciate from Conduent as the quarters go on, and we're proud of it.

I'm also pleased to report that we recently completed our debt refinancing, which we're also really proud of, and within the parameters and timelines we expected. Of course, we'll discuss that here in a moment. And then, today, in addition to discussing Q3 and the refi, we'll touch on some recent accomplishments and talk to you a little bit about how we feel about the remainder of the year.

So if you'll turn to slide 4, you'll see that our revenue in Q3 came in at $1.038 billion, virtually unchanged from the prior year and slightly up when compared to the strong Q1 and Q2 performance of 2021. Meanwhile, EBITDA came in at $130 million, very similar to Q2 of this year and similar on a year-over-year basis when you compare it to last year normalized for cost saving efforts we had last year with these onetime temporary cost savings we had last year. Margins remained flat quarter-over-quarter at 12.5%. Of course, that's somewhat benefited by the strength in our Government Payments business.

Regarding new business sales, Q3 delivered $344 million. That brings our year-to-date sales to $1.475 billion. That's a 4% increase over the prior year, and that's so far, obviously. As you know, new business TCV can really be quite lumpy in any individual quarter, but we feel really bullish about the pipeline for the remainder of 2021 and into 2022 across really all segments, and we think that's a good signal for sales in – new business sales anyway in 2022.

New business ARR is also up versus the prior year at $297 million, and that was with $87 million in ARR contributed in Q3. Again, our belief is what you really want to look at is this annualized gradual improvement each quarter, because that's really what we think is the key to future growth, given what is always variation and timing of deals and revenue ramp.

Finally, this net ARR metric we've talked to you about in the past, which is that trailing 12 months metric that we've discussed, was $132 million. This is our fourth quarter of positive net ARR. And while you may expect some occasional lumpiness there, it's up 25% compared to last quarter. As we've mentioned in the past, this net ARR metric is particularly important. It's really a much better indicator of growth and retention than other metrics that other folks use and like we've used in the past, like renewal rate. This is a really important metric because it's an indicator. Once you've outrun legacy losses, it's an indicator of growth, and we'll talk more about it in a minute.

In other highlights for Q3, we continued our pursuit of operational excellence, with a focus on system uptime, quality service delivery and other strong emphasis items like meeting or exceeding client expectations. Finally, we're privileged to have received a lot of accolades recently from various regions, analyst groups and associations, and you'll see that here in just a few slides.

With respect to our technology investments, we continue to focus on the data center consolidation efforts we talk to you about before, enhancing solutions, moving to the private and public cloud, and we particularly focused on efficiencies enabled by AI and machine learning, all of which our clients are highly indexed on.

Finally, we completed the refi, as I mentioned before, of our debt facilities on October 15. This, as you might imagine, was a key 2021 priority, and we're more than pleased with the timing and the construct of the package. Importantly, with this activity now behind us, we're redoubling our focus on a strong finish to 2021 and a good launch point to 2022, all necessary to maintaining our momentum in the next phase of this growth effort we've had underway.

If you'll turn to slide 5, you can see the consistent performance net annual recurring and non-recurring new business revenue, despite any possible lumpiness you might notice in any individual quarter. As I mentioned, that $21 billion of high-quality opportunities in our pipeline is better than ever right now in terms of our confidence levels. Again, as mentioned, that really helps us out in our bullishness for 2022.

Let's go back just for a minute to this net ARR activity metric. The thing I'd like everyone to remember here is that while not tied to any particular revenue recognition date, the fact is that the metric is all inclusive. It includes deals we won, deals we lost, price changes up and down, and contracted volume changes. And as I mentioned, what's really key here is that once we've outrun those legacy losses, which we're rapidly approaching and Steve's going to materialize for you in just a minute, this metric is the best possible indicator of growth. In the four quarters that we've been measuring this trailing 12-month metric, it's been positive and growing each subsequent quarter. Our strong ARR for the last six quarters, combined with better client retention, is driving the strength in that number. We expect the momentum to continue.

On slide 6, you'll note examples of our continued momentum in the market, whether it's awards like this Toll Excellence President's Award for Innovation, which recognizes a mobile app that allows customers to easily manage their tolling payments and E-ZPass accounts on their smartphone, or new digital solutions that enable our clients to improve business outcomes and deliver better end user experiences, they're all acknowledgements of the hard work that we've had underway, and we're beginning to get recognized for that. Many of these awards also indicate a strong focus on ESG, and we are in a relentless pursuit of this notion of an inclusive and winning culture.

Meanwhile, as we've discussed, this is always a journey. Each quarter, we intend to continue to show the market that we're achieving exactly what we told you we were going to achieve, and that's what we've done for nine straight quarters. Of course, there's always more to do, but each quarter will present another increment of success we can be proud of. And over time, this winning team of 60,000 associates will have achieved a consistent pattern of growth in operational excellence. And I can't tell you how proud I really am of all of those folks and the progress we've made so far.

So again, I really appreciate everybody listening in today. I'd like to turn it over to Steve to take you through a lot more detailed view of the quarter or certainly the quarter's financials, and I appreciate your time today. Steve?

Stephen Wood
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 turn to slide 8 and discuss the Q3 2021 results, starting with the P&L. We finished the quarter in line with our internal revenue expectations, with revenue at $1.038 billion, down 0.3% year-over-year. Revenue benefited from increased pandemic SNAP volumes in our Government segment and increased new business ramp in our Transportation segment, as we begin to implement some of our previously announced flagship deals, including Ohio Lanes and Highways England. This was offset by lost business from prior years.

Adjusted EBITDA for the quarter was $130 million, down 7.8% year-over-year, with the prior year compare benefiting from temporary cost savings associated with COVID-19. Our adjusted EBITDA margin for the quarter was 12.5%, down 100 basis points compared with Q3 2020. Both EBITDA and margin were slightly above our internal expectations. The decrease in adjusted EBITDA was driven by an approximate $14 million of temporary cost savings that benefited Q3 2020 and revenue mix in our Transportation segment. This was partially offset by favorable revenue mix in our Government segment and a benefit from lower employee medical expenses.

Let's turn to slide 9 and go over the segment results. For Q3, our Commercial segment revenues declined 1.7%, primarily driven by lost business from prior years, partially offset by new business ramp. Referencing our segment revenue trends in the appendix to the presentation, our net growth rate continues to improve sequentially in the Commercial segment, as we focus relentlessly on the twin hydraulics of better client retention and improved sales performance. For the Commercial segment, adjusted EBITDA for the quarter decreased 5%, while the adjusted EBITDA margin of 10.4% was down 40 basis points year-over-year. This was primarily driven by short-term cost savings that benefited Q3 2020, as well as revenue mix.

Our Government segment revenues increased 0.3% for the quarter. Increased pandemic SNAP volumes in our Government Payments business offset lost business from prior years. Additionally, our Government Healthcare business lapped the runoff of the [ph] Caymus (12:55) contract during the third quarter and is positioned well for growth. Government segment adjusted EBITDA increased by 4%, while the adjusted EBITDA margin of 38.1% increased by 130 basis points. This margin improvement was driven by revenue mix.

Our Transportation segment revenue grew 2.9% as compared to Q3 2020. This was primarily driven by increased volumes and new business ramp, including contributions from Highways England and Ohio Lanes. This was partially offset by lost business from prior years. In the quarter, we announced an additional domestic tolling win, the Virginia VDOT I-64 Express Lanes contract. These significant new tolling contracts position our Transportation segment well for continued growth as we exit 2021. Transportation segment adjusted EBITDA was down 29% compared with Q3 2020, which was our margin highpoint in 2020. Like last quarter, this was driven by temporary cost savings that benefited Q3 2020, as well as revenue mix. Adjusted EBITDA margin for the quarter was 13.9%, down 610 basis points year-over-year and up 40 basis points sequentially. We expect sequential EBITDA margin improvement in Q4.

For the quarter, the company's unallocated costs were $81 million, which included the impact of a onetime expense item. We continue to drive efficiency across our real estate and infrastructure expense, while continuing to invest in delivering top line results through our sales and account management organizations.

As I mentioned earlier, we've included in the appendix the detail by segment of our year-over-year revenue growth trends for the past seven quarters. Our trends in Commercial and Transportation segments are positioned to continue to improve moving forward, as we lap the COVID-19 effects, see reduced impact from legacy losses, and increase ramp from new business sales. Our Government segment is currently benefiting from the federal support of pandemic SNAP, which as we have said, will taper during the fourth quarter.

Finally, and before I move on to the balance sheet, I thought it would be beneficial to size the losses we refer to as legacy losses. As a reminder, these losses are a discrete set notified in 2019 and prior, and therefore, not included as part of our trailing 12-month net ARR activity metric. The effect of these legacy losses in 2021 is approximately $120 million. And in 2022, that number will half to approximately $65 million, halving again in 2023 to approximately $33 million. These legacy losses are excluded from our net ARR activity metric, the definition of which is in the appendix to our presentation. As a reminder, this net ARR activity metric is a trailing 12-month measure of the annualized impact of new ARR business wins, losses notified from 2020 onwards, in addition to contractual changes in pricing and volumes.

Let's now turn to slide 10 to discuss the balance sheet and cash flow. Our balance sheet continues to remain healthy and we have a solid liquidity position. We ended the quarter with $400 million of cash on the balance sheet. As of quarter end, we had approximately $740 million of capacity under the revolver. Our net leverage ratio at the end of the quarter was 2 turns, in line with our target of 2 to 2.5 turns.

On October 15, as planned, we completed our debt refinancing, extending our debt maturities to between 2026 and 2029. The new debt structure consists of a Term Loan A of $265 million due in 2026, a Term Loan B of $515 million due in 2028, and senior secured notes of $520 million due in 2029. Additionally, we have a revolving credit facility of $550 million with the same maturities of the Term Loan A, against which we drew $100 million on closing. Further details on the transaction can be found in our filing on Form 10-Q, including our subsequent event Note 17.

Operating cash flow for the quarter was an inflow of $55 million, and adjusted free cash flow was $23 million, both of which were in line with our internal expectations. Operating cash flow was lower year-over-year due to the timing of collections related to pandemic SNAP in Q3 2021, as well as the impact of deferred payroll taxes as part of the CARES Act in Q3 2020. Sequentially, operating cash flow was lower than Q2 2021 because of timing impact on collections related to pandemic SNAP, which benefited Q2 and will also benefit Q4 of 2021. As I will cover on slide 11, our outlook on adjusted free cash flow for the full year remains unchanged. Capital expenditure for the quarter was $30 million or 2.9% of revenue.

Let's move to slide 11 to discuss our outlook for full-year 2021. We are reaffirming our full-year revenue and adjusted EBITDA margin guidance at the ranges we discussed last quarter, with revenue in the range of $4.1 billion to $4.175 billion and EBITDA margin in the range of 11.25% to 11.75%. In terms of Q4, we expect revenue to be sequentially higher than Q3 2021, but slightly lower as compared to Q4 2020, delivering us towards the midpoint of our guidance range.

As we discussed last quarter, we expect our adjusted EBITDA margin to come down sequentially from Q3, and to finish the full year at or above the midpoint of our guided range. We still expect to convert 20% of full-year adjusted EBITDA to free cash flow. As a reminder, normalized for the impact of the CARES Act payroll tax payment to be made in December 2021, this number would be approximately 25%. Normalizing both 2020 and 2021 for the impact of the CARES Act payroll tax deferrals, that would be an approximate 9% improvement year-over-year.

We are updating our outlook on our expected 2021 CapEx spend, and now expect spend to be approximately $150 million for the full year. This downward revision reflects timing of projects. Additionally, we expect restructuring spend now to be in the range of $45 million to $50 million, as we take advantage of additional opportunities to optimize spend across real estate and other areas.

Before I close, I want to thank our clients, associates and shareholders for their continued support. We will now open up the lines for some questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. And ladies and gentlemen, at this time, we will be conducting our question-and-answer session. [Operator Instructions] Thank you. And our first question comes from Shannon Cross with Cross Research. Please state your question.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Thank you very much for taking my question. I'm just curious, can you go a bit more into the stimulus timing of what's running out this year, and then how we think about potential – I realize a lot of things are up in the air, but maybe if you can talk about what's sort of at least in the infrastructure plan at this point in time that could come through and help to support the business. And I have a follow-up. Thank you.

Stephen Wood
Chief Financial Officer, Conduent, Inc.

A

Yeah, Shannon, it's Steve. I'll cover some comments on stimulus, and then I'll flip it to Cliff and Cliff will talk about the infrastructure bill. So look, stimulus is clearly one of the components that we're dealing with as we think about the runoff from the effects of COVID. We've obviously had some headwinds and some tailwinds. And so, whilst I want to stop short of kind of giving, stop talking about guidance for 2022, clearly, when we come back and talk about 2022 at the beginning of next year, the effects of the off-ramp of government stimulus and then the effects that we expect to come back and continue to come back in Transportation and Commercial are going to be part of that [ph] rubric (23:46) as we think about 2022. And clearly, that – we're going to witness the pandemic SNAP programs effectively concluded legislatively at the end of September this year, but we've got a remaining element of taper of that revenue that we'll see in Q4.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. And just I'll follow-up a little bit, Shannon, on – again, not to stumble into guidance for 2022, but think of 2022 and the roll-off of stimulus as a settling year, if you will. The confluence of a good base business, the stimulus run-off, COVID returned, volumes are coming back post-COVID, the return of supply chain and sort of the workforce attributes that we're all living with, as we start to see all those things repair and come back into a good run rate, that bodes well, but it's – your guess is as good as mine on timing in 2022. Just those are the factors to consider when you think about 2022.

With respect to transportation and infrastructure, there's three infrastructure bills we're focused on: one, US; one in the UK; and one in Australia. And with respect to the one in the US, there's a lot going on, whether it's in tolling along the interstate highways. There's some bills – some attributes in there on cameras and school zones, bus corridors, congestion management, and there's some parking capabilities we have in there for automation that can bode well. But you know as well as I do how the government timing works. So, you start out with allocation from federal governments to the state and then the state decides how they're going to distribute. We then go compete for it, we got to win it, and we think we'll win a lot of it. And then, the revenue recognition comes into bear. So again, that's more of a timing issue. We think there's a lot to be captured. When it happens is likely kind of up in the air, but there is a lot to be captured, and we think we're going to capture some of that. It's just a matter of when.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Okay. Thank you. And then, you increased your restructuring charges. Can you talk about when the flow-through of benefit – again, I'm not trying to get you to the guide for next year, but how should we think about incremental benefit coming from that? And then, just in general, given where you're seeing growth, what you've seen from COVID, all of that, how are you thinking about the opportunities for increased cost reductions or at least optimization as you look to the next couple of years? Thank you.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. So, there's a couple of things going on in the in the migration to work from home, and by the way, work from home, in many ways, is a good thing for us. We're seeing good SLA performance in a work-from-home environment, higher percentage of our folks currently working from home and likely to stay at home. That creates some advantages from a recruiting perspective that we like compared to, say, retail or others that have to be in a brick-and-mortar. But it also creates some opportunities in our real estate footprint to downsize them. And so, that's where we're focused on, and that's where you see a little bit of that increase in restructuring cost. And we also see some good work around moving to a Chief Operating Officer model, where we've got a heavy focus on quality and efficiency, and that's driving some opportunities for us to create efficiencies that also contribute to that restructuring charge. So, that's kind of the migration that we're focused on with respect to restructuring.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Great. Thank you very much.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.

A

You bet.

Stephen Wood
Chief Financial Officer, Conduent, Inc.

A

Thanks, Shannon.

Operator: Thank you. Our next question comes from Puneet Jain with JPMorgan. Please state your question.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Hey. Thanks for taking my question. It looks like this quarter's ARR number was down on year-on-year as well as on sequential basis. Is it just like the timing of some of the new projects in the pipeline or some of the tailwinds might be running off, COVID-related tailwinds in Government business and others might be running off that could be driving lower ARR?

Stephen Wood
Chief Financial Officer, Conduent, Inc.

A

Yeah. Look, if you look – Puneet, it's Steve – if you look in the quarter in isolation, then it's down a little bit, but I think I'd draw your eye line to thinking about it on a year-to-date basis. So, it's up 15% ARR year-over-year. And importantly, for us, the Commercial segment is performing quite nicely as part of that. So whilst the quarter was a little bit down, as always, we're managing to a sort of a full year – more of a full-year view, and I'll let Cliff add on here. And so, I'd just kind of – I'd just make sure that you think about the sort of the year-to-date view, as well as just the quarter. Cliff?

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.

A

Yeah. I would just call it lumpiness. In the Commercial business, specifically, we're actually up in all three: sequential, year-over-year and year-to-date, up actually 19% year-to-date on ARR, slightly down in the other two segments, but that's really lumpiness, more than anything. I think what we really need to pay attention to, Puneet, is year-to-date ARR and that ARR metric, and those are very positive signs.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Understood. And your free cash flow goal for this year, right, 20% of EBITDA. Can you talk about like how should we think about normalized level of free cash flow, like medium-term targets or anything like then it go back to where it used to be at 35%, 40%? And what drives free cash flow from 20% to that higher level?

Stephen Wood
Chief Financial Officer, Conduent, Inc.

A

Yeah. Look, so yeah, 20%, remember, has got the impact of the CARES Act in it. So if you normalize out the effect of the CARES Act, it would be 25% in 2021, and normalizing 2020 as well, that would be a 9% increase over 2020, which was 16%. So, we are on this path of sequential improvement and you – like we are kind of thinking over the mid-terms, that's kind of where we want to get the drivers clearly, that some of those conversion effects are going to be affected by restructuring and other items that we'll clearly come back and talk more about when we talk about 2022 and beyond in terms of where we're heading. But certainly, looking at the last year to 18 months, we're trending in a direction that we're confident with.

Puneet Jain
Analyst, JPMorgan Securities LLC

Q

Got you. Thank you.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.

A

You bet. Thanks, Puneet.

Stephen Wood
Chief Financial Officer, Conduent, Inc.

A

Thanks, Puneet.

Operator: Thank you. Our next question comes from Ashwin Shirvaikar with Citi. Please state your question.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Good evening.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.
A

Hey, Ashwin.

Stephen Wood
Chief Financial Officer, Conduent, Inc.
A

Hey, Ashwin.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Hey. So, my question was with regards to sort of the sequential trends that I'm kind of looking at here, particularly when I look at Transportation, right, and I know that Q3 can be generally weaker because of transit being weaker in the summer. But is there anything else going on when I look at that 12.1% growth in 2Q going down to 2.9%, which seems to be perhaps a little bit more of a [ph] decel (31:59) than one would normally expect?

Stephen Wood
Chief Financial Officer, Conduent, Inc.
A

Yeah. Ashwin, let me cover that. So Transportation in Q3, for us, did have a couple of places where some revenue moved a little bit to the right on this. It hasn't gone away. It's just pushed a little bit. So probably, this is one of the areas where whether it's ships or whether it's supply chain elongation is just creating a few little ankle biters for us around revenue. And so, I think you're seeing a little bit of that in it. Longer term, as I said in my prepared remarks, we're just starting to get into the teeth of Highways England and Ohio Lanes and some of these other big contracts. I think you're also right in pointing out the European transit – international transit isn't really yet recovered. So, there's a couple of things going on on there that we feel confident, as we move forward, things are going to come back to us. But you're correct, there were a couple of items in the quarter that just moved a little bit to the right on us.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.
A

Yeah. It's timing, Ashwin. If you think about the fact that our Transportation business, especially the Transit business, is heavily equipment revenue generated. So as the supply chain slows down and as ship manufacturing is slowed, the development and the implementations start to slow down as well, and it's just backlog and it's coming back. I mean, the revenue is not gone. The revenue is all booked. It's just a matter of getting the implementations done and the equipment deployed and operational. And so, we're catching up. It's coming around.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Okay. And by supply chain, you mean just fewer truckers on highways, mainly because all these trucking companies are still looking for people to drive their trucks?

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.
A

Ashwin, my comment was slightly different to that. I'm actually talking about getting equipment shipped, getting equipment through customs, getting equipment literally off of ships.

Stephen Wood
Chief Financial Officer, Conduent, Inc.
A

Yeah. An example would be Highways England, where we're deploying equipment and we're – and there's a lot of development work being done where they need ships. And so, those two things are causing that project to be slightly behind timeline, not behind revenue but slightly behind timeline. So yeah, I mean, you're right, it's everything. It's ships, it's trucks, it's the entire supply chain environment, but that's coming around and the whole industry is feeling the same thing.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Got it, got it. No, thank you for that. And if I could ask you to kind of look, perhaps, at your pipeline and give us some color on how that is shaping up, given all of your efforts to – from a cost perspective, from a capability perspective, is the message getting out that you're transforming yourself or your clients recognizing it and so on.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.
A

It's a great question. I wish you'd asked me to ask that. I wish I'd asked for that because we are very – we're very bullish on the pipeline. The pipeline – gross amount of the pipeline is reasonably flat, $21 billion, $22 billion, which is what we were a year ago. But what's changed in the pipeline is just what you said, the confidence level, confidence both from us and our clients. So, what we're seeing in the deals that are in the pipeline is more confidence in the quality of the deals, more of the deals in the staging that have moved slightly to the right, which bodes well for the last half of 2022.

As you know, these pipelines are five-year pipelines. And what we like to see is anytime you can move those staging to the right with higher confidence in the near term in terms of the likelihood of winning, then that – then we get more optimistic, and that's what we're seeing right now in the current pipeline. So, we think the high quality improvement in both technology uptime, operational excellence, is leading to more – a more appetite from our clients or more propensity to buy. And so, we just got to get – we got to get the deals through the pipe and get them booked, and that's what we're working on.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Got it. Thank you for that.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.
A

You bet.

Operator: Thank you. And ladies and gentlemen, that ends today's question-and-answer session. I'll turn it back to management to see if there's any – they have any closing remarks. Please go ahead.

Cliff Skelton
President, Chief Executive Officer & Director, Conduent, Inc.

No. Listen, thank you, operator, and I appreciate the folks that joined today. I hope everybody is well out there, ever changing the circumstances for sure, as we talked about in the opening. But that concludes our presentation. Again, thank you and have a great day.

Operator: Thank you. All parties may now disconnect. Have a good evening.