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Xerox Corp. (XRX)

Investor Meeting - Conduent

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MANAGEMENT DISCUSSION SECTION

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

[Good morning and welcome to Conduent's first Equity Investor Event. I'm pleased introduce our new company and discuss our strategy to drive sustainable profitable growth. Conduent represents the business process services portion of current Xerox that will be spun-off at the end of this year. As you'll see, this separation will yield many benefits] One of the most important will be the opportunity to transform and rebuild the business into a focused independent company with market-leading technology and process solutions in an attractive growth industry. Our goals are ambitious yet realistic and achievable. And together with Brian, I will share our plans for achieving them.

First, we'll start with an overview of our business. Here is a short video to give you an idea of who we are and what we do.

[Video Presentation] (00:40-02:46)

Post spinoff, Conduent will be the largest pure-play business process leader in a diversified industry with 94,000 employees in more than 40 countries. Our clients rely on us to operate core parts of their business operations, managing interactions with those they serve with speed and accuracy and focusing on seamless personalized services. And we do this successfully today at a massive scale.

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We operate in a $260-billion market growing at 6% annually over the next three years, generating approximately $6.6 billion in annual revenue and $630 million in adjusted EBITDA and supported by high contract renewal rates with industry-leading long-term annuity contracts which form the core of our business model, enabling robust predictable cash flows. Given our size and scale, we will be a Fortune 500 company when we list on the New York Stock Exchange next month.

The separation from Xerox creates the opportunity to truly shift the performance of the business. As a standalone company, we can fully align our investments, operating model and capital structure with our business strategy. Specifically, we will focus our resources and investments to capture opportunities in our core market. We'll streamline our operations for efficiency and productivity and aggressively execute our strategic cost transformation program supporting margin expansion.

Our capital structure and allocation strategy will be consistent with the business and financial profile of a services company in the business process industry and very different from that of Xerox. As a result, we'll offer a clear and distinct investment pieces that we hope you'll find compelling and attractive.

Today, Conduent is organized around four major segments with an opportunity to streamline this even more. At $2.8 billion of revenue, Commercial is our largest business. Here, we provide a range of industry solutions targeting specific functional areas of our clients' operations.

The capabilities we bring to bear here are customer care, human resources, finance and accounting solutions, transaction processing, payment services and litigation solutions. Our client base includes 76 of the Fortune 100 companies. The margins in this segment are the lowest across our business due to a specific facet of our customer care business. This is a priority area that we are turning around and I'll discuss that in more detail later.

Our second business serves government entities, our Public Sector group. This is a very successful business for us with margins approaching 12% and 2015 revenue of $1.7 billion. Transportation solutions are about half of this business, which includes services like parking solutions, highway tolling and mass transit fare collection. We enjoy a leadership position in a wide array of sub-segments in the Public Sector space and are industry leaders in federal and state prepaid cards, on-street parking and U.S.-based commercial vehicle operations amongst others.

Third is our Healthcare business. We are a major player across all aspects of this industry from healthcare insurance companies to hospitals, pharma and life science companies to government programs and benefits. This is a $1.8 billion business for us with 9% margin in 2015.

Our large and diversified participation makes us an integral player across the healthcare industry ecosystem, handling everything from claims processing to patient records and workflow. We work with 19 of the top 20 managed U.S. healthcare plans and 9 of the top 10 pharma and life science companies.

Lastly, our other segment includes certain special situations either in runoff or in remediation. Across all our businesses, we bring expertise in automation, analytics and innovative technologies to differentiate our offerings and help our clients progress their own digital transformation agenda.

Also importantly, our average contract length spans from about three years within our Commercial segment to over five years in our Public Sector segment. This allows us to create a strong, well-diversified and risk-mitigated portfolio of multiyear tenure contracts.

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With that as background, let me talk about why Conduent is an attractive investment. There are five key reasons as I see them. One, we are a leader in a large and growing industry with many opportunities to build on our strong foundation. Two, our client base is a key strength for us. It spans from the Fortune 100 to government entities around the world. We are diversified across a range of industry verticals, allowing us to mitigate risk and apply our capabilities across a range of client situations.

Three, client engagements are largely built on long-term annuity contracts providing stable recurring revenue streams and reliable cash flows. Four, we are improving profitability and margins with a major cost transformation program to deliver $700 million in savings through 2018. This will also create needed capacity for targeted investments supporting top-line growth.

And lastly, we will employ a disciplined capital allocation strategy targeted towards high-return and low-risk opportunities to enhance shareholder value. We believe that through this combination of activities, we are targeting to improve our revenue growth, rates and adjusted EBITDA margins in a disciplined, well thought out and aggressive but yet pragmatic manner.

Business process services is a $260 billion opportunity, as I mentioned earlier, growing at around 6% over the next three years. We are well-positioned to capture our fair share of this opportunity with each of our businesses lined up against the major segments of this industry.

Industries such as financial services and high tech represent a sizable opportunity for our Commercial business. Healthcare is one of the highest growth verticals in the business process service market and we are the clear leader in this segment. And our Public Sector segment includes large and fast-growing verticals such as transportation and other offerings specific to this space.

On the right side of this slide, you can see the kinds of powerful trends driving growth in this industry. Let me touch on a few. As our clients push for higher operational efficiencies, automation is beginning to mature as a practice area. And we are one of the leaders here having built targeted solutions. Personalization has become today's standard for service delivery and we deploy this every day for our clients and continue to invest in this area. As urbanization accelerates, state and local governments are demanding expertise and new transportation solutions, a space we are a leader in.

And finally, our clients need help navigating an increasingly complex regulatory environment where compliance and security is an important facet of any kind of service interaction. In summary here, our market fundamentals are solid with attractive opportunities for growth. While the market is self-fragmented, we have the presence and scale to capture new and renewal opportunities.

As you saw in the video, we are fortunate to have an impressive client base including 76 of the Fortune 100 companies and over 500 government entities across every state in the United States and in 23 other countries. To give you a few examples of our reach, we serve the majority of the U.S. managed healthcare plans and hospitals in the U.S., nearly half of the global pharma and life science companies and four out of the top five global phone manufacturers. But even more important, our revenue mix is highly balanced with low account concentration. Conduent's largest client represents only about 4% of the company's total revenue and our top 20 clients represent about 20% of our revenues. Our ability to secure long-term annuity contracts while simultaneously maintaining high renewal rates between 85% and 90%, demonstrates our high client loyalty, driving a stable and predictable revenue model.

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Next, I'll discuss our plan to improve business performance with a goal of delivering profitable, sustainable growth. Since I joined the company a few months ago, we have thoroughly analyzed the business and met with many of our clients, employees, and our major investors. We worked through all layers of the organization to pinpoint the drivers of historical underperformance and identified the challenges and opportunities ahead.

We've concluded that the issues restraining our performance are addressable, and not systemic. They are concentrated within specific segments like Customer Care and our Other segments where we have already begun making progress in addressing them. If I look beyond these specific challenge areas, I see we participate and hold leadership positions in many high growth market segments with attractive margins which we intend to amplify.

So, against this background, I'll describe the two paths we are taking to achieve profitable growth. One, growing our top-line profitably through a sharpened go-to-market capability and greater consistency in applying our innovation capabilities. Two, drive margin expansions with significant cost takeout and address underperforming businesses.

Let me dive into the details of these. Growing Conduent's revenue begins with winning our fair share of market opportunities. We need to engage more by building a stronger go-to-market team with more domain knowledge, cutting-edge technology and process tools, and modern platforms that are cost and capability competitive in the marketplace. When we do this, we will acquire more business, penetrate our clients along more service lines and expand our client relationships. As a result, we'll realized higher returns from our existing capital, drive sales efficiency and productivity, and drive higher margins from our services. Ultimately, we believe investments in these areas will strengthen our client value proposition and make us a more competitive player.

Much of the work we do today involves managing the millions of interactions our clients have with the people they serve. Our clients rely on our solutions, do not just create efficiencies and manage process but to deliver seamless, personal interactions using the latest technologies and analytics. In that respect, our ability to invest in and leverage our innovative capacity will be critical to participating in the industry's growth. Our capabilities in automation, data analytics and user-centric design positions us well.

Let me give you a few examples. In customer care, our recently launched ClearSight platform provides intelligent automation of simple, routine as well as complex processes and a more effective management of business process workflows. In transportation, we're developing mobile solutions, data analytics for traffic management and parking services. And in healthcare, we provide personalization and analytics for integrated healthcare solutions, care integration risk assessment and recovery services. For example, Midas+, our platform for the provider industry, has been delivering innovative technology and work process for the healthcare industry for nearly three decades now.

Going forward, we intend to put even greater emphasis on these differentiators, we will therefore remix our business to higher growth and higher margin solutions and platforms.

Now, let's look more closely at what we are doing to improve margins. Earlier this year, we began a three-year strategic cost transformation program to deliver $700 million cumulative cost savings through 2018. These focus initiatives currently underway are from across the business, from automation to supply chain and performance management. So far, we've made significant progress on this program, and we are set to launch Conduent with the most optimized cost structure possible. Here's why.

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We've already seen expanding margins by about 550 basis points year-over-year in Q3 as a result of these initiatives. Through the third quarter, we have recorded $57 million in restructuring charges related to this program that translates into margin improvement in the coming quarters. Through these and other actions, our profit and margin expansion opportunities are significant.

The other facet of our margin expansion plan is addressing our underperforming businesses. We are focusing on three areas: one, unprofitable customer care contracts; two, Student Loan business; and three, our remaining healthcare enterprise implementations. Work is underway in all these three areas, and here's a brief update on each.

To improve our results in customer care, we are renegotiating pricing in terms of underperforming contracts and renewal, reducing our call center footprint by consolidating work, leveraging automation and analytics to optimize internal efficiencies and service offerings and aggressively tackling performance, employee retention and recruitment issues.

Our Other business segment lost about $100 million last year and has lost about $75 million in the first three quarters of this year. This business at breakeven would translate to about 150 basis point lift to corporate margins. The Student Loan business is running off and the negative margin impact will come down. For Health Enterprise, we will honor our existing contracts and optimize our work to improve profitability. This work is already benefiting our bottom line, and over the medium term will contribute to a significant margin lift.

In closing, we are going through a significant transformation to position our new company for long-term success. Our philosophy is simple but powerful, driving profitable growth that can be sustained over the long-term, and we have mapped out a clear and realistic roadmap to achieve our goals.

We want to build a predictable, scalable, long-term sustainable and profitable growth company, and we believe that we have the team, the strategy and the energy to accomplish that. I look forward to the official launch of Conduent on January 3 and sharing our progress against our strategy with you in the coming months.

With that, I'll hand over to Brian to speak in more detail about our historical financials and our outlook. Thank you.

Brian Webb-Walsh

Chief Financial Officer, Xerox Services, Xerox Corp.

Thank you, Ashok, and good morning, everyone. I'll start with an overview of our historical performance and specific drivers that impacted our results. Then, I'll provide some color on what you should expect going forward and how some of the specific actions Ashok discussed will translate into our future performance. I'll close out with some comments on our balance sheet and capital allocation policy.

So, on slide 19, let's start with our historical results. As you can see, revenue has declined since 2014, and through Q3 year-to-date, revenue was down a little over 3%, and in the most recent quarter, revenue was down 5.4%. The 2016 decline is primarily driven by a few distinct factors. First, our Student Loan business is in run-off. Second, we have purposely exited some unprofitable contracts, primarily in customer care. We've also seen lower volumes from some of our clients and we've had no M&A investment in 2016 due to separation, which is atypical for our business.

And lastly, we have not signed enough new business to offset these other factors. However, as you heard from Ashok, we can overcome these issues and we have a clear plan to address them. On the positive side, I'll note

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that adjusted EBITDA and margins have stabilized in the past quarter as we've made progress in our strategic transformation program, which I will talk about a bit more later.

We've also provided more detail on a segment basis in the appendix, but I'll note here that the Healthcare and Public Sector margins have showed margin improvement year-to-date and our Commercial Industry segment started to stabilize, reflecting the benefits of our Strategic Transformation program.

Overall, the company's segment profit was up 7%, Q3 year-to-date compared to the prior period driving a 50-basis-point margin expansion. I'm encouraged that we're on the right track here. As you can see, we expect revenue to continue to decline in Q4 at a similar rate of decline, as we saw in Q3. A number of the factors I mentioned including exiting non-profitable contracts and the run-off of the Student Loan business will continue.

However, our focus remains on profitability and I expect that we'll continue to see margin improvement in Q4 from both the segment profit and adjusted EBITDA margin perspective, coming in both higher sequentially over Q3 and higher year-over-year. This is the trend you want to see from us. We're not going to grow top-line for growth's sake. Our focus will be on profitable growth.

With that background, let's turn to free cash flow. This is a business that supports strong cash generation over the long term. You can see that we have relatively low CapEx, so our historical conversion from adjusted EBITDA to free cash flow is high. 2016 will have one-time items impacting free cash flow, which will result in lower free cash flow compared with the $300 million in 2015. These items are about $150 million of settlement payments associated with exiting our Health Enterprise platform implementations in California and Montana.

About $100 million use of cash is a result of ending the majority of our accounts receivable factoring program, which we will do in Q4 of this year and separation-related costs. We will also have the impact of restructuring charges in 2016 of about $100 million, which should moderate to about $75 million in 2017 and 2018, and then are expected to come down to historical levels of about $25 million after that after our transformation program is implemented.

Most of these restructuring charges result in cash payments, which tend to lag the P&L charges by a quarter or two. We'll have the cash tax benefit in 2016 as a result of some overpayments in 2015. But, generally, our cash taxes are higher than our P&L taxes, and that should be expected going forward.

Looking ahead, we're confident that our operating model can support continued strong and sustainable free cash flow generation even with the increased interest expense we'll see going forward. This will largely be underpinned by our margin expansion initiatives and further supported by relatively low CapEx. This free cash flow gives us confidence in our ability to support future growth investment.

In terms of the walk from adjusted EBITDA to free cash flow, I'd encourage you to review slides 35 and 36 in the Appendix, which provides the non-GAAP reconciliation from net income to adjusted EBITDA and then to free cash flow.

Moving to slide 21, we'll talk about future performance drivers. We believe our strategic plan will drive top- and bottom-line growth, generating free cash flow that we'll reinvest in high-return opportunities. As Ashok mentioned, we operate in a $260 billion market growing 6% annually. To grow revenue, organic investments will be focused on targeted opportunities to support new business signings and sustained renewal rates. This, along with M&A, will stabilize revenue and lead to growth over time. This increased business focus, strategic transformation program and turning around underperforming areas will drive margin improvements and profitability.

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In terms of focus, we will prioritize those businesses that have the greatest opportunity to expand our margins and improve returns. We will simplify and streamline operations by utilizing technology to deliver our services in the most efficient way. While we'll remain focused on growth opportunities, we also need to turn around or reduce the drag from underperforming businesses such as the student lending and Health Enterprise platform which are both in our Other segment, and our customer care business that is in our Commercial segment. These businesses today are dragging down margins. We will ultimately reduce our margin volatility and allow for cash generation, which will be invested back into the business.

So, moving to slide 22, we'll talk about our financial performance outlook. Let's spend a minute and discuss the long-term prospects of the company in a bit more context. This should also help in how you're modeling the company and how the strategic initiatives will translate the top- and bottom-line growth.

First, I'll note that we expect revenue declines in 2017 to be similar to the declines we saw in 2016, as a result of the factors I mentioned earlier. However, we expect to stabilize in 2018 with growth potential later in the year. And by 2019, we expect to see adjusted growth – we expect to see revenue growth accelerating.

Adjusted EBITDA is expected to expand in both 2017 and 2018 by greater than 5% and 10% respectively. Beyond 2019, we expect continued growth in adjusted EBITDA, as we grow the business. We will be focused on reinvestment to create shareholder value. This will be reinvestment with enhanced focus to capture market growth opportunities by increasing the size of our sales force, investing in platforms and technology and looking at M&A, which will be somewhat limited in 2017, as we build our cash balance, but cash spend on M&A should increase to historical levels of around $200 million per year by 2018 and beyond.

As you can see, we expect our conversion from adjusted EBITDA to free cash flow to be approximately 20% to 30% in 2017 and 25% to 35% in 2018. This reflects among other things the majority of the California and Montana Health Enterprise payments being behind us, projected interest expense and restructuring headwinds and EBITDA growth. I am confident our plans position Conduent to improve from the current performance levels and to drive these goals.

Moving to slide 23, I'll talk about strategic cost transformation in more detail. I want to provide a little more context on our strategic cost transformation program, which as Ashok has mentioned, is fundamental to our strategy to drive long-term profitable growth at Conduent. First, note that about $170 million of these savings will address business as usual cost pressures this year.

However, we see an incremental $530 million of transformation savings, of which $50 million will benefit 2016 and the rest will be split between 2017 and 2018. The $530 million of transformation savings will do three things: first, cover $50 million to $60 million of stand-alone costs; second, improve profitability; and third, fund the organic investments we discussed in go-to-market and platforms.

A bit more background on the program – working with a leading consulting company, we assessed productivity and cost-saving opportunities across the business, created detailed plans for each initiative, and built a management system to track our progress against these targets on a weekly basis.

The measures we are taking to reduce corporate-wide cost such as reducing G&A overhead, optimizing vendors and focusing on reducing our IT spend are expected to deliver approximately $270 million of the $700 million in savings. The balance comes from implementing segment-specific initiatives to strengthen each of our businesses such as enhanced performance management, improved utilization of our workforce and moving work to lower

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cost locations and applied automation. The largest impacts of these actions will be realized in our Commercial Customer Care business, as we look to turn that business around.

Let me give you some more detailed examples of how this is going to take place. In G&A, finance and accounting reductions is one of our bigger opportunities. We benchmark performance against other companies and have designed initiatives to close the gap to benchmark. My function is being streamlined through new tools, lean delivery model and offshoring. We're also reducing spans and layers, simplifying our structure and processes and empowering our people.

In procurement, we're implementing a centralized management system consolidating suppliers, renegotiating agreements in tightening business-wide policies. We're also very focused in consolidating and reducing our facility's footprint.

In customer care, we've identified many cost savings opportunities such as general restructuring the business, contract remediation, automation and shift to low-cost delivery centers and greatly enhanced and globally standardized employee engagement and support model, including performance management and KPIs.

These examples will provide a little more detail behind the program. We currently have a pipeline that supports the $700 million we are targeting by 2018. These actions will create a leaner, more efficient organization, drive margin expansion as well as create the capacity for organic investments in the business, which is needed to turn our top-line performance around.

Let's move to our capital structure post separation on slide 24. Over the past few weeks, we finalized financing to capitalize Conduent with $225 million of cash and approximately $2 billion of debt. Mandatory debt repayments and maturities are serviceable with a weighted average of six years and no significant maturities due until 2021. We anticipate our $750 million revolver will remain undrawn as of the separation date. In terms of the current net leverage ratio, we are at 2.8x net debt-to-adjusted EBITDA as of today.

Our target for net leverage ratio is to be less than 2.5 turns, as we plan to reduce leverage over time by growing adjusted EBITDA and making mandatory debt payments. So, we're comfortable with the nature of our balance sheet and continue to believe our post separation capital structure provides liquidity needed to execute our strategy and drive profitable growth.

Moving to slide 25, disciplined capital allocation. Our post separation capital allocation policy prioritizes ongoing business needs and growth opportunities. We do not have current plans to pay a common dividend or to repurchase shares. We'll fund operating expenses and capital expenditures to maintain our ongoing business and service our scheduled debt payments.

Beyond that, we plan to invest in sustainable long-term growth through tuck-in M&A and organic investments. And again, we're committed to growing adjusted EBITDA to get to a target net leverage ratio of under 2.5 turns. Our focus is to create long-term shareholder value by investing in the business to take advantage of the market growth opportunities Ashok talked about.

With that, I will now turn it back over to Ashok. Thank you.

Ashok Vemuri

Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

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Thank you, Brian. So, let me conclude today's presentation by reiterating why we believe Conduent is a good investment poised for growth. As I have mentioned earlier, we have a leadership position in attractive market segments of a large and growing industry. We have a large and diversified client base across multiple market segments with a contract and revenue mix supporting stability and mitigating risk.

We are working to maintain a stable recurring revenue model that generates strong adjusted EBITDA and free cash flow with gradual top-line improvements. We have a major productivity and cost transformation program underway to ultimately deliver margin expansion and future investment capacity. And we will remain disciplined on how we allocate capital with a clear focus on high-return opportunities that drive sustainable and profitable growth.

With that, thank you very much. We'll take your questions. Alan?

QUESTION AND ANSWER SECTION

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

A

We'll have two mics being passed around, so why don't we start here.

George K. F. Tong
Analyst, Piper Jaffray & Co.

Q

Hi. George Tong with Piper Jaffray. A two-part question on margins. First, on slide 15, can you discuss which of your key initiatives you expect to be the principal drivers of your margin expansion? And then, secondly, can you provide some details on what you expect for incremental investment spending out of your $530 million net transformation savings over the next three years? Thank you.

A

John?

A

Yeah, So, if you look at the transformation program, two things are going to drive margins over the next two years and then five years. One is fixing the Other segment, as Ashok mentioned, if we take that to breakeven, that's worth a 150-basis point margin improvement. And the second would be the cost transformation program, the $700 million of which $530 million is incremental. And that will be split between covering the corporate costs of the stand-alone company, which is about $50 million to $60 million, and then the balance will be split between profit improvements and investing back in the business. We haven't given the exact split of what that will look like, yet, so we're still working through that.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Shannon Cross, Cross Research. Can you talk a bit more about where you are in terms of exiting the unprofitable contracts? Because, you've gone through this with HP Services and sort of watched how that worsened and

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ultimately, we started to see some significant improvements. So, I'm curious, if you think about the percentage of revenue or percentage of contracts that you think are either underperforming or negative margin, and then how many of those you think you can renegotiate? How many you think you can walk away? I know you're just starting the process, but if you can give us some more color there?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Sure. So, let me give you some color. We are starting that process. We started that about a few months ago. So, it's early days but our initial conversation with our clients is indicative that this will not be as negatively perceived or received as I thought it would be. I think we have made our position clear with our clients that if we are not making money, we are unable to reinvest that back for service to you. Most of our clients have come back and said, look, we do not want a service provider to be making losses because that will have an implication on quality, it will have an implication on how we ramp up, et cetera. So, we've been able to negotiate some of them.

The good news also is that in our Commercial sector, where it's a significantly lower margin, the contract tenure is fairly short so, most of these that are coming up for renewals, we are able to get in front of our clients. I would say, the success rate on some of the – across on Commercial is middling. I would say, we are at about 40% to 45% where we've been able to get the client to agree, but it will take time. But the early indicators are good.

Shannon S. Cross
Analyst, Cross Research LLC

Q

And then can you talk a bit about the back office systems at Conduent? It was a company prior to the Xerox acquisition that was essentially rolled out with many different companies. So, I'm curious as to where you see the back office systems? How much, I don't know, insight you can gain from the data that comes through? Just what's there and this is something that in a couple of years we're going to have to be looking at as significant upgrade? Thank you.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yeah. So, let me take that. So, there's tremendous amount of data that we collect. Every interaction, whether it's through our care centers, whether it's our transaction processing, payments processing, et cetera, I think we have to get better at monetizing all the data that we are collecting by overlaying that with a significant amount of analytics capability. The good news is we do have those platforms that we can sort of build on top of the data that we are collecting. Now, we have to figure out how to sell it back and monetize that much more effectively. But clearly, that's the direction that we are headed in. Even in our care business, there is a tremendous amount of analytics and mining and warehousing opportunity of data that we have. And we intend to deploy that very, very strongly.

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

A

And I would just add from a back office, finance, and HR and payroll systems, the good news is we never integrated with Xerox. So, we have our own systems. So, that's one piece of good news. But we do have multiple systems and we need to consolidate going forward. So, that is an opportunity we'll be focused on.

Q

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Thanks, Alan. Brian, you have alluded to the delta between cash and book taxes earlier in your comments. Could you elaborate on that?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.
A

Sure. So, typically we see higher cash taxes than P&L taxes, because we have intangibles related mostly to the ACS acquisition by Xerox. And they amortize about $250 million in the P&L every year. Those help from a GAAP P&L tax perspective, but they don't help from a cash tax perspective. So, if you take the statutory rate times $250 million that gives you kind of a rough idea.

Q

And then, Ashok, I was hoping to ask operating question. So, will you run the company towards a utilization rate or an onsite, offshore delivery rate? How should we be thinking about those critical components of your cost structure?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.
A

Yeah. So, two or three things that we need to understand in the way we are constructed is about 78% to 80% of our revenue base is transaction-based pricing as against some of my competitors who have a preponderance of time and material. My time and material business is 6%. So, 80% is transaction-based processing. So, I have a lesser people dependency than some of my competitors. So, a lot of my business is platform-dependent, it's technology-dependent, and those are the areas that we intend to amplify.

Clearly, the metric for our performance management is going to be the top-line, growing that in a profitable fashion. I think the other metric, as we evolve into what we would like to be measured on, we will of course share. But clearly, the thing to understand is that our business is very different from your typical BPO model in how dependent it is on technology and how independent it is of labor.

So, the point is, that some of the metrics that are there in the industry may not hold true from a utilization or from a number of people that you've hired and so on and so forth and offshore ratios, et cetera. If I look at – just to add a little more color, if you – 50% of my employees are outside the United States. We do not do any travel or work permits to bring people into service. It's all based on platforms and technology.

Matthew Cabral
Analyst, Goldman Sachs & Co.
Q

Yeah. Thank you. Matt Cabral from Goldman Sachs. I wanted to ask a little bit more about the revenue outlook. I guess it sounds as though you don't expect growth until the back half 2018 despite what sounds like a mid-single-digit growth rate for the market as a whole. So, could you just dig a little bit deeper into what's actually driving that delta? And how much you think is self-inflicted from walking away from contracts versus maybe other factors that are at play? And then, what gives you the confidence that there is a turnaround coming as we start getting deeper into 2018 and going forward?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.
A

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So, let me kick this off for me and then I'll hand it over to Brian. So, there are two or three things. The construct of Conduent or Xerox Business Services was under the aegis, if you will, of a manufacturing hardware company. So, the investments or the go-to-market or the solutions that were designed, how it was sold, who it was sold to, how we wrote the contracts, how we price it, et cetera, are very, very different from where a services business in the BPM industry would be. So, we have to correct for that, number one. And that's going to take some amount of time as we sort of spin ourselves off into a services company and begin to adopt a much more services orientation, if you will.

The second is that we believe in the marketplace. There are some parts of our business that are underperforming and those we need to make strategic decisions on turning them around or trying to find an option that where we do not continue with them. We also need to amplify some of our positions, some of our capabilities that are very, very strong. And I mentioned some of them as industry-leading.

But having said that, we are in a very – we're adding – the industry is adding $15 billion new incremental dollars every year. In my opinion, even if we stand still, we should get more than our fair share of that. It's a highly fragmented industry. We think there's tremendous opportunity for consolidation because most of our competitors are subscale and a single capability. And I think, with our reach, our range and our depth, we should – as we generate the investment dollars and put them back, we should be in a position to, as you rightly said, in 2018 be in a position to drive fairly aggressive growth. Brian, would you like to add?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

Yeah. I would just add that if you look at the revenue decline this year, about half of it would be what I would consider self-inflicted. So, decisions around the Other segment to deemphasize, were to let it run-off, and then contract exits. And then the other half would be not enough new business signings to offset the pressures.

Looking at M&A, typically we spend a couple of hundred million on average in M&A a year, which gives 1 point to 3 points of uplift on the revenue growth rate. We haven't done any M&A this year because of separation. And we think it's going to be relatively small next year just because we need to generate free cash flow to afford it.

And then the organic investments, which come from the transformation program and need to be funded by the transformation program. But investing in the sales force, modernizing our offerings that will take time to make the investment because, we have to be able to afford it, and then it will take some time to pay back. But the good news is, we operate in an industry that's growing 6%. So, there is the opportunity. We have a plan to capture it.

The other thing that's important to note is on margins. Our third quarter year-to-date margin is 9.4% adjusted EBITDA margin. Our competitors run north of 15%. So, we have a lot of headroom on both revenue and margin to drive improvements, and we have the plans to do that.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hey, thank you. It's Tien-tsin Huang from JPMorgan. Just curious, just a simple question. Just, Ashok, how do you think about the culture of Conduent? You come from a couple different places here. How do you see the opportunity to change the culture? It sounds like you mentioned a manufacturing sort of comment, which we've heard before which is helpful. But where do you see it going here beyond what's in the paper here?

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Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yeah. I think the Xerox Business Services is predominantly made of ACS, which had a distinct culture of aggressive go-to-market. I think we have, from the Xerox portion inherited the engineering chops. So, we have a fairly very – in fact, I was amazed at the cutting-edge transaction processing engines and platforms that we have. So, combining them in an optimal fashion would be – is possible. I think we have – as the management team is coming together both new and old, we're beginning to see that the market opportunity exists, our clients continue to be loyal, renewal rates are fairly high. We won 8 of the top 10 renewals that have come up this year. So, I feel very positive with my team and with the mission that we have in front of us, and I think it's achievable.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. Now, it's helpful. Then just in the mid-term that the revenue formula of new sales, retention, pricing, your burn rate, et cetera, how do you think that will trend? We look for any signs of improvement or deterioration in each of those key items in the mid-term.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yeah. I think as Brian said in his presentation, we're looking at 2017 to sort of trend quite similar to 2016. It will – we're clearly focused on driving profitable top-line. We are disadvantaged to the fact that we have only 300 sales people for a company our size. I think while the fat was being cut, we've touched the muscle as well. So, we'll have to ramp that up and fairly aggressively, repurpose some of our service delivery leads in order for them to be in the marketplace as well. And continue to sort of stabilize the business, which I don't think is as onerous a task as it sounds, because a lot of work is already in progress. And we have taken a very hard look at some of our business and have taken an approach where if we think there is headroom for it to grow, if it's a strong business, we'll stick with it. And if there is a business that does not find a place in the future of Conduent, and then we will take a fairly quick and dramatic action on it. The good news is the new management team and me are not necessarily bedded to any of the decisions that have come before us.

Q

On the 40% to 45% kind of renewal rate you're getting on the Customer Care side of the business, can you talk to the margins you're getting on that side of the business? And then separately, as we think about the transition and progression through 2017, should we expect quarterly margin improvement sequentially throughout the year so that we're exiting 2017 in a fashion that is much higher than what we end 2016?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

So, first of all, Customer Care renewal rates are not 40% or 50%. I think Ashok was saying, as we're approaching customers on price increases, about 40% of the time, they're working with us and some of the other cases they're not. And there's other leverage besides price increases to improve a contract. So that's just one point. If you look at our renewal rate, it's 86% this year year-to-date. It was 86% last year, 82% the year before that, and it's pretty consistent over time by Commercial, Public Sector and Healthcare.

In terms of margin, we want to see sequential improvement, although there is a seasonality where Q4 tends to be stronger. But I would expect that we'll see good improvements going forward. It might not be every quarter, but we

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should see good margin improvement next year overall. And we need to continue to look for year-over-year and sequential and engage it. But there is a seasonality where Q4 tends to be a little stronger.

Yeah. So, pricing on renewal, we typically see pressure, maybe 5% to 7%. And typically, prices between a 1% to 3% issue a year for us, and we have to offset that with cost actions that we model deals, we model the cost improvements to offset and maintain the margin. Typically, when we model a deal, we're at 10% margins or higher. The problem in customer care isn't necessarily that we model the deals to lose money, but we didn't have the right guardrails, contracting guardrails with Customer Care to make sure we could deliver the modeled margins, and that's been a huge focus as part of the transformation this year as to have stricter contracting guidelines, which is also slowing down new business in that area a little bit.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yeah. If I may also add, we've already seen 120 basis points improvement in Customer Care margins year-to-date.

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

In Q3. Yeah.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Q3.

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

Standalone Q3.

Q

Thanks. Philosophically, can you talk a bit about your thoughts regarding growth versus margin? And then we've gone through different iterations at ACS and Xerox with – now we're focused on growth and the margins get back in that. And so I'm just curious as to how you sort of think about balancing it against the sort of 6% market growth potential that you see.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yeah. So, these are not mutually exclusive events. I mean, we want to do profitable growth. And for me, profitability is two things. One, it's the value that our clients think we're bringing to the table. And secondly, it's a report card on my – me and my management team and how we're running a company. So given that, we definitely want to maximize both. So, profitability is going to be important. But we are not going to sort of yo-yo as we have done in the past between one or the other. I think there's significant elasticity that can be monetized through our benefit for that.

As Brian also said, we're not going to go after growth for the sake of growth. We're going to make this a very predictable and a long-term sustainable business. And I think the way I described it, my management team is –

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we're going to make this into a very boring business very, very quickly. So, we're not going to chase a $1 billion deal in remote part of the world, which cannot be scaled or cannot be repeated. So we think that it's possible in this business given the headroom, the margins where our competitors are at, and how the industry is spending. We can achieve that profitable growth mission.

Steven Schneiderman
Analyst, BMO Capital Markets (United States)

Q

Hi. Steve Schneiderman from Bank of Montreal. I wanted to ask regarding the fact that we're going to see some revenue headwinds looking up to 2018, but in order to generate some revenue growth, you have to generate signings growth to help facilitate that going forward. Do you see a pathway to signings growth in 2017 as well or is that something that will also be challenged going to 2018?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yes. So, signings growth, that's probably – if it's one indicator that – or metric that people need to sort of look at us in the next six months, that's signings growth. If you look at our performance, renewals have been good but new business signings have been weak. So, the one thing that we are going to focus on is we don't need anymore many new clients. We have enough clients and more if you will. What we need to drive is a high degree of service penetration level. At this point in time, I guess our service penetration ratio is about 1.1 to 1.2. We need to definitely take this up to about 1.7 to 1.9. There's a number of service lines that we are selling.

We are also doing a lot of one-off sales or one service sales. We need to do a lot more of bundle sales price on outcome base, I'm already at 80% transaction volume pricings. I don't have the fungibility issue of labor. I'm already doing this on technology. So to bundle multiple service lines on a platform is that much easier at least theoretically than for somebody who's trying to do this off the back of label. So I think that that transformation to drive more signings in terms of new service lines into existing clients, and of course, we want to drive a little bit of new logo, a new marquee name, logo, that I think will be a secondary consideration. More will be a focus on mining the accounts and driving deeper into them than just running after new deals.

Q

Ashok, in terms of your 100-day plan, what are your key near-term initiatives for improving the business and how will you measure your success?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Yeah. So, the number one is we spin off from Xerox. That is in itself a task. We want to spin off in a way that gives us the opportunity to be successful from January 3. And so that, I have to say Xerox board and management has been extremely supportive in helping us stand up s new companies. We have to stand up a new company, replicate some of the – not too many because we were not fully integrated, but replicate some of the corporate functions and processes, hiring a management team that shares the passion and energy and the vision, and that's, fortunately, in good progress, and I deliberately did bring my management team with me to the extent I could.

The way to look at ourselves is we do not – we have to lever up to quite an extent in our capital structure. We do not want to lever up anymore. We definitely think there's an opportunity to drive a higher degree of operational efficiency and productivity. We're creating an organization structure which is focused on – which is, as I call it,

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instead of being mile wide, inch deep, it's an inch wide, mile deep. We want to focus on hiring people and retraining ourselves to attack the specific functional domain knowledge of our clients. We want to be in the business of solving their business problems rather than being just a BPO company.

So, the way I'd look at myself in the first 100 days is spinning off, creating a balance sheet in a capital structure that's amenable to all the things that I want to do, building a management team, recreating a sort of a culture that is more go-to-market and client-centric. And literally shedding off, if you will, a construct of a hardware or a manufacturing company cost and become a true services company, which is about being in the market, being technology driven, sort of being able that relates to the changes that are happening in the marketplace, et cetera, and being very, very close to the clients.

I think that in my first 100 days, we managed to meet about top 25 of my clients. We've sat across the table. Those conversations I thought would be hard because we were spinning off from a very storied company and what would that mean. But we have not had any conversation. I think the response from our new clients is okay, we understand. Well, some of them know me. Some of them know the management team, and we are looking to see what you can do differently.

So, it's positive to – ranging from positive to – when you do it, come back and talk to me kind of thing. So I feel good about where we are. I feel good about going in January as a standalone company. And I think it will take time. It's not an uphill task but it is a journey that we have to take.

Q

Thank you.

Q

[indiscernible] (54:56). When you talk about the $700 million of cost savings, and then you talk about getting out of certain contracts that are losing money. Are they in the same bucket? And I guess I also don't quite understand, of the $700 million that you talked about saving, what percent of that actually is incremental EBITDA then versus just somehow you're spending in other ways?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

So, getting out of – getting the Other segment to profitability over time or getting at least to not losing money is separate from transformation, and that has a 150 basis point impact if and when we do that and that will take time as student lending runs off and as we implement our New York MMIS contract and have the other Health Enterprise contracts that we're managing to profitability.

The transformation program, the $700 million, again $530 million of that is incremental. And of the $530 million, $50 million to $60 million needs to go towards standalone cost. The balance will be split between EBITDA margin improvement and investment back into the business. We haven't given that exact split, but we have a ton of headroom between where we're performing now at a 9.4% margin and where we need to get to which is where the industry is, 15% or more. That will be a journey, but that's the context that we're thinking about.

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Q

So, those numbers then, if you were successful, are far greater than that 5% or 10% EBITDA growth?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

That's right. And that's why we said at least 5% and at least 10%, but you're correct.

Q

Hi. I was hoping you could elaborate a little bit more on the focus change in the talent acquisition that you spoke of. We heard about this from the prior management team that there is a need for a talent upgrade and a need to hire salespeople and yet, we didn't really see the types of growth that people had expected.

Could you talk about more specifically the type of talent that you need and the type of services that you're looking to provide that maybe Xerox hasn't provided. And in that context, when the IT piece was spun off to Atos, might you be going back to some of those areas that Xerox has left behind? Thank you.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Okay. So, I think so multiple parts to your question. So, let me take them one-by-one. In terms of leadership, we need leadership that is well versed in the services industry. We need a leadership that sort of believes that this is an asset that has the legs to transform itself. I think both of those was sort of missing in the prior dispensation, if you will. I cannot comment on what management said and did in the past, because I was not there. But clearly we're looking for people who have, at a general management level, a strong services background and they have the – they sort of – they believe in the story that we – where this is going.

Also we need significant talent in digital capabilities. I think as the world is moving towards more mobile, more digital, more analytical, I think we need to move away from the traditional BPO definition because I don't think that's going to last. We just did a very large robotic automation implementation in our Care business, reduced labor by 40% and increased productivity by 20% which, of course, the bulk of it we shared with a client because the contract was written that way. But going forward, we will be keeping the bulk of it.

So that's one part of what we need. We definitely do not need to be in so many parts of the world. So I don't think we need that management breadth. We are in 42 countries. We should not be in more – I think we'll probably can give up 39 of them. We want to be singularly focused on the U.S. market and Western Europe. This is where 78% of our business is U.S. This is the market we understand. This is the market we are the best in.

In terms of – you cannot run a process company unless you have – it's built on three layers. It's built on software development platform and at the bottom it's built on infrastructure and network. So one of the first hires that we actually did was our CIO because we do not believe that you could have – the way I describe it is you can have a very fancy laptop, but you've outsourced your power cord and you've outsourced the outlet. They're going to yank out the outlet and they're going to throw away the power cord. You would be left with a very fancy laptop. So clearly, we are a technology and process company and that's where we intend to go, to your question about what we've outsourced.

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James Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Ashok, it's Jamie again. Could you talk more philosophically about risk management at the company? For those of us with institutional memory, we've chronically seen failed implementation at Xerox. Why is it going to be different this time?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Well, many reasons. One is I think if you look at our – that's probably not a great characterization that we've only seen failed implementations. We probably don't talk enough about the ones that we've been successful at. If you take our Healthcare business; I think we got ahead of ourselves in terms of not having the platform at the time when it was launched, not understanding the requirements of our clients, not managing the states in a way that they made frequent changes. There is a certain discipline to software development and implementation. I think we've got to go back to those roots in terms of requirements capturing, change management, implementing a large-scale program. Clearly, there is no place in Conduent for long-term – long-tenure contracts. Clearly, there is no place for extremely large tenure transactions with of course the exception of Public Sector where that's a requirement. And I think we'll not be doing anymore turnkey programs where we sort of inherit all the junk and you have to reshape that and you have five, seven years to do that. No, I think that era has long gone by. We learnt it the hard way, but we've learnt it. So we will not be doing that.

Also, we do not need to be building everything in-house. Today, you can buy everything, everything off the shelf and whether it's tools, cloud, platforms, there's components that you can buy. I don't think we need to be so strongly balance sheet-invested in some of these capabilities-building which has implications on cost and how we do things. And I think we do not need to be, as I said earlier, in parts of the world where we just simply don't understand how business is done. So we have to take our management team, our resources that we have and focus them on the markets and segments, short term, predictable, scalable, repeatable businesses rather than sort of reinventing the wheel, if you will, every day and doing firefighting all the time.

James Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Is New York going to launch on time and on budget?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

So on New York, we've disclosed that it's behind and it's not on time and it's costing us more. We're working on an amendment with the client. We're negotiating that now. We're not sure what the outcome's going to be. There's $120 million on the balance sheet related to New York, which could become impaired if it's not successful. It would mostly be non-cash. But we are – that's active and we're trying to drive as much clarity prior to separation on that.

Brian L. Essex
Analyst, Morgan Stanley & Co. LLC

Q

Hi, thank you. It's Brian Essex from Morgan Stanley. I was wondering if you could tell us what do you consider the most substantial liabilities not just from a balance sheet perspective but from a risk perspective that you'll inherit for Xerox and then when you might expect those to be remediated. And I guess I'm speaking from a liability or an expense standpoint, maybe it's a data center you're doing with Atos, or from a risk standpoint maybe the lawsuits

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with Texas Medicaid and consumer protection agency. How do we think about that over the next like two, three years?

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp. **A**

So think about the liability is going with the part of the company where the liability is generated generally. That's the approach. So Texas Medicaid comes with us because it started in the Conduent business. I think the lawsuits that are – or the investigations, that lawsuit that's laid out in the Form 10 are the material risks. And then New York MMIS, which we just covered, is something that we have to be on top of and manage. I think all of the decisions that we made around the Other segment, not letting the student lending business run off, deemphasizing government healthcare and only focusing on the current implementations, exiting Montana and California, those were all done to reduce risk and give us a stronger foundation to launch from. And we need to continue with the risk mindset as we go forward, which is what Ashok said. But that's how I looked at it. Would you add -

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Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp. **A**

No, you hit it.

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp. **A**

Yeah. So Atos is a key supplier of ours. And we will look at, as part of our transformation, maybe what we want to in-source. But Atos will be a key supplier at some level.

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp. **A**

Yeah. And I think we will do a much better job, if you will, of managing our key suppliers especially on the tech front. Carol, who is our CIO, has recently joined us. I think that's one of the first mandates in terms of managing some of the people who supply both capability as well as infrastructure.

Q

Hi. Could you remind us what the unallocated cost run rate from the split is? And is that pretty much 50-50 between you and Xerox or how is that determined? That's -

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Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp. **A**

Unallocated costs meaning dis-synergies related to separation?

Q

Okay.

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp. **A**

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Okay. So $50 million to $60 million of dis-synergies related to separation, which are mostly with Conduent as we set up our own board of directors, our own corporate functions and some IT that we had to duplicate because even though our back office wasn't integrated, things like e-mail systems were. So that's primarily what it is. It's starting to hit us this year, probably about $15 million of the $50 million to $60 million will hit us this year. And then it'll be ongoing cost and we need the transformation program to offset it.

Q

Ashok, you talk about trying to mine your clients and try to work up the stack to increase digital processes and offerings? Do you have a framework for how much of your revenue today comes from said digital processes and offerings and what's growing at similar – to what some of your peers are doing? And on a second question. Brian, can you talk about – with the Student Loan and the Healthcare and Other portfolio, I understand you're working towards breakeven presumably by 2018. But what is the revenue runoff rate looking like for that segment in particular so we could figure out how much of a drag that's going to be over the next year plus?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

So let me address the first one. Yeah, we have a semblance of an idea, if you will. It's pretty easy to sort of characterize every business as digital. And I think everybody does that. And so I'm sort of facing that. One day, I think it's 100% digital company. On the Others, I think it's probably 1%. So I'll come back with a better sense and feel for what exactly is digital the way I define it. But clearly, if you look at some of our platforms in our Public Sector space, we are I think way ahead of the market in terms of our capability and the deployments that we have. And the technology is really cutting edge. The job now is to take these disparate assets that we have, all leading edge, and sort of make them more uniform and bring them to bear on every aspect of our business. We have great assets in Public Sector. We have some great assets in Commercial and they don't seem to sort of – they seem to be very standalone in their own silos. So that's the job we're going to do. That's the more important part of the job I want to do. Brian.

Brian Webb-Walsh
Chief Financial Officer, Xerox Services, Xerox Corp.

A

So on the Other segment. First, I wouldn't say by 2018. It'll be breakeven, I think, over the next four years. That would be the goal. And if you look at the student lending part of it, next year it'll probably run off at around 20%. And the Health Enterprise is going to be dependent on what happens with the New York MMIS negotiations because that's the main component of it right now. But the student lending will continue to run off similar to this year. And that has a long tail on it, but the impact becomes less and less after next year.

Q

Hey, Ashok. So your prior firm, you had like two key components that really created a lot of value for that company. It was combining IT and BPO and going out to market with that combined offering. And the second was going after large clients, large deals. Just as it relates to Conduent, is there anything like that that you can share with us in terms of what your vision is that you might be driving towards or at least some indication of how you're thinking about it?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

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Yeah. So clearly, IT-BPO, the combined story is the one that finds resonance. Pure standalone IT is a commodity. That's basically a very fast – fastly moving into lower-margin business. And let me not say anything more than that. So the future is with IT-BPO. The person who or the company that owns the process is actually going to own the client because IT is a back end. It's a commodity. It can be bought off the shelf and there's customization that the software itself can do. So process ownership, process understanding, process competency is actually going to drive the next value proposition. And that itself is built on technology. So you need to be a IT-BPO combined and drive more of the integrated story on that. So clearly, that's the story, whether it's my previous company or this.

On the other part, I think my previous company was a lot more – had a significant client concentration where the top five clients made about 60%, 70% of the revenue. In this case, we have a very large diversified client base. Our top client is only 4%. The top 20 clients make 20%. We have enough and more clients that we are engaged with where the opportunity to drive that technology and process capability is pretty high. If you're looking at the opportunities that are out there, we're being invited to a range of conversations which I don't think we would have ever been invited to any of the organizations I had worked for. So clearly, that's going to be the focus.

Q

Ashok, robotics and automation are most appropriate for rules-based tasks. How much of the business do you think robotics and automation can streamline and make more efficient? And then, secondly, from a labor perspective, how much offshoring opportunity do you think there is given the high percentage of the business is related to the government work?

Ashok Vemuri
Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

A

Okay. So great question. So number one is if you break down our transaction processing business, which let's say, care and transaction processing. A lot of that can – anything that's routine and simple and is rule-based, as I said, can be automated straight off the bat. I would reckon that of the business that we do, that's a clear 30% to 35% that can actually be taken off and done.

Your second part on the offshoring part of it. 50% of my employees are outside the United States. And I use talent not just from a delivery perspective. But I use talent wherever it's available to build my platform. So I eat my own dog food. So I want to build my platforms. I want to build my technology competencies in a place where it's economical as well as where talent is available. But I deploy them in the markets that I'm operating, like 80% of my business is in the United States. So I am going to drive offshoring of, again, routine and simple transactions from any of the enabling functions, the business support functions as well as use talent in these parts. So we are in Romania. We are in Poland. We are in India. We're in the Philippines. We're in multiple parts of the world where there is talent available, good talent available at the price point that we'd like to build some of this. So that's how we're going to use offshoring. Well, again, as I said, we do not use any work permit visas in our business model at all.

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

Great. Well, it looks like that's the end of the Q&A session. So we want to thank everyone for joining us today and we look forward to updating you on our Q4 earnings call in late January. Thank you.

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Ashok Vemuri

Corporate Executive Vice President, Chief Executive Officer Xerox Business Services, LLC, Xerox Corp.

Thank you.

Brian Webb-Walsh

Chief Financial Officer, Xerox Services, Xerox Corp.

Thank you.

**Editor's note: At the request of the company, text has been added to the beginning of the transcript that was a part of the presentation, but missed in the webcast due to technical difficulties.

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