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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth Quarter and Full Year 2018 Genpact Limited Earnings Conference Call. My name is Sara, and I will be your conference moderator for today. (Operator Instructions) We expect the call to conclude in about an hour. As a reminder, this call is being recorded for replay purposes. The replay of this call will be archived and made available on the IR section of Genpact's website.

I would now like to turn the call over to Roger Sachs, Head of Investor Relations at Genpact. Please go ahead, sir.

Roger Sachs ***Genpact Limited - Head of IR***

Thank you, Sara, and good afternoon, everybody, and welcome to Genpact's fourth quarter earnings call to discuss our results for the fourth quarter and full year ended December 31, 2018. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer; and Ed Fitzpatrick, our Chief Financial Officer. Our agenda today will be as follows. Tiger will provide a high-level overview of our results and update you on our strategic initiatives. Ed will then discuss our financial performance in greater detail and provide our outlook for 2019. Tiger will then come back for some closing comments, and then we will take your questions. And as Sara just mentioned, we expect the call to last about an hour.

Some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties are set forth in our press release.

In addition, during our call today, we will refer to certain non-GAAP financial measures. We believe these non-GAAP measures provide additional information to enhance the understanding of the way management views the operating performance of our business. You can find a reconciliation of these measures to GAAP in today's earnings release posted to the IR section of our website.

And with that, let me turn the call over to Tiger.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our 2018 fourth quarter and year-end earnings call.

We had a great end to 2018. I'm really pleased with our fourth quarter and full year results as we stayed focused and executed well on our strategy, driving strong financial performance. It is clear that we have crossed the tipping point in terms of our reputation as a preferred digital transformation partner in our chosen industry verticals and service lines. We believe we have set the stage for long-term sustainable growth and profitability in an expanding addressable market.

Here are our full year 2018 results on a constant currency basis. Total revenue increased 9%. Global Client revenue increased 10.5%, and Global Client BPO revenue increased 12%. We also delivered adjusted operating income margin of 15.8% and adjusted EPS of $1.80, up 11%.

Global Client revenue grew during the fourth quarter as we ramped up our relationship with truly iconic companies such as Walmart. Not only did this help us deliver another year of very consistent Global Client BPO revenue growth of 12%, but Global Client IT revenue also grew in low single digits during 2018 for the first time in 4 years. Transformation Services also had a great quarter as growth increased with digital analytics and consulting picking up momentum, both as stand-alone client engagements and as part of being significantly embedded in large deals.

Our execution of our well-defined strategy is working. And as we have always said, digital and analytics is expanding our addressable market not only in our core BPO services but also in new attractive areas such as supply chain, financial crimes and other industry-specific vertical higher value-added services. This is leading to strong growth in Transformation Services as well as triggering new growth in our BPO business, with a lot of digital and analytics intelligence embedded in it. All of this was reflected in our bookings for the full year 2018 of $3.9 billion, up 40% from $2.8 billion in 2017.

Clients across all of our targeted verticals are becoming much more proactive looking for competitive advantages by embracing large-scale transformations, driven by digital technologies and predictive analytics that deliver critical business outcomes that go beyond cost. These decisions are being made by corporate leaders, independent of economic macro trends. Some are motivated by a desire to mitigate the risk of being disrupted, while others are designing and implementing advanced new operating models to support growth initiatives using new digital technologies. The bottom line is that more and more organizations are realizing that they must act now.

Global Client BPO bookings grew significantly above last year's rate. We signed a total of 12 large Global Client deals during the year, including 2 additional in the fourth quarter, with TCVs greater than $50 million. This was significantly more than the number of deals signed typically in a given year, and on average, each of these deals were more than 50% bigger in size.

Our bookings during the year were fed by a high-quality pipeline, reaching the highest level in our history, which was driven by record new deal inflows during the year and a steadily increasing win rate across our verticals. Over the past several years, we have also been -- we have also seen our sole-source wins significantly increase as a percentage of total awards, peaking in 2018.

Most of our end-to-end solutions have significant transformation services embedded in them, and digital is a key component of this, ranging from technologies like RPA, AI, machine learning as well as design thinking frameworks and customer journey mapping. As a result, we have seen the number of long-term annuity Intelligent Operations deals having transformation services embedded in them increase by 3x over the past 2 years.

As we had indicated in our last earnings call, we signed a new GE deal in the fourth quarter that tripled our GE bookings compared to last year. We believe there are opportunities to further expand into new and higher value-added services with GE in 2019.

In the last 12 months, we have seen a dramatic shift in the landscape, with corporate leaders increasingly eager to drive change and transformation at scale. They are in search of new business models and new ways of working, incorporating agile operating models. We believe that clients select us over our competition because of our maniacal focus on clients and our curiosity and learning-driven culture that thrives on change. Our demonstrated ability to think and move fast and flexibly is playing to our competitive advantage.

Unlike the IT services market, much of our targeted services are still done in-house. This is a hugely under-penetrated market, and the investments we have made to develop automated solutions has only expanded our addressable market. As a result, we continue to see many first-time clients that have never outsourced before searching for transformation partners. We believe partners like us who can help drive transformation journeys by reengineering the underlying business processes are emerging as the winners. Our solid capabilities in consulting, redesign and reengineering, with a deep domain and process expertise, is getting us these wins and driving growth and client value.

In November, we announced our new digital innovation hub in Bentonville, Arkansas, which expands our presence in the consumer goods retail industry and from where we intend to serve many global marquee brands in that industry. Genpact is partnering with Walmart, our anchor client at the hub, to transform its Bentonville operations by standardizing, automating and digitizing work using new technologies. We will leverage our position in Bentonville, which is at the heart of the consumer goods and retail ecosystem, to drive industry-scale disruption. In support of this mission, we are working with Northwest Arkansas University to up-skill the local talent there. We will be using the power of Genpact Cora to automate and provide predictive insights and analytics. Our Walmart partnership reinforces our existing leadership position in the consumer goods retail industry and further fuels our domain capability in a range of industry-specific processes across sourcing, procurement, supply chain, order management, trade promotions and, of course, financial accounting.

In another industry-defining move a few weeks ago, we announced an exciting, strategic and innovative partnership with Bridgewater Associates, one of the world's largest and most respected investment management firms. This is a very unique partnership centered around improving user experience, not just cost savings, where we will deliver a composite suite of middle and back office services across multiple functions. Our domain and process expertise, combined with the power of Genpact Cora, will allow us to stitch together advanced technologies, including RPA, conversational AI, dynamic workflow and mobility along with design thinking to transform these services that will result in vastly improved experiences for Bridgewater's employees, allowing them to spend more time on investing and client service activities.

Additionally, similar to our hub in Bentonville, as part of this relationship, we are establishing a new digital hub located near Bridgewater's offices in Stamford, Connecticut, where we expect to drive innovation that will benefit the financial services industry and serve future clients. We believe customer and user experience will be at the heart of change in the broader financial services industry. This relationship also incorporates an industry-leading commercial model that is partly outcome-based, predicated on improved user experiences.

Turning to our GE relationship. As I had said in our third quarter earnings call, with the new deal signing and execution that began this past December, we now look forward to growing our GE revenue in 2019 for the first time since 2012. This expansion into new higher value-added services is very exciting for many reasons. First, it reinforces the strength of our relationship with the various GE businesses and our ability to drive significant change and transformation for them. We will be leveraging new digital technologies to drive value for GE. Most of the new scope represents long-term annuity work. Second, the scope of new services include significantly higher value-added finance work that will allow us to leverage and scale into our Global Client relationships. Third, we are enhancing our capabilities in sourcing and procurement, one of our strategic service lines for growth, particularly in category management, where we will be managing significant spend. Fourth, as part of this deal, we have acquired state-of-the-art software platforms used in various workflows that can be leveraged for other clients. And finally, as part of this extended engagement, a very high caliber set of leaders and talent have joined our team.

One of the ways we measure success in our business is the expansion of the size of our annual revenue with our Global Clients. During 2018, our client relationships with more than $15 million in annual revenue increased to 45 from 40 and client relationships with more than $50 million in annual revenue increased to 8 from 5. In fact, during the year, we achieved the milestone of having our first Global Client relationship cross the $100 million mark in annual revenue. As we become a bigger strategic partner for an increasing number of our clients and help drive and run large-scale transformations in their core operations, we expect many more of these relationships to hit this milestone.

Looking back, 2018 was a very productive year. We announced 2 strategic acquisitions during the year to enhance our capabilities in our newer pharmacovigilance and supply chain service lines. We invested to expand our partner ecosystem. We scaled our automation to AI Genpact Cora platform. We launched and scaled a significant re-skilling and training initiative globally to certify our employee base on new digital analytics and deep domain areas. And finally, we retooled our staffing infrastructure to bring more visibility and consistency to our transformation consulting services -- consulting practice that then allowed us to scale.

Let me expand on each of these. We have refined our M&A strategy over the past several years to focus on adding new capabilities around digital and analytics as well as enhancing our deep domain expertise within our targeted verticals and service lines. During the year, we completed deals that expanded our capabilities in our newer pharmacovigilance and supply chain service lines, markets that we believe have very significant growth potential. Both of these acquisitions have integrated really well, and we are seeing great traction in supply chain services as companies strive for growth through transforming their supply chains, particularly in CPG, retail and manufacturing industries.

We are very excited with the small tuck-in acquisition we announced in early January of riskCanvas Holdings to bolster our already strong market offerings in financial crimes and risk management services for banks. Through this deal, we are adding a team of top industry experts with deep expertise in assessing and redesigning compliance operations to drive transformative outcomes for financial institutions. We believe the combination of our domain expertise and digital capabilities in AI and machine learning, along with riskCanvas leadership team and market presence, will allow us to grow this service line in banking.

Next, we made progress in our partnership program we call Genpact Partner Plus. We are expanding our routes to market, commercial models and solution development, leveraging our targeted set of ecosystem partners, both large, mature market leaders and emerging, disruptive technology start-ups.

Let me share a few highlights. We are collaborating with Workday as an advisory partner on new ways to help clients deploy and run Workday financials and optimize their finance operations in this new era of digital and AI. Post our acquisition of Barkawi, we are expanding its successful relationship with Kinaxis to help our clients improve their supply chain planning, monitoring and responsiveness by combining our deep process expertise with their cutting-edge cloud technologies. Lastly, we have built out significant consulting, deployment and operational capabilities in partnership with the top 3 RPA players: Automation Anywhere, Blue Prism and UiPath.

The market is increasingly recognizing that digital transformations are built on the back of an integrated set of advanced technologies. Solutions such as Genpact Cora SeQuence, our dynamic workflow solution to more effectively manage workflow processes in the cloud, were an integral part of our large wins during 2018. We now have about half of our clients using Genpact Cora, with approximately 2 million registered users, up from 1 million users in 2017. We have put full focus on training and re-skilling our global team members. Our AI certification programs, RPA certification programs or creating practitioners in design thinking and customer journeys are all significantly scaling up.

Lastly, through the second half of 2018, we have made several changes to drive more consistency in our Transformation Services consulting practice as we scale that business, including refreshing the leadership, investing in new systems and implementing more robust procedures that have strengthened visibility and controls around resource planning and pricing. These helped accelerate Global Client Transformation Services' growth in the fourth quarter and drove improved profitability.

With that, let me turn the call over to Ed.

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

Thank you, Tiger, and good afternoon, everyone. Today, I'll review our fourth quarter and full year 2018 results as well as provide our financial outlook for 2019.

Let me begin with a review of our fourth quarter results. We generated total revenue of $835 million, an increase of 14% year-over-year or 15% on a constant currency basis. During the quarter, overall business process outsourcing revenues, which represent 84% of our total revenues, increased 14% year-over-year. Total IT services revenue increased 12%. Revenues from Global Clients, which represent 90% of our total revenue, increased 13% year-over-year or 14% on a constant currency basis to $755 million.

Performance during the quarter was primarily driven by our Hi-Tech consumer goods and retail and manufacturing verticals. Additionally, the earlier-than-expected fulfillment of work related to the ramp of large new deals drove revenues towards the high end of our expected range.

Within Global Clients, BPO revenues grew 13% year-over-year or 14% on a constant currency basis, largely driven by Transformation

Services that grew approximately 20% during the fourth quarter and represented approximately 25% of total Global Client revenue. Global Client IT services revenue was up 11% year-over-year, driven by work associated with the ramp of recent large deals as well as project work around systems and technology enhancements related to client-specific developments in the life science and health care industries.

Revenue from GE was $80 million, up 24% year-over-year and included approximately $8 million of work related to the recent new large contract win. Adjusted income from operations for the quarter grew 24% to $142 million, and operating margins increased 130 basis points to 17% in comparison to the prior year. This performance was driven by top line growth, improved gross profit related to the expected improvement in utilization around Transformation Services and operating leverage, in part, from our initiatives to drive sustainable G&A savings. This improvement was partially offset by the lower gross profits inherent in the ramp of new large deals having a higher sustained onshore mix. I'll speak a bit more about the impact of this activity when we talk about 2019 margins.

SG&A expenses totaled $179 million compared to $189 million in the same quarter of last year. Our sales and marketing expense as a percentage of revenue this quarter was approximately 6.3%, down from 7.1% in the same quarter last year, driven by operating leverage and lower marketing-related spend. Total G&A expense as a percent of revenue declined 350 basis points year-over-year during the fourth quarter due to focused cost optimization initiatives across all support functions and operating leverage.

Adjusted EPS for the fourth quarter was $0.52 compared to $0.43 last year, driven by higher operating profits of $0.11 and the impact from a lower share count of $0.01. This was partially offset by a higher effective tax rate year-over-year, representing $0.03. As expected, our effective tax rate during the fourth quarter was higher year-over-year due to the special economic zone expirations we have spoken about as well as several discrete tax benefits in the prior year period that did not recur.

I'll now turn to our full year 2018 results. Revenues were $3 billion, up 10% year-over-year or 9% on a constant currency basis. The large deals executed in the latter part of the fourth quarter helped drive growth toward higher end of our prior estimate. Total BPO revenue, which represents approximately 83% of total revenue for the full year 2018, increased 11% year-over-year. And total IT services revenue increased 5% year-over-year.

Revenue from Global Clients, which represented approximately 91% of total revenue for the full year 2018, increased 11% year-over-year or 10.5% on a constant currency basis. Within Global Clients, our core BPO revenue increased 12% year-over-year, both on an as-reported and constant currency basis, led by growth in Transformation Services, while IT services revenues increased 2% compared to a decline of 2% in 2017. GE revenues were flat year-over-year, ahead of our full year outlook, largely due to incremental revenue from our expanded relationship with GE as well as continued stabilization of the underlying business that we began to see in the latter part of 2017.

Adjusted income from operations grew 10% year-over-year to $473 million, and adjusted operating margin increased 10 basis points to 15.8% from 15.7% in 2017, on point to the adjusted operating margin guidance we gave at the beginning of 2018. The higher operating margins were driven by revenue growth and lower SG&A levels, partially offset by lower gross profit levels that were driven by the adverse effect from last year's rupee appreciation, the scaling of our Transformation Services consulting practice and an increasing onshore business mix. On gross profits, we made progress in the second half of 2018 in improving our consulting utilization and related consulting margins. As a result, we expect 2019 margin levels on consulting to be higher than 2018.

SG&A expenses totaled $694 million compared to $689 million last year. Our sales and marketing expense as a percentage of revenue was 6.8% compared to 7% last year, primarily driven by operating leverage. Total G&A expense as a percent of revenue declined approximately 200 basis points year-over-year as operating leverage and cost optimization efforts more than absorbed an approximate $13 million increase in R&D spending due in part to our digital solutions development.

Adjusted EPS of $1.80 was up 11% year-over-year compared to $1.62 in 2017. This $0.18 increase from last year was primarily driven by higher operating income of $0.18. Foreign exchange remeasurement gains of $0.05 were offset primarily by an expected higher tax rate. This is the fourth year in a row where we have driven adjusted EPS growth greater than 10% as our Global Client growth and disciplined cost management has consistently driven increased operating income and related operating margins of each of those periods, in line with our stated key -- in our stated key strategic objectives.

During 2018, we used approximately $112 million of our capital for acquisitions and returned $215 million of capital to shareholders, consistent with the capital allocation priorities that we have articulated over the past several years. Our return of capital included approximately $57 million in the form of regular dividend of $0.30 per share, which equates to an approximate 1% yield. We repurchased approximately 5.1 million shares totaling $158 million at a weighted average price of $31.08 per share during the year, including approximately 0.8 million shares totaling $24 million at a weighted average price of $29.71 per share in the fourth quarter.

Since we initiated our share buyback program in 2015, we've reduced our net outstanding shares by 13%. Over this period, we repurchased 37 million shares at an average price of $25.82 for a total of approximately $950 million. We currently have approximately $300 million of authorized capacity available under our share repurchase program.

Our effective tax rate for the year was 22.3% versus 18.5% in 2017. The increase was primarily due to India special economic zone expirations and a smaller impact as a result of the new U.S. tax laws we discussed previously. Also, as we discussed last year, the 2017 tax rate was lower than our expected rate due to several discrete tax benefits recorded during 2017 that were nonrecurring in nature.

Turning to our balance sheet. Cash and cash equivalents totaled $368 million compared to $504 million at the end of the fourth quarter 2017. With undrawn debt capacity of $203 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy.

Our net debt-to-EBITDA ratio for the last 4 rolling quarters was 1.87, down from 1.99 in the third quarter. Days sales outstanding were 83 days, which improved by 2 days from last year. We had expected DSO to improve even further to approximately 81 days in 2018. However, we received a late payment from one large client for $12 million in early 2019 that negatively impacted DSO by approximately 2 days.

We generated $340 million of cash from operations in 2018, down 5% year-over-year and lower than our outlook for the full year. The lower operating cash flows were largely related to the unexpected deferral of India export subsidy receipts during the year as well as the higher-than-anticipated DSOs that I referred to a moment ago. Revenue was slightly more back end-loaded in 2018 versus 2017, which impacted cash generation. We currently expect to receive approximately $20 million of export subsidy cash during the first half of 2019, and we are expecting to continue to improve our DSOs in 2019.

Capital expenditures as a percent of revenue was 5.3% in 2018 compared to our prior full year expectation to be below 3.5% of revenue. The incremental spending was due to the software platforms we acquired in late December as part of the new GE work that Tiger referred to earlier during his prepared remarks. The cost of this asset will be recovered over the life of the contract period and are included in the overall economics of that engagement.

Finally, let me update you on our outlook for 2019. We expect total revenues to be between $3.33 billion and $3.39 billion, representing year-over-year growth of 11% to 13% or 12% to 14% on a constant currency basis. As you witnessed over the past few years, we expect growth in the second half of the year to be higher than the first half largely due to the ramp of Transformation Services throughout 2019 and the ramp of large deals we booked during the latter part of 2018. For Global Clients, we expect revenue growth to be in the range of 9% to 10.5% or 10% to 11.5% on a constant currency basis. Within Global Clients, we expect Global Client BPO to grow in the range of 11% to 12.5% on a constant currency basis. GE is expected to grow approximately 35%, slightly ahead of our prior estimate due in part to incremental work that we were awarded in the fourth quarter of 2018. We expect to continue the trend of increasing our adjusted operating margins and expect 2019 adjusted operating margins to improve by 20 basis points to 16% due primarily to operating leverage and continued G&A efficiency programs. Our outlook factors in a $16 million reduction in export subsidy income versus 2018 that, as we mentioned during prior calls, included 2 years of benefit. For 2019, we have assumed this incentive will continue for another year.

Due to the historic seasonality we see in our business, we currently expect our adjusted operating margin for the first quarter of 2019 to be around the same levels we saw in 2018, ramping sequentially throughout the year, much the way it progressed during 2018.

I want to provide some additional color on our gross margin for 2019. We are expecting our underlying gross margins to improve by approximately 100 basis points in 2019 due primarily to higher consulting margins, driven by improved utilization of Transformation

Services resources as well as leverage. However, this benefit will be offset by the impact of our recent large deals with sustained onshore delivery that have inherently lower gross margins in the earlier years of such contracts. Therefore, we are anticipating total gross margins to be relatively flat in 2019 compared to 2018 levels. We expect gross margins to be somewhat lower during the first quarter due in part to lower seasonal revenues.

While these new large onshore deals initially have lower gross margins than the company average, over time, as we implement automation solutions, we expect their profitability will increase over the contract period. Over the contract term of these large -- new large deals, we are expecting overall adjusted operating margins to be in line with total company levels due to lower SG&A support required to manage such work.

Our 2019 effective tax rate is expected to be approximately 23% to 24%, up from approximately 22% in 2018. The increase in our effective tax rate is primarily due to the expiration of certain special economic zone benefits in India. This increase is aligned with our medium-term guidance that we've been sharing for the past several years, that our effective tax rate should be in the low to mid-20% range.

Given the outlook I just provided, we are estimating adjusted earnings per share for the full year 2019 to be between $1.96 and $2. This includes the impact of higher tax rate of approximately $0.02 to $0.03 per share in 2019 and includes no FX remeasurement-related impact. Recall that we recorded a gain of $0.05 for FX remeasurement in 2018. There are no assumptions for share repurchases in this EPS estimate.

We are forecasting cash flow from operations to grow 10% to 15%, largely in line with company-level growth. Capital expenditures as a percentage of revenue are expected to be approximately 3% to 3.5%. We continue to expect free cash flow-to-net income ratio to be approximately 1:1 on average over time.

Lastly, given our commitment to returning cash to our shareholders, we just announced an increase to our annual dividend payment from $0.30 per share to $0.34 per share, a 13% increase. We estimate total payments to be approximately $64 million during the year.

With that, I'll hand it over to Tiger for his closing comments.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Thank you, Ed. 2018 turned out to be a great year for us along so many fronts and positions us very nicely for sustained and consistent growth in 2019 and beyond. As I reflect back on our journey of embracing change and disrupting ourselves to meet the changing needs of our clients, we had a view about the way the marketplace would evolve. And to date, it is largely playing out as we had expected. One, corporate leadership teams who resisted change are now increasingly looking to leverage new advanced technologies to reinvent their business models or risk being disrupted. Two, companies are increasingly looking for transformation partners who not only understand digital technologies and analytics but can also demonstrate deep industry acumen, domain knowledge of client-specific industry and processes and the various interlinkages, risks and leverage points in their businesses. Three, there is a heightened focus on outcomes from clients. These go beyond cost to growth, customer delight, working capital and regulatory compliance. And finally, firms and teams that are focused on collaboration and that have a culture of agile co-innovation with their customers and other ecosystem partners have a competitive advantage in the market.

We are tapping into the tremendous opportunity that these trends have created. We also believe that increased automation and digitization will expand the pie for our business. As we invest and offer AI and automation-based solutions, the value proposition that we bring to our client significantly increases. As expected, we are seeing the benefits from first-time clients that have never outsourced before. We believe partners that can help transform the underlying technology as well as reengineer and reimagine their business processes should emerge as winners. I believe this positions us to be a strategic long-term partner for clients in our focused industries that will lead to continued, consistent long-term profitable growth. Our 2018 results and our 2019 outlook are in line with the medium-term financial outlook that we have been sharing with you over the past several years.

Before signing off, I want to welcome Professor Ajay Agrawal from the University of Toronto, who we recently announced as a new member of our Board of Directors. Professor Agrawal is a renowned academic and has tremendous experience incubating start-ups that leverage AI and machine learning to solve many real-world business and societal problems. His keen insights will help us to continue to drive transformation at scale for our clients.

With that, let me turn the call back over to Roger.

Roger Sachs ***Genpact Limited - Head of IR***

Thank you, Tiger. We'd now like to open our call for your questions. Sara, can I ask you to please give the instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ashwin Shirvaikar with Citi.

Ashwin Vassant Shirvaikar ***Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst***

So Tiger, you started off using the words tipping point, and obviously, good sales momentum. Could you talk about -- is there a need here for sales force investment given the demand? Or are you all set with regards to handling that demand at the top of the funnel?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Actually, Ashwin, I would say we continue to progress on sales force investment, and we've been doing that now for 5-plus years, as you know. That investment continues to function by driving deeper into the industries of our choice and more and more into the strategic accounts that we are building deeper and broader relationships with. The size of our scale now is also allowing us leverage, and that's what you see play out a little bit in fourth quarter. And as we have planned for 2019, we're getting a little bit of that leverage. In terms of absolute sales numbers as well as quality, we are very pleased with the team we have, and we continue to refine the way they work. So I think that investment just continues, and we're getting better at leveraging that much better.

Ashwin Vassant Shirvaikar ***Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst***

Great. And as you -- you talked about sort of driving ITO growth. What's driving that demand? Is it sustainable? And would you consider some kind of partnership with an IT company to further take advantage of that?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So Ashwin, our strategy in IT, as we've been saying for many years now, has been to define specific areas in IT that are connected to areas of our domain expertise, both in verticals and our service lines. And we've been on a journey to actually hone our IT business into those spaces. And as we went through that journey, we went through a period where we were below -- we were declining. We think, as we finish the year, we are confident that as we get into 2019, we will be driving low single-digit growth, which is not the same level as the company's growth. But one of the reasons that is happening as compared to not growing earlier is because we are now sharply connecting each of those, whether it is commercial leasing platforms, it's sourcing platforms, it's technology implementations connected to finance, technology implementations that are connected to supply chains, it's the Kinaxis partnership, it's the Workday partnership. So I think these are sharply defined, and that's allowing us to grow IT business that is connected to our verticals and connected to our services.

Operator

Our next question comes from the line of Joseph Foresi with Cantor.

Joseph Dean Foresi ***Cantor Fitzgerald & Co., Research Division - Analyst***

My first question is just sort of around your narrative for 2019. The pipeline, I think, is doing fairly well or, perhaps, better than expected, and the conversion seems fairly good. You've got GE as a tailwind. Maybe you could just talk a little bit about -- if you had to give us one theme on the top line for 2019 and some of the -- are these investments that are paying off that are making their way into revenues at this point? Or is this a secular tailwind? I'm just trying to parcel through what's driving both the pipeline and the top line.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

I would say, Joe, it's a combination of both. And normally, typically, it does tend to be a combination of both because, obviously, it is a competitive market. So there is a clear set of trends that I referred to in my prepared remarks around companies that are trying to capture disruption in the market in order to change their business models or responding to competitive-driven pressure and disruption happening as a result of new technology or new business models that they are facing. And that is making them search for the right partner to work with, both for allowing the use of new technologies in their operations as well as having people like us run those operations with those technologies embedded inside, which is what we call intelligent operations. That's allowing larger deals to be sole-sourced. As I said in my prepared remarks, that sole-sourced percentage is up. And that's allowing us to then not only run those operations with those digital technologies embedded but also help some of their own operations to run with some of those technologies. And we are well positioned now to do that because of the investments we've been making over the last 4 or 5 years, going back to the sales investments, then the investments in digital and analytics as we did that pivot and the investments in consulting that then became the overall Transformation Services. So I think it's a combination of all of that. And the tipping point I referred to was more around reputation. In our business, when a client takes a decision, they talk to 5 other clients. Obviously, as we continue this journey and as we have clients who are delighted by some of the work we do, they refer us and they talk to other clients. And that -- we are beginning to see that happen in some of the digital transformation space.

Joseph Dean Foresi ***Cantor Fitzgerald & Co., Research Division - Analyst***

Got it. And then my second question is around margins. You gave a lot of color in the prepared remarks. I think Ed did a good job of giving a lot of color. But you've got some headwinds. GE is coming on, Walmart. And my question was maybe you can help us better understand sort of the sequence of margin expansion, what the levers are there. And then just along those same lines, I think you were getting sort of like a $35 million tax benefit in '18. It sounded like that was going to continue in the first 2 quarters of '19. Should we be thinking about that for the whole year? And how should we think about that as well?

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

Okay. So I'll take the last one first, Joe. On the -- in the export subsidy, if you recall, we had 2 years of benefit in 2018. We're expecting, in fact, only to get 1 year of benefit next year, full year. Right now, we know we have approvals through the first quarter of 2019. We're expecting that, that will get renewed, so we're accruing just 1 full year, so 9 more months of that benefit continuing for the year such that it's only 1 year benefit. So that's about $20 million roughly, I think, is what we've assumed, Joe, in the numbers. So that would be a reduction of about $15 million from what we saw, $15 million or $16 million, from 2018. And on the impact of the large deals, as you know, in the beginning of these deals, we start out with lower operating and gross margins, then we ramp up throughout the period. There's no exception here. For the full year, the large deals that we just signed on, the impact to AOI is about 20 basis points, maybe 20 to 30 basis points, Joe. We're offsetting that with the leverage that we're driving for the rest of the firm, such that we can maintain that increase of 20 basis points to 16% as we go because we have the size, scope and scale to drive that. It will improve over time. The way it works is, as we take over these large onshore deals, we'll take them on. And then as we automate over time, the gross profits -- sorry, the automation of that work will improve the gross profits over time. But that takes time. So each year, we will expect the gross profits to improve and the AOI to improve, such that the lower AOI that you're seeing in the beginning will actually become higher by the end of the contract, such that the full AOI over the full term is in line with company average operating margins, and gross profits will improve as well over that time frame. Let me know if that answered your question or if you had a follow-up.

Joseph Dean Foresi ***Cantor Fitzgerald & Co., Research Division - Analyst***

No. Just on the $20 million. Is that 2 or 3 quarters? Are you averaging it kind of per quarter? Or are you...

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

It's about $5 million per quarter. Yes, it's about $5 million per quarter in each quarter, Joe.

Operator

Our next question comes from the line of Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang ***JP Morgan Chase & Co, Research Division - Senior Analyst***

I wanted to ask on the larger deals. I'll ask them together. Just number one, the risk profile of the deals. I caught the margin commentary. But just excluding the deals, how would you characterize the risk profile here versus some of the other stuff you've done? And then secondarily, from a pipeline standpoint, is there the resources and the capacity to win more? Do you need to replenish the pipeline? Is it still there? Just trying to better understand sort of your appetite to do more as you focus on ramping up these deals, if that makes sense.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Tien-Tsin, thank you. Let me answer the first one. The risk profile of these deals is actually not that different from the typical deals we've done over the history, particularly the last few years. They are also interestingly spread out across our different verticals. That helps because they're different teams that then work on them. And they're also spread out geographically. I mean, if you just look at the GE relationship that we signed and executed in December -- and that's executed. Now we are delivering. That was spread across, I mean, actually, 4 continents, I believe. And therefore, I would say it's the kind of risk profile that we know how to manage. We've had a history of managing execution very well. So I'm actually very confident of the experience of the team, the experience of now our digital team, the Cora team, the analytics team and actually bringing all that to bear on these deals. The pipeline, as we've gone through 2018, clearly, we've had a very strong set of inflows. The pipeline reached a peak. We got a set of bookings done. Our pipeline still is good. We're very pleased with the pipeline. The characteristics of the pipeline are still very similar. They still have similar characteristics in terms of distribution across verticals, distribution across geographies and distribution across -- in terms of size of deals. And they have, as I described for the 2018 bookings, significant digital and analytics components and Transformation Services components embedded inside them. So overall, the secular change that we are finding that is driving that pipeline continues, and our participation in that continues. And we hope to continue to have the same win rates.

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

And just to add to that, in terms of large deals and the risk, I mean, the full focus of '19 is execution, right? We've got these large deals. Large deals, just by their nature, are inherently more complex. In the elements of digitization, as you heard me talk about, automating a lot of these processes and collaborating with our clients is going to be first and foremost. It's a year of full execution.

Operator

Our next question comes from the line of Puneet Jain with JPMorgan.

(technical difficulty)

Operator

Our next question comes from the line of Maggie Nolan with William Blair.

Margaret Marie Niesen Nolan ***William Blair & Company L.L.C., Research Division - Analyst***

So you've talked a little bit about the improved utilization and how that's somewhat sustainable going into the next year here. If I recall, that was a bit problematic in the first quarter of last year. So is it fair to assume that we're going to see less of a decline in margins in the first quarter of this year? Or how are you expecting that to play out?

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

Yes. So the improvement that we're seeing in Transformation Services and, particularly, consulting utilization will be better year-over-year. We've made that -- we've progressed significantly in the second half, as you heard me talk about, and we expect that improvement to continue. So effectively, as you look at the full year, we said gross profits will be effectively flat year-over-year. But the Transformation Services, the consulting utilization will be better to the tune of about 100 basis points, offset by the impact of these large deals on gross profits of about 100 basis points. So first quarter will likely be largely aligned with last year, maybe slightly below. But we will ramp just like we did last year throughout the year each quarter. AOI levels should be relatively consistent with what we did last year each quarter and at similar progression. So there's kind of 2 things happening, going in different directions, keeping gross profits relatively stable for the year.

Margaret Marie Niesen Nolan ***William Blair & Company L.L.C., Research Division - Analyst***

Okay, great. And then roughly how big is the consumer goods segment currently? And do you feel like there's been a change in the sentiment or a pickup in the technology spend in this industry? Or is there an underlying trend here that could have an impact on Genpact?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

I think there is clearly an underlying trend in the consumer goods retail industry globally. And it's been going on for, I would say, probably 4 to 5 years. And these are trends that we all -- I mean, we all read about, ranging from the online versus physical to sustainability being so important for consumers. Consumer taste is changing, the impact of private label versus brands, shareholder activism. And you put all that together, the consumer goods retail industry is undergoing significant disruption across the globe. And part of what's playing out for us is in that highly disruptive environment, a number of large global enterprises in that industry want to drive change to be ahead of that disruption that's happening. We think that's still in the early innings of playing out. It's a very big industry. It's very global. It straddles every economy in the world. And it's here to stay. So whether it is personal care products, groceries, apparel to beverages, alcoholic beverages, that whole spectrum, you take all of that, it's a very massive industry. And we are very well positioned in that industry. We have been very well positioned for many years now. We have iconic relationships there. Those relationships are highly referenceable. And we have some very unique solutions built around supply chain, trade promotions, order management, analytics that basically impact customers' top line, margin, pricing, customer satisfaction. So we are very, very pleased with the way we are positioned in that industry, and it's a pretty significant and important industry for us.

Operator

Our next question comes from the line of Edward Caso with Wells Fargo.

Edward Stephen Caso ***Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst***

It sounds like some of the profile of your deals are changing from absorbing clients' personnel and then gradually shifting them offshore to absorbing personnel and then gradually automating their jobs away. Am I hearing that correctly?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So Joe, I wouldn't...

Edward Stephen Caso ***Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst***

Ed Caso, sorry.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Oh, Ed. Sorry, sorry. Ed, I wouldn't say it's shifting from one to the other. I would say very clearly, digitization and automation is real, and we are doing it in our operations, and we are doing it in new deals we win. And therefore, it's now very clearly part of every deal mix. So therefore, in the earlier days, when we would talk about absorbing, that absorption would then lead to some element of work then globalizing. Now it is -- yes, of course, that should happen, but even more importantly, automation happens, and that is an important part of the mix. The other comment I would have is some of the work that we are now taking on and services we're getting into are much higher value-added services, have much higher criticality for the business and for the customer and, therefore, very high likelihood that some of that will remain onshore in a very sustained way and will have much more automation inside it. Does that makes sense?

Edward Stephen Caso ***Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst***

Yes, that's great. So the other -- let me just ask the Brexit question as my other one. What are you seeing? Is there -- I mean, we're just hearing that no one knows what's going to happen, so there's not a lot of anything going on at the moment. Is that the correct read? Or are you seeing any kind of planning?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Ed, you answered the question. The reality is it's very tough to know what's going to happen. I think the best we can do, which is the way we approach a number of these situations where things could go in different directions, is to be incredibly flexible and agile to move in different directions. So as an example, the fact that we have pretty significant centers of gravity of operations in Continental Europe, between our deep strength in Romania, our now deep strength in Hungary, in Poland, positions us very well to be able to leverage continental delivery for clients who actually have, for whatever reason, whenever the scenario plays out, require continental delivery in the continent of Europe outside of the U.K. We also have significant presence in the U.K. for a number of our verticals. And that allows us, therefore, to serve clients inside the U.K. with U.K. staff in the U.K. that is local. So I think our ability to deal with that flexibility in an agile way is actually something that we think is important not just in the context of Brexit but in the context of a lot of other changes that the world continues to see. But specifically on Brexit, unfortunately, your answer is the best answer, which is no one knows exactly where it's going to land and how it's going to land.

Operator

Our next question comes from the line of Stefan Styk with BMO Capital Markets.

Stefan Anthony Styk ***BMO Capital Markets Equity Research - Associate***

This is Stefan Styk on for Keith Bachman. I was wondering if you could discuss your view on the durability of short-cycle work in a potential macro slowdown. Also, based on your conversations, how would you estimate the impact to Transformation Services?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Yes, let me take that, Stefan, and thanks for the question. I'd start by saying that about 22% of our revenue in 2018 was Transformation Services. And that's a combination of consulting, digital and analytics. Some material proportion of that is actually Transformation Services that is embedded, as I described, in a number of our large deals. So by very nature of being embedded in those deals, they are multiyear, and they are a series of projects as part of that multiyear contract. So while it's a series of projects and has a start and stop, the reality is it is actually, in some way, it's actually embedded in those large annuity contracts. We also are clear that, given the growth that we continue to see and the expansion of the pie that we are seeing in our BPO business with Transformation Services embedded inside, that our ratio, which is, today, 22% of Transformation Services and 78% of annuity managed services, that ratio is going to change, but it's not going to change dramatically. It's going to be a very slow progression over many, many years. And therefore, we continue -- we will continue to have a business that has a very material, significant component, which is managed services and long-term annuity contracts. The last point I would make on your question is the nature of Transformation Services is not a onetime strategic consulting engagement. These are consulting engagements that have operational depth, that have an element of change management that needs to be driven over, actually, many years, that have digital implementations that needs to get industrialized across an ecosystem of our clients. So it's a little different from strategy consulting, and therefore, it is less short-term than otherwise you would expect. And the last point is, therefore, it's less susceptible to macro trends that actually get consulting businesses to be cut off. Having said that, obviously, it's not the same as long-term annuity contracts.

Stefan Anthony Styk ***BMO Capital Markets Equity Research - Associate***

Great. That's very helpful. My second question is around your cash flow in 2019. In 2018, you guys had higher CapEx because of the GE deal. So what gives you confidence in 2019 that you won't face similar potential requisite investments for your other new deals?

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

Well, I'd say if we have a large deal -- a really large deal like that, I'd be happy to spend it. The CapEx on that is first order of priority to support organic growth, right? So as long as we're getting greater than our cost of capital, I'll do those deals all day. So we like the deal that we did in '18. If more will come along, we'll do that, and we'll adjust our capital allocation as appropriate, right? So I think those things, you just deal with as they come up and like the opportunities they present us.

Operator

Our next question comes from the line of Frank Atkins with SunTrust.

Francis Carl Atkins ***SunTrust Robinson Humphrey, Inc., Research Division - Associate***

I wanted to see if I could get a quick update on Cora just in terms of sizing or any metrics around that, if you could talk a little bit about the interaction with AI and Cora with RPA and what that does as a combined pair.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Yes, Frank, thanks. As I said in my prepared remarks, Cora is now pretty integral to a number of our Transformation Services engagements as well as Transformation Services embedded in our deals. More than about -- about half, not more than, about half our clients have some instances and products and solutions on Cora that are implemented and they are using. And the sum total of users, registered users is about 2 million. It's up from about 1 million a year or plus back. And it's a range of solutions. And all of those solutions are based on that orchestration layer that we call Cora. Now the way Cora is put together, is it combines 12 different technologies that are brought together, and not all technologies are needed for all solutions. One of them is RPA. Another one of them would be computer vision AI. Another one of them could be computational linguistics AI and so on. There are 12 different technologies. So to your specific question, we have many instances where we have RPA combined with computational linguistics that allows, for example, in a commercial small business lending world, for us to be able to implement a specific Cora solution that we call Cora LiveSpread, which actually takes documents, reads the documents, takes decisions on the documents based on cash flow and P&L that the machine and AI understands, and then populates, using RPA, different systems that it needs to populate in the customer's technology landscape. So that's a combination of computational linguistics, which is AI and RPA. The RPA provider we would use, the partner we would use could be any 1 of the 3 partners we described. The AI solution that we would use in this case is our own AI solution that we acquired with RAGE. And in every solution, we bring some of this technologies together and then orchestrate them. That's the nature of the digital world today.

Francis Carl Atkins ***SunTrust Robinson Humphrey, Inc., Research Division - Associate***

Okay. That's very helpful. And for my follow-up, I wanted to ask a little bit about the global delivery model at this point. Can you give us any color by geo, headcount, attrition and kind of where you stand in terms of the skilling of the talent base?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

I'll answer the last part first, Frank. Skilling of the talent base is important and relevant across the globe. Whether it is our skill delivery centers in India, in China, in Philippines, in Bucharest, in Budapest, in Poland, in Jacksonville, in Richardson, in a number of our locations in the U.S. and Latin America, it's relevant everywhere in our operating teams. It's relevant for our consulting teams who are with our clients in the marketplace in Europe, in the U.K., in the U.S., in Canada and Australia and Japan and for our sales teams. So from a skilling perspective, there is no -- we should do it in one place versus another place. The type of skilling that you would do would be different. The specific skills would be customized for the specific needs of specific groups depending on the vertical, the service line, et cetera, and the geography. The distribution of the workforce, it's very well distributed across a range of the geographies that I just described. Obviously, given the nature of our business, moving up the value chain to higher value-added services, getting closer to clients, getting closer to some of the work that needs to be done onshore, some of the onshore work in the U.S. has gone up faster than offshore work. Some of the onshore work, for example, in Japan has gone up, and Australia has gone up. Having said that, given the size and scale of our global delivery locations in India, Philippines, China, Eastern Europe, et cetera, even though the percentage growth might be lower there, in terms of size and scale, it's still large there and continues to be large and continues to grow. So that distribution is actually one of the differentiated propositions that our clients really like.

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

And I think on the attrition, I think largely in line with where we've been, 25% to 30%. I think we're 26% in the quarter.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

And the attrition is not significantly and materially different than in the past by geography. We see a very consistent pattern. It depends more on the type of work that people do.

Operator

Our next question comes from the line of Bryan Bergin with Cowen and Company.

Bryan C. Bergin ***Cowen and Company, LLC, Research Division - Director***

I wanted to ask one more thing. Can you comment on the level of investment you expect to spend around sales and marketing and R&D for 2019? I'm curious if you're at a point where you can get some leverage off of that absolute level of spend there and when you think about those categories, particularly capabilities that are seeing a disproportionate level of investment in your 2019 plan.

Edward J. Fitzpatrick ***Genpact Limited - CFO and Principal Financial & Accounting Officer***

Yes. So on the selling and marketing -- SG&A in general, we are going to leverage it. That's one of the reasons we're going to be driving operating margins up from 15.8% to 16%. So SG&A will be the driver of that growth, and we will see some leverage in selling as well this year, as Tiger talked about. Some of these large deals, in particular, give us the scale to be able to leverage that. We feel like we have really good coverage globally, and we'll be able to leverage that in selling.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

And Bryan, if you see our 2018 performance, leverage already has been delivered in 2018. And all that I think Ed is saying and we are saying is that, that leverage will continue in '19, and that's the plan that we've laid out. It assumes a continuation of sales leverage, R&D leverage and G&A leverage. All 3.

Bryan C. Bergin ***Cowen and Company, LLC, Research Division - Director***

Okay. And then as far as the sales cycle is on the large transformational deals today versus, say, a year ago, it certainly sounds like the demand has ramped. Is this also translating to conversion, to signings at a faster pace?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Interestingly, we've seen -- yes. The answer is yes. One would have assumed that larger, more complex deals would take longer. Some of them do. There's no question that there are deals that have taken a long time because they're complex. But on the average, they seem to have gone faster than one would have expected larger deals to take in the past. And that, again, reflects the nature of what's happening in the world and what's happening to disruption and what's happening to clients wanting to grab the opportunity to actually change their own business models.

Operator

This concludes our question-and-answer session for today. I would now like to turn the call back to Roger Sachs for any further remarks.

Roger Sachs ***Genpact Limited - Head of IR***

Great. Thanks, everybody, for joining us on our call today, and we look forward to speaking with you again next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.