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G - Q2 2018 Genpact Ltd Earnings Call

EVENT DATE/TIME: AUGUST 07, 2018 / 8:30PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Genpact's Second Quarter 2018 Earnings Conference Call. My name is Jimmy, and I will be your conference moderator for today (Operator Instructions)

As a reminder, this call is being recorded and 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 proceed, sir.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, Jimmy, and good afternoon everybody, and welcome to Genpact's second quarter earnings call to discuss our results for the quarter ended June 30, 2018. We hope you had a chance to review our earnings release, which was posted through 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 second quarter results and update you on our strategy. Ed will then discuss our financial performance in greater detail and provide an update on our outlook for the year. Tiger will then come back with some closing comments, and then we will take your questions. We expect the call to last for 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, which 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 the reconciliation of those measures to GAAP in today's earnings release posted through 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 second quarter earnings call.

During the second quarter, we delivered solid results and continued to accelerate momentum on a variety of fronts. Our Global Client and GE pipelines are expanding, and recent large deal wins confirm that we are building our reputation as a preferred digital transformation partner for many new and existing clients. We continue to invest organically and inorganically in our service lines and are excited about the capabilities we are building, including in supply chain management, where we recently announced a consulting acquisition. This is one of the biggest transformation areas for clients across a range of our industry verticals. We believe we are well positioned for long-term profitable growth in our attractive and underpenetrated market.

A quick look at our second quarter results. On a constant currency basis, total revenues increased 8%. Global Client revenues increased 8%, and Global Client BPO revenues increased 10%. In addition, adjusted operating income margin was 15%, and adjusted EPS was $0.41.

Global Client revenue growth was strong across many of our chosen verticals, including hi-tech, banking and financial Services and manufacturing.

Driven by growth in GE, total IT services revenue was also up 7% during the quarter. We are clearly seeing the interplay between Intelligent Operations, our digitally-enabled embedded BPO business; and Transformation Services, comprising standalone consulting, digital and analytics engagement, differentiating us in the marketplace. Leveraging Genpact Cora, our scalable automation to AI platform, and leading with digital consulting, we are finding many opportunities to drive transformation for our clients and to subsequently manage their operations. This is reflected in our largest pipeline to date, including the highest number of large deal opportunities we have ever had and year-to-date bookings growth pacing well ahead of the growth we have experienced for the past couple of years. This gives us confidence not only for our near-term financial performance but to also achieve the very attractive medium- to longer-term growth expectations we laid out during our recent Investor Day this past March.

We are seeing client demand for Transformation Services being driven by digital technologies and predictive analytics that solve for critical business outcomes for our clients. Key areas where we are seeing these includes: one, improving our clients' end user experiences, which leads to expanded market share and improve top line growth; two, managing compliance and regulatory requirements and minimizing risk and losses, using machine learning and intelligent cloud workflows; three, simplifying and standardizing middle and back office processes, leveraging automation technologies, such as RPAs and intelligent cloud workflows; four, reducing response times dramatically for commercial lending, improving fraud detection, forecasting demand fluctuations to improve supply chain management and improving insurance claims fulfillment, resulting in increased customer retention, improved cash flows and better pricing for our clients; and finally, bringing agile rapid implementation solutions even in fragmented ERP environments that reduce future investment needs and accelerate cycle times.

This demand environment has led to a much higher infusion of large deals into our pipeline as companies look for large-scale transformations. These engagements provide the opportunity to leverage new and more profitable commercial models that are becoming more prevalent than in the past, given the changing nature of the work. We broadly see 2 different approaches clients are taking. In certain cases, clients are engaged with us in smaller, multiple and agile digital engagements that deliver proof-of-concepts. These POCs then scale and create longer and larger enterprise-wide engagements. On the other hand, clients are sometimes motivated to immediately undergo a full-scale transformation, leveraging digital and analytics solutions embedded in them. These deals are more complex and have longer ramp period resulting in lower upfront revenue but provide greater visibility to our future top line growth. Over the last several months, many more of the latter type of deals have been added to our pipeline and are contributing to bookings growth. As confidence in digital analytics solutions grow, our ability to show differentiation increases.

Let me share an example from a recent large deal win, where digital and analytics is embedded into a longer-term Intelligent Operations engagement. We are partnering with a global company in the CPG retail industry on a large-scale digital transformation journey to enable them to stay ahead of the new age competitors disrupting their markets. We are redesigning their global finance operation to significantly improve working capital forecast and reporting accuracy as well as provide management with the right performance data to make better decisions going forward. Leveraging RPA and our intelligent cloud-based workflow solution, Cora SeQuence, we are automating and standardizing processes for cash management, financial reporting and internal controls around compliance. We won this sole-source deal, replacing a long-standing incumbent by demonstrating our domain and digital expertise through our initial short-term assessment highlighting our operational -- highlighting their operational deficiencies and by developing a proof-of-concept, validating our digital solution. This new engagement has an outcome-based commercial model and direct visibility to the client's Board of Directors. We believe our success in winning these types of deals is largely due to our concentrated and deep focus on a defined set of chosen industry verticals and a specific set of service lines that either cut across industry or are specific to only certain verticals Once we have won the deals, we have the opportunity to scale with the client and are intensely focused on providing outstanding delivery and service.

As we continue our journey to become a strategic transformation partner of choice, we anticipate an increasing number of relationships will grow meaningfully in size. At the end of the second quarter, we have 9 clients with annual revenue greater than $50 million, up from 6 during the same period last year. This is the first time in many years that we have seen this kind of increase. In fact, during the quarter, we achieved the milestone of having our first Global Client relationship cross $100 million mark in annual run rate revenue.

We are continuing to scale both our organic and inorganic investments that are aligned to our focused strategies to drive differentiated digital innovations to create more value for our clients. Our acquisitions over the last 3 years have been almost exclusively focused on smart tuck-ins that expanded our digital capabilities in AI, design thinking, dynamic cloud-based workflows and other process automation technologies in our core service lines. We also added U.S. onshore domain and operations depth in our insurance and life sciences verticals. Along these same lines, we recently announced 2 acquisitions, which enhanced our capabilities in pharmacovigilance and supply chain services. We believe that both markets provide significant growth opportunities.

First, the acquisition of Commonwealth Informatics rounds out our offering in pharmacovigilance. Integrating their groundbreaking signal-detection capabilities into our current AI-based pharmacovigilance solution to manage adverse events is a huge value-add for our pharma clients. Patient safety is critical to pharma companies, and given the complexity, high cost and a high degree of manually-intensive work involved in adverse event detection, reporting and prediction, pharmacovigilance represents an area ripe for AI and machine learning based automation. Meeting this need, we develop the Genpact Cora Pharmacovigilance AI solution that pulls together structured and unstructured data from multiple sources to validate and report adverse events, increasing accuracy and reducing cycle times dramatically. With access to deep talent from this tuck-in acquisition, we are creating a new industry standard for pharmacovigilance and signal detection with the potential to be revolutionary in its impact across the pharma industry. During the second quarter, we won a large pharmacovigilance deal with a top 5 pharma company. This is a breakthrough win and represents one of our largest digital AI-based deals to date. Under the scope of the engagement, we are partnering with the client to implement Genpact Cora Pharmacovigilance. We believe we can create tremendous value with our proprietary AI-based learning health care system that has the ability to continuously leverage data from the client, together with new data sets from other clients as well as the broader health care delivery ecosystem. We are in discussions with other large pharma companies, leveraging this same solution.

The second acquisition we announced this quarter is Barkawi Management Consultants, an investment we are making to enhance our supply chain service line. Supply chain management represents a large addressable market, about the same size as financial accounting that is highly underpenetrated, providing a long runway for growth. As one of the most strategic areas for CPG manufacturing and high-tech company, supply chain is an area ripe for redesign and re-imagination since current technology platforms in ERP system have not driven sufficient end-to-end outcome improvement. Adding Barkawi's consulting capabilities in demand, supply, logistics and distribution planning in the U.S. and Europe creates exciting growth opportunities. We expect the combination of Barkawi's market-leading supply chain strategy and new technology consulting, along with its top-tier leadership team and established partnership ecosystem, to generate value for our client base. When we combine this with our domain expertise and digital capabilities, we will be a significant player in the transformational supply chain services. This acquisition builds upon our prior successful partnership with Barkawi, where we worked together on a number of transformational client engagements.

As an example of our ability to drive end-to-end transformation in supply chain operation, we are partnering with a large global industrial client to standardize and automate its services related to the procurement of parts and raw materials used for large equipment installations and repairs. Implementing our intelligent workflow solution, Cora SeQuence, along with robotic process automation, we are enabling fast and accurate processing of basic work such as purchase or administration and sending quote requests to thousands of suppliers. This will allow the client to optimize time and effort to ensure strategic sourcing of higher quality parts and materials, securing better pricing to help their customers compete more effectively. This engagement also incorporates an outcome-based commercial model.

One of our key learnings through the work we have been doing for clients is that digital transformation represents a journey, not a destination. The first part of many successful journeys often begins with mapping user personas to fully understand customer experiences throughout an entire transaction process. We acquired this capability through our acquisition of Boston-based, Tandem 7, close to a year ago. With our Cora Journey 360 platform, clients are now able to visualize customer journeys in a measurable way, incorporating real-time benchmarking and analytics for new ways of re-architecting business processes that drives vastly improved customer and user experiences. This leads to better business outcomes far beyond cost savings, such as market share gains that drive top line growth. Customer journey mapping is getting a lot of traction, particularly with banking and insurance clients, where the ability to organize business operations around customer experience is becoming a significant lever in driving growth.

Before handing the call over to Ed, I want to provide a quick update on our GE business. Over the last few years, we have continued to strengthen our strategic relationship with GE. Based on our domain and process expertise and a value we continue to drive for GE, last year, we were awarded a large IT services contract that ramped during the latter half of 2017. With the impact from the GE Capital divestitures almost fully behind us, our GE revenue base has stabilized. As GE navigates through its journey to transform into an industrial company, focusing on the aviation, power and renewable energy businesses as well as executing on future spinoffs and divestitures, such as GE Healthcare and Baker Hughes GE, we believe there will be opportunities for us to win new work to drive GE revenue growth. Our GE pipeline is very robust, and we look forward to partnering with GE and its transformation journey and expanding our relationship going forward.

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

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

Thanks, Tiger. Good afternoon, everyone Here, I'll provide you with more detail on our second quarter operating results and provide an update on our full year 2018 financial outlook, including the impact from recent acquisitions.

During the second quarter, we generated total revenues of $729 million, an increase of 9% year-over-year or 8% on a constant currency basis. Overall business process outsourcing revenues, which represent 83% of total revenues, increased 9% year-over-year. Total IT services revenue increased 7%. At $663 million, total Global Client revenue, representing 91% of total revenue, increased 9% year-over-year or 8% on a constant currency basis. Within Global Clients, BPO revenue grew 11% year-over-year or 10% on a constant currency basis, and ITO revenue declined 2% during the quarter.

Transformation Services revenue for Global Clients grew at a low double-digit rate during the quarter. We saw a meaningful sequential improvement in Transformation Services top line and related resource utilization. While the increase was slightly lower than we had anticipated, we are very pleased with the level of new bookings related to large complex deals that have Transformation Services embedded in them that Tiger referred to in his earlier remarks. So these deals take longer to ramp. They have a lower contribution of near-term revenue associated with them. We anticipate Transformation Services growth will accelerate during the second half of the year, primarily driven by the ramp of some of the larger-sized booked deals as well as continued improvement in our short cycle consulting resource utilization.

We continue to expand relationships with our Global Clients across a range of our targeted industry verticals. In a 12-month period ending June 30, 2018, we grew the number of client relationships with annual revenues over $5 million to 129 from 112. It includes client relationships with more than $15 million in annual revenue increasing to 44 from 38, and as Tiger mentioned earlier, client relationships with more than $50 million in annual revenue increasing to 9 from 6.

GE, which represents 9% of total revenue, grew 4% due to the positive impact from a large IT services contract that ramped during the second half of last year.

Adjusted income from operations was $109.6 million, with a corresponding margin of 15%. This represents a 90 basis point sequential improvement from the level we reported during the first quarter of 2018.

Other income of approximately $10 million recorded during the quarter, relates primarily to the benefit from incremental India export subsidy income, which now also include 1 quarter benefit for the India fiscal year ended March 31, 2019. This benefit was partially offset by costs associated with recent strategic transaction as well as a stepped-up marketing campaign spending and investments in digital sales capabilities.

As we indicated last quarter, our second quarter gross margin increased sequentially by 100 basis points to 36.5%, primarily related to higher utilization of Transformation Services resources relative to the level we experienced during the first quarter. Again, we expect Transformation Services utilization and growth to continue to improve throughout the balance of the year. Together with operating leverage and more favorable -- with the FX rates, we continue to expect our gross margins to expand throughout the balance of the year.

Our SG&A expenses totaled $176.2 million compared to $167.8 million in the second quarter of last year. Our sales and marketing expense as a percentage of revenue this quarter was approximately 7.3% compared to 7.1% during the same period last year, driven by the investments in front end digital exports as well as certain marketing campaigns-related costs. Total G&A expense as a percent of revenue improved by 110 basis points year-over-year due to operating leverage and savings initiatives that are driving efficiencies in our support functions. Adjusted EPS for the second quarter was $0.41 compared to $0.43 last year. The $0.02 decline was primarily related to a higher tax rate during the quarter compared to the same period last year.

During the quarter, we returned $48 million to shareholders, including $14 million related to our quarterly dividend of $0.075 per share and $34 million through our share repurchase program. We repurchased approximately 1.1 million shares at an average -- weighted average price of $31.05 during the quarter. Year-to-date, we repurchased approximately 4.3 million shares at a weighted average price of $31.34 per share. Since we initiated the share repurchase program in 2015, we repurchased approximately $922 million worth of shares at an average price of $25.74.

Our effective tax rate for the second quarter was 20.9%, in line with our expectations compared to 18.3% in the second quarter of last year that benefited from certain nonrecurring discrete tax items. As we discussed with you earlier in the year, we expect our tax rate to increase throughout the year due to special economic zone expirations. We continue to expect our full year 2018 effective tax rate to trend towards the lower end of our 21% to 22% outlook.

Now let me turn to our cash flows and balance sheet. During the second quarter, we generated $77 million of cash from operations compared to generating $84 million during the same period last year. DSOs improved sequentially during the quarter to 85 days. There is no change for our full year outlook for cash from operations to grow at approximately 8% to 9% in 2018. Our cash and cash equivalents totaled $334 million compared to $424 million at the end of the first quarter of 2018 with a net debt-to-EBITDA ratio for the last 4 rolling quarters of approximately 1.9, in line with last quarter. We were able to reduce our total cash balance through a focused effort to rationalize international cash balances and streamline cash management activities. With undrawn debt capacity of $133 million and existing cash balances, we continue to have ample liquidity to pursue growth opportunities and execute on our capital allocation strategy. Later this week, we expect to close on a new 5-year $1.15 billion credit facility to replace our existing $1 billion credit facility. We are taking advantage of the current attractive interest rate environment and our investment-grade rating to secure this new facility that will expand our maturity profile and debt capacity at a comparable interest rate. Specifically, the facility will be made up of a new $680 million term loan, consistent with the outstanding term loan under our prior facility; and a $500 million revolver, which increases from $350 million.

Capital expenditures as a percentage of revenue was 3.9% in the second quarter of 2018. We continue to expect Capex for the full year to be approximately 3% of revenue.

Let me update you on our full year outlook for 2018. Taking into account better visibility for the balance of the year as well as the anticipated revenues from our recently announced acquisitions of approximately $10 million, we now expect total revenue to be between $2.945 billion and $3.01 billion, representing year-over-year growth of approximately 8% to 10%, up from our prior outlook of 7% to 9.5%. Additionally, we now expect Global Client growth to be in the range of 9.5% to 11.5% versus 9% to 11% previously. GE revenue is now expected to decline towards the lower end of our prior outlook of 8% to 10%. As a reminder, GE growth rate for the balance of 2018 will be impacted by the uneven quarterly growth we saw in 2017. We continue to expect adjusted operating margins to be approximately 15.8% for the full year, with margins expected to continue to improve during the second half of the year as revenues ramp. We continue to expect adjusted earnings per share in the range of $1.72 to $1.76 as the incremental foreign currency gain during the second quarter of 2018 will be largely offset by higher interest cost related to the financing of the 2 acquisitions we just announced, which we are forecasting to be slightly dilutive to our 2018 EPS. We expect these businesses to be accretive in the next year's EPS. There is no change to the approximate $0.01 to $0.02 benefit from the expected share repurchase activity during 2018.

With that, let me turn the call back to Tiger for his closing comments.

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

Thank you, Ed.

As we enter the second half of the year, we are seeing great momentum in our business. Our narrow and deep focus on a select few verticals and service lines and our 2 highly synergistic paths to market, Transformation Services and Intelligent Operations, are working really well in the market, forming a virtuous cycle of growth. We are seeing this in greater deal inflows, higher pipeline and bookings growth, with large complex deals contributing more than ever.

We're also seeing many of our strategic client relationships grow meaningfully in size and scale. Our acquisitions have performed well and provide us a strategic boost in sharply-defined capabilities. Even more importantly, we have added tremendous new DNA to our leadership depth in digital, AI and domain. And I am really pleased with our retention record of these key leaders.

At the same time, we continue to strengthen our leadership ranks with new additions to my senior team. Darren Saumur joined us as our Global Operating officer and Mark Sullivan as the new global leader of our Banking and Financial Services vertical. They bring with them deep experience in consulting new digital technologies, automation and depth in our chosen industry verticals. Both leaders have hit the ground running and are already making their mark on the business, and I'm very pleased to welcome both Darren and Mark to Genpact. They add to the very strong existing leadership team.

All of this gives us great momentum and confidence as we look at the balance of this year, and more importantly, over the medium and long term.

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. Jimmy, can you please provide the instructions?

QUESTIONS AND ANSWERS

Operator

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

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

Congratulations on the quarter, particularly with regards to the bottom line. However, I did want to ask about -- well, let me start with -- the comment you made, Tiger, on strategic relationship growth. Is there a way to sort of quantify these relationships and perhaps even talk about the length of those as you head into the next 12 months, looking beyond -- because I know you have very high visibility in the very near term, looking beyond the next couple of quarters?

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

So Ashwin, I'm trying to understand the question. Let me try and answer it, and if I haven't, then you can clarify. The way we measure our strategic relationships -- one way we measure our strategic relationships is, are we becoming relevant for them in terms of size, scale and the nature of what we are doing for them to help them change their business models, make them more competitive in the marketplace? And as we grow the size of our relationships and a number of our clients above $50 million, above $25 million, above $15 million, above $5 million, clearly, that is one reflection of the importance of our relationship. And that's the way we kind of measure it. The second thing I would say is the speed at which we are able to get to those types of numbers is clearly faster than it's been in the past. Again, no surprise because clients are driving change faster. That's the nature of the world. There are many more tools to drive change, and many more of those tools are available to us, and we take those to clients who drive that change. So again, I've tried to answer the question the way I understood it. Help me understand whether I tried to answer the question you had.

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

No, it's pretty close to what I was trying to get to. I think the other part of that question is, obviously, you've added capabilities with these acquisitions. Just quantitatively, if I look at these revenue contributions, perhaps from the acquisitions, is that the difference between the new outlook and the old outlook? In other words, you primarily range for that? And also, there seems to be maybe a little bit of slippage from 2Q to the back half of the year in terms of revenue, at least relative to what consensus was expecting. Is that fair?

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

So on the first part, if you see the prepared remarks we talked about raising our revenue both on the top and the bottom, first, by $10 million for -- accounting for the acquisition, which we expect to close in the third quarter, the Barkawi one. The Commonwealth one is a very small, very, very not so material tuck-in acquisition that is very specific and niche. The Barkawi one, we have assumed third quarter close, and we have assumed $10 million in addition. And then we've raised the bottom by another $5 million given the visibility that we have. The range is still a pretty significant range that we expect to navigate as we finish the next 2 quarters. I want Ed to answer the second part of the question, Ashwin, that you had.

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

I think the growth -- the impact is similar to what we assumed at the very beginning of the year. It's really just the impact of the acquisition from the prior year, and that's the difference in the growth rates quarter-to-quarter.

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

Okay. And the part about what looked like maybe -- was there a pushout of some opportunity from 2Q to the second half?

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

No. But I would say when you look at growth for the second half of the year, more due to just the nature of our business, how it can be lumpy, I would say if you average the growth that we're estimating for the full year, for the second half, I would say Q3 will be low, will be probably 200 basis points lower in Q3 and 200 basis points higher net average in Q4, roughly based upon the way we see it rolling out. Some of that due to the managed services piece as well as the ramp that we expect to see in Transformation Services. So it won't be smooth based upon what we see in the client roll-ups.

Operator

And the next question comes from Joseph Foresi with Cantor Fitzgerald.

Joseph Foresi - *Cantor Fitzgerald Securities - Analyst*

I was wondering about the pipeline building. It sounds like given what you're talking about the large deals that the pipelines building that we can anticipate a revenue growth acceleration at some point. Is it that the pipeline building and the commercial rates are slowing? Is that how we should think about it? It gives you the same sort of steady growth rate? Or should we be expecting that uptick in growth rate at some point?

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

No, I think the pipeline is building in our chosen verticals and in the services that we are focused on. And in terms of both cycle times and conversion and win rate, those have been pretty steady. So our -- as that pipeline converts, and we've already had a pretty strong -- as I called out, a pretty strong booking in the first half, as that pipeline converts, that sets us up very nicely for medium-term growth. And just to finish that off, the nature of our business, as you know, Joe, is long cycle and long cycle ramps. So any wins then take time to ramp as it ramps its way through. And back to Ed's answer for the previous question, we see that ramp, for example, being different between Q3 and Q4. And therefore, we expect Q4 to be better than Q3 as we look at the ramp between Q3 and Q4.

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

Joe, we don't typically like to talk about bookings quarter -- Tiger hates it more than anybody. But given that it was meaningful, it was more than what you would typically see, we thought it was appropriate to give that outlook. It was just -- it was more meaningful than you typically see. So...

Joseph Foresi - *Cantor Fitzgerald Securities - Analyst*

Got it. And then just maybe you could talk a little bit about IT in GE. What kind of projects are you seeing within your IT business? And have both of those sort of come to an area of stability at this point?

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

It has come to stability, Joe. That's -- there's no question about that, both from an IT in GE perspective as well as IT in Global Clients. It also come to stability from an overall GE perspective, as I said in my remarks. The kind of projects that we are seeing in IT are the kind of projects that we said we would focus on, IT engagements that are connected to our depth in domain, finance, business intelligence, data engineering and then connected to supply chain, ERP, SAP connections, connections to Oracle, all the kind of things that you would expect someone like us to play a significant role given that domain and process expertise and given the length and depth and breadth of our relationship and our reputation on delivery in IT with GE.

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

And specifically through the clients, Joe, we talked about it being flattish year-over-year. Still flattish, maybe have been actually up 1% for the full year, so that's good. It speaks to the stability.

Joseph Foresi - *Cantor Fitzgerald Securities - Analyst*

Got it. And then last one for me. How much the margin was FX versus productivity? And how does the margins look relative to both for the full year?

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

So we talked about the FX impact being about 75 basis points or thereabouts, total of a negative year-over-year for the company. And although overall AOI, a little over $20 million of an impact. So that -- and that -- but that impact is lesser in the second half. So that is one of the reasons we feel better about gross profits continue to improve in the Q3 and even more so in Q4 as we get higher leverage. Part of it's FX. Part of it is just pure leverage as revenues grow on a similar infrastructure that should flow through. And as TS continues to ramp at a higher margin level, that will flow through as well.

Operator

And our next question comes from Tien-tsin Huang from JPMorgan.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

This is Puneet sitting in for Tien-tsin. So Global Client BPO revenue came in somewhat below our expectations. How did that compare with your expectation? And was all of that due to slow ramp in Transformation Services that you talked about on the call?

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

Actually, so, Puneet, it actually came very close to our expectations in Transformation Services, and let's talk about consulting and digital and the combo of those 2 in Transformation Services. One of the interesting things that has happened over the last couple of quarters, which I really like, is that some of the Transformation Services is actually now getting embedded into our larger deals. It is getting attached to a larger deal. It does a couple of things. It makes those deals more complex. It actually raises the probability of us being differentiated and winning those deals, part of the reason why we feel confident about the pipeline and the inflows into the pipeline and the bookings. But it then means that Transformation Services also ramps, which is a little different from a year back when we started our Transformation Services journey with a little bit of let's go and do Transformation Services on the strength of our domain and process but almost independent of our Intelligent Operations and large deal cycle. We already knew that the virtuous cycle between the 2 will be set up. We can see that being set up now.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

Got it. And great to see the pharma win, but some of your peers have been acquiring assets factoring proprietary data. Do you think you also need to do acquisitions like those as next stage of evolution in your AI capabilities?

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

I don't know about what others are doing to meet -- we are very focused on adding capabilities that actually leverage our strength. And remember, our strength really boils to 2 key things. We really understand the domain, whether it relates to supply chain in consumer products or its relates to understanding anti-money laundering in a banking environment. That's one deep advantage that we have, and this goes back 20 years. The second is a bulk of our business actually does the processing and actually manages the data taken from our clients. We then work on that data and then give a decision or a set of outcomes and outputs to our clients. So in some sense, we already have access to data in our business. Pharmacovigilance AI platform that we built is built on the access to data that we have client, after client after client. So I'm not so sure that necessarily, we're going to go around buying data. I'm not so sure I'll be able to say it specifically that our strategy is to buy data.

Operator

And our next question comes from Maggie Nolan with William Blair.

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

Last quarter and this quarter, you mentioned large deal wins in digital. So I'm wondering, do you think this is maybe a trend where large deals in digital are becoming more prevalent? Or perhaps, your ability to win large deals in digital is increasing?

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

Maggie, I think you just passed the answer into 2 parts, and both of those are true. There's no question that the confidence of the world and the confidence of various businesses to actually undertake digital transformation journeys quickly convert proof-of-concepts into bigger digital engagements, and opportunities taken deeper into a particular domain area is much better than it was a year back, much better than it was 2 years back. And we expect that trend to continue as digital takes hold. And examples of success will mean others will follow. But I would also say that our ability to engage, our capabilities to engage, our solutions are getting more mature. We are experimenting more with clients as they want to experiment, and every success leads to that client engaging more and then other clients jumping in. So I would say, interestingly, it's a combination of both.

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

Okay. Great. And then on the margins, obviously, you had great sequential expansion. But you did say about Transformation Services utilization came in slightly below your expectation, so I was wondering what was behind that. And then also, how did the growth in Transformation Services revenue this quarter compare to your expectations? Thank you.

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

I think it's kind of all related, and you heard Tiger talk about a lot more of our TS and critically consulting folks are working on these larger deals that they're engaged with. And that's a great thing, right? We talked about our bookings growth and the opportunities we have there. So I think that's positive. The nearer-term -- the shorter-term piece is we saw that, that revenue was a bit lower to the tune of $4 million, $4 million to $5 million during the quarter. But at the end of the day, we are expecting that to continue to ramp throughout the balance of the year. So TS growth, off slightly but in the main, still expecting that to be for the full year in and around 20%, which is great. And still expecting TS in total to be in the 25% plus range as we exit the year. So all are positive. So more of the mix of it being geared towards a larger deal during the quarter, which is great, but it impacted the second quarter or have some slight flow through the full year.

Operator

(Operator Instructions) The next question comes from Bryan Bergin with Cowen.

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

Your tone around the IT services business certainly sounded a little bit more constructive than in the past. Can you kind of comment on what you're seeing as far as the ability to combine those services with what you're doing on the operations side? And then are you fully through the strategic portfolio review on the ITO side?

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

Yes. I'll take the second one first. Bryan, the reality here is that any business is constantly looking at its portfolio and making sure that it's in tune with your own strategy as well as what's happening in the marketplace. So we do that in a specific cycle. We refresh our strategy and make sure that it's tuned to that cycle, et cetera. So I would say you're never ever saying I've done all my strategic review forever. I think the interesting question is, on IT, we are clearly seeing stability in our business. And that's related more to our focus on specific areas that we called out, I think, now 18 months back in the IT business. And I think that's finally, led to that stability. We really know which IT engagements are we differentiated in, and those tend to be the ones where our domain expertise and process understanding of that space played through strongly. In the past, we've talked about, for example, IT engagements, which are about platforms in the leasing world, in the small business lending world. We are really, really strong given the depth of our understanding end-to-end of everything in that space. Are they all bundled? No, they're not. IT services deals tend to be typically stand-alone deals. Our ability to win them is because of our differentiation when we bring process and domain understanding to those IT engagements. Our bundling is more on digital and consulting and analytics while those get bundled into our BPO business.

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

Okay. Makes sense. And then I wanted to ask about the contract mix. Certainly, it sounded like you're seeing more outcome-based and transaction-based work. What type of revenue share are you at now with those types of deals given you've had Cora in the mix now for a couple of quarters, if not over a year now?

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

So at the highest level, Bryan, we -- I would say about 60% of our business is as it's historically been, input and FTE-based. And that's about 10% lower than it was 12, 18 months back. So it's been a steady trend where only based on input is down from around the 70% plus mark to the 60% plus mark. The balance is a combination of outcome-based, transaction-based and what we tend to call hybrid models, where it's a combination of some input base with a gain share, input base plus connected to outcomes and transactions. We see that trend continuing. We see that trend continuing not just for us but I think generally across our space. We see that trend continuing.

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

Okay. And just to follow up on that. Are there any changes in kind of the margin potential based on the trend you're seeing there?

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

No question, Bryan. As we undertake the journey, think about some of our non-input-based contracts, which today have outcome-based as well as -- for example, the PVAI solution will also have a license fee annuity base for the PVAI solutions that's been built. That combination has definitely better margin potential than if it was for or a pure labor based contract. Obviously, it's dependent on our performance, and we have great confidence in our performance. So as we continue to perform, those will have a positive impact on total margin for those types of transactions and those types of engagements.

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

So it's lock in affect that -- we'll update you on outlook on that as we move forward, right? But it definitely is more of a tailwind, as we've talked about, than a headwind, which is good, right?

Operator

And the next question comes from Robert Bamberger with Baird.

Robert W. Bamberger - *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*

Can you speak a little bit about the capital allocation priorities going forward now that you've completed about 2 more acquisitions this quarter? Will you be shifting the strategy more towards dividend and share repurchases now?

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

No, I think the strategy -- the capital allocation strategy hasn't changed, right? It's a long-term strategy. And the first order of priority is -- continues to be attractive M&A. So attractive M&A, dividend is in place. So that's effectively a given. We look and assess that on an annual basis how we -- how that moves over time. But M&A first order of priority, to the extent that -- obviously, capexto support business as well is there. We talked about that being 3%, a little higher during the quarter. Part of that all related to the opportunities you heard Tiger talk about, right? So that's all good news into the extent that there's excess capital, will return that to shareholders, as we've already done through the first half of the year.

Robert W. Bamberger - *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*

Great. And then on Transformational Services, you noted low double-digit growth, which has decelerated a little bit, but it's still faster than total company growth. I guess, with the stronger growth in Transformation Services and digital and analytics, how are you thinking about margin and revenue mix shift over time as these higher value solutions increases a portion of the total business?

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

Well, we were just talking about that. Tiger talked about it. I think as more and more shifts towards TS, we think that's higher value add-related services. And as you might expect, they do carry higher margins, so that's good for us. But we'll update you on annual expectations on that when we give you guidance as we move forward. But it's certainly a positive development as that continues. We like that fact pattern.

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

But I would say that, that'll take time to play out. Two reasons. One, everything is in ramp mode, particularly when it comes to digital solutions, the example in pharmacovigilance that I gave. Think about adverse event reporting for one pharma client and then you build that out and take that to many pharma clients. The real leverage comes when you actually add more clients, and that's the leverage that'll play out. That doesn't overnight. So it's something that we've always talked about as the nature of our business. Our business is a long cycle business. It's not a business that is measurable quarter-by-quarter. And I think the whole digital and TS journey also for us is a long cycle journey, but it all plays out exactly the way you described it, which it'll have a long-term positive momentum on margins.

Operator

(Operator Instructions) Our next question comes from Edward Caso with Wells Fargo.

Justin Micahel Donati - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

It's Justin Donati on here for Ed. Can you expand or provide some more color on the type of buyer for these large transformational deals? And is it isolated to a few verticals or more broad-based?

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

It's a great question. We are seeing these types of larger transformational engagements across all our focused verticals. So I wouldn't say it's concentrated in a particular vertical. So that's the first statement I would make. I would -- and it's also not necessarily concentrated in any particular geography. We are focused on -- company is headquartered in developed economies in North America, in Europe and in Asia. And we are seeing pretty much the same pattern cut across. Where the difference comes up is what is the culture of the company, what is the appetite for change of the leadership team of the company, what is the strategic intent of the company, and that is the reflection of their competitive position, what are they trying to drive, who are they trying to compete with at a particular point in time. The example that I gave on the CPG retail business and the deal that we talked about, where the company decided that they would go down a particular path to compete with online disruptor. And I think the combination of what the leadership team and their strategy is and the culture of that team to drive change and kind of lead change determines who jumps on to the transformational journey and says, "I want to drive change." So it's actually more about company culture and company leadership than anything else.

Operator

And I am showing no further questions at this time. I'd like to turn the call back over to Roger Sachs for any closing remarks.

Roger Sachs - *Genpact Limited - Head of IR*

Well, thanks, everybody, for joining us today and look forward to speaking to you again next quarter.

Operator

Ladies and gentlemen, this does conclude your program for today, and you may all disconnect. Everyone, have a great day.
