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EDITED TRANSCRIPT

G - Q3 2015 Genpact Ltd Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2015 Genpact Limited earnings conference call. My name is Irene, and I will be your conference moderator for today.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. I will now like to turn the conference over to Roger Sachs, Head of Investor Relations at Genpact. Please proceed, sir.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, Irene, and good afternoon, everyone, and welcome to Genpact's third-quarter earnings call to discuss our results for the quarter ended September 30, 2015. 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 third-quarter results as well as the update you on some of our strategic initiatives. Ed within discuss our third-quarter financial performance in greater detail. Tiger will then come back for some closing comments and then we will take your questions. 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 which we believe provide additional information for investors and better reflect the way management views the operating performance of our business. You can find a reconciliation of these measures to GAAP in our earnings release in the IR section of our website. And that let, me turn the call over to Tiger.

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Roger. Good afternoon, everyone, and thank you for joining us for our third-quarter 2015 earnings call today. Overall, Genpact delivered another solid quarter driven by 14% constant currency growth in our global client BPO business. Specifically, total revenues increased 5% or 7% on a constant currency basis. Global client revenues increased 7% or 10% on a constant currency basis. GE revenues declined 2%, both on an as reported and constant currency basis. Adjusted operating income was up 10% with a corresponding margin of 15.7% and adjusted EPS was $0.35, up 36% year over year. Our third-quarter top-line results reflect continued momentum in our global client BPO business. These results would have been better but for currency headwinds and certain delayed contract signings from awarded deals. Global client revenue was up 10% year over year on a constant currency basis. This was driven by robust 14% constant currency growth in our core BPO business that was broad based across most of our targeted verticals, including banking and financial services, insurance, CPG, life sciences, and high-tech.

We also saw growth across service lines including finance and accounting, our core industry vertical operations, and analytics. GE revenues declined 2% largely due to the discontinuation of certain IT and other project work related to the recent GE capital divestitures. Strong year-to-date bookings momentum and year-to-date pipeline inflows give us confidence that we are on the right path to improve our year-over-year global client top-line growth trajectory into 2016. We remain excited by the traction we are seeing in the marketplace for our solutions as we continue to dramatically differentiate ourselves in competitive situations. As we highlighted last quarter, the world is changing at an ever-increasing pace with companies undertaking big transformational journeys, including adopting new digital technologies to leapfrog and disrupt established business models.

In order to meet today's challenges and compete in the future, companies need partners that understand new digital technology, have industry and functional domain expertise, and have deep process knowledge to reimagine the way companies do business. We believe Genpact is uniquely positioned to meet these needs. Using new digital technologies to automate and eliminate work streams, together with data and advanced analytics on redefined processes, allows us to drive not only better productivity but achieve more effective and dramatically improve business outcomes for clients. Consistent with our strategy, during the quarter we continued to invest in enhanced digital capabilities in our chosen verticals and service lines. Specifically, first we introduced Lean Digital which is our unique approach to reimagine clients' operations delivering the full power of digital by focusing on the middle and back office. Combining our heritage in both Lean principles and process and domain expertise with design or solution based thinking, we harness digital's power in an agile and flexible way.

Currently, many digital transformation journeys fall short of expectations and hype for two primary reasons. First, many digital interventions have been largely focused around the front end or customer interface without sufficient attention to a complete end-to-end solution that encompasses the middle and back offices. And second, companies' digitizing, broken, or inadequate processes that are not fully reimagined based on desired step function improvement and business outcomes. Our Lean Digital solutions addresses these transformation shortfalls by first leaning out and then reimagining operational processes by incorporating automation and digital technologies with a focus on delivering a step change in business outcomes. More specifically, the end-to-end Lean Digital approach transforms and digitizes companies' middle and back office ensuring a seamless connection to the front end.

The feedback we are beginning to receive is that Lean Digital is a game changer that builds on our strength of using Lean principles to drive disruptive improvements. This launch has been the culmination of many months of building our digital smart enterprise process frameworks and getting a number of our key project and improvement leaders trained on specific Lean Digital capabilities. We now have a digital certification program for Black Belts and Master Black Belts that we are also taking to clients. For example, at one of the largest global banks, our Lean and digital experts are designing automated solutions leveraging new technologies for underwriting, customer service, and fraud detection, all critical areas for the bank and its customers. We are getting great initial feedback on the way the teams are reimagining the solutions and how other banking processes will run in the future.

Second, in September, we agreed to acquire Endeavour Software Technologies, a digital solutions provider focused on applying mobile technologies to our sweet spot of middle and back office operations. Closing is expected by the end of this year. This tuck-in deal is expected to significantly improve our capabilities in mobility. And we are very excited to add Endeavour's leaders to our rapidly growing digital leadership team. We believe mobility solutions have the ability to automate and eliminate many back office processes by pushing them upstream and into the field and have brought applicability in a number of our chosen verticals. For example, using mobility solutions, insurance agents will be able to collect information quickly to process a customer's application and instantaneously provide a post underwriting price quote.

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Third, we announced this morning the formation of a unique digital incubation program where we are now partnering with an exciting group of new technology startups that have interesting cutting edge technologies in such areas as dynamic work flows, advanced cognitive and artificial intelligence tools, robotic automation, and machine learning. Through this program, we will develop, pilot, and incorporate these new solutions into our service offerings for our clients. Further, we are building a Silicon Valley innovation center where we will run innovation jams. These are idea brain storming sessions with our clients to foster disruptive technology idea generation. Fourth, we are bringing our expertise in process, industry domain, engineering design, analytics, and digital technology to GE's Predix program where we are one of the chosen partners. Predix is a cloud-based platform designed to capture real time industrial data to be used for analytics and insights to drive dramatically better performance and outcomes.

This represents the world of the Internet of Things. As part of this program, we are combining our patented smart enterprise process frameworks with our unique Lean Digital approach to develop apps on the Predix platform. Let me share a couple of examples of how these Lean Digital solutions are adding value for our clients. First, we designed the solution for a large equipment fleet operation of a leading OEM client that captures and analyzes vast amounts of data generated from its equipment that is then combined with the repair and maintenance information in order to predict machine performance. We are marrying our deep domain knowledge with the ability to triangulate and interpret data to identify performance issues. All of this enables our client to isolate and fix serious problems and reduce machine downtime as well as warranty and maintenance costs.

Second, we developed an automated solution for a large global CPG client that significantly improved their ability to manage trade promotions, a major portion of a CPG company's cost structure. By eliminating archaic legacy manual processes and applying new digital technologies, we have been able to link customer payments to contract terms and company trade policies reducing revenue leakage related to trade promotion management. This represents a great example of how critical it is for a client to ensure that the middle and back offices are seamlessly integrated with the front end. Our momentum in winning big deals continues as we signed three large transformational engagements during the quarter. This brings our total to 13 over the last seven quarters and seven deals so far this year. The first one is with Boeing, one of the largest and most respected global corporations, where we will standardize and manage Boeing's key international finance and accounting processes in addition to non-production procurement operations. Through this relationship, we will support Boeing's strategy to improve business performance and productivity, reduce costs, and make its business operations much more agile for the future.

Our second big win is for a global company in the services industry where we will implement a digital system of engagement platform on top of multiple ERP systems to unify and standardize financial accounting operations across 40 countries. This deal represents a great example of applying Lean Digital in the finance and accounting domain and bringing design consulting and analytics together with process depth to drive transformation and outcomes for our clients. This deal includes a material gain share component based upon outcome improvement. Third, as part of our entry into the wealth management technology services business in the UK, we signed a large contract with an asset management company. We will provide a full end-to-end managed account platform that among other things supports portfolio management and customization, asset rebalancing, and tax optimization strategies, all on a new-age technology platform. Here again, a material part of the commercial arrangements are transaction and outcome based.

Our overall pipeline continues to be healthy across our targeted industry verticals, service lines, and geographies. As the year-to-date inflows are up, win rates continue to hold at very high levels. Our investments in domain led capabilities and solutions, higher caliber client facing sales teams, and digital and analytic solutions are resonating in the marketplace. We're also very pleased with the improving sales productivity from our new sales hires over the past 18 plus months, which is reflected in their rising bookings and inflow values as these team members continue to mature.

Switching to GE. As had been reported since April, GE has signed a number of deals to sell assets and businesses as part of its planned GE capital divestiture. As we mentioned during the last two earnings calls, we continue to see the GE capital divestiture in the medium term as a balance of risk and opportunities. We are engaged with every one of the buyers announced so far in order to be able both to continue the services we deliver as well as find new opportunities to expand and grow those services. In the meantime, we continue to be a great partner to GE and our relationship remains very strong. For the full year, GE revenues are in line with our expectations.

Lastly, I'd like to take this opportunity to provide a little more color about our IT business, which can be broadly thought of as having two groups. The first represents legacy IT services such as ERP implementations which is under pressure as global clients shift spending from these legacy areas to new digital technologies and GE divests its GE capital businesses. We expect these trends to continue for some time. The second bucket

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encompasses fast-growing digital technologies. These include our systems of engagement platforms, mobility and big data analytic solutions, as well as disruptive initiatives such as the move towards utilities within capital markets like our KYC.com joint venture with Markit. All of these are cutting edge technologies embedded into many of our enterprise and vertical services and augment our core BPO business unlocking greater value for our clients.

While we provide a breakdown of our revenues between BPO and ITO, in the new digital world, we do not think of these businesses separately. Increasingly, both business process and IT are being bundled and embedded across all of our service lines leveraging our domain and process expertise to provide value for clients. IT services will always be part of our core offerings. However, our journey will be to bring new digital technologies to the market in order to provide clients with innovative solutions to solve their critical problems. With that, let me turn the call over to Ed for a more detailed review of the quarter.

Ed Fitzpatrick - *Genpact Limited - CFO*

Thank you, Tiger. During the quarter, we generated total revenues of $618 million, an increase of 5% year over year or approximately 7% on a constant currency basis. Business process outsourcing, which represents approximately 78% of total revenues, increased 8% year over year for approximately 11% on a constant currency basis. IT services revenues declined 5% year over year, both on a reported as well as on a constant currency basis. Revenues from global clients, which represented approximately 81% of total revenues, increased 7% year over year or approximately 10% on a constant currency basis. Within global clients, our core BPO revenues increased 10% year over year and approximately 14% on a constant currency basis. While IT service revenue declined 4% both on reported as well as constant currency basis. GE revenues declined 2%.

We continue to expand relationships with global clients across a range of our targeted industry verticals. In the 12 months ended September 30, 2015, we grew the number of client relationships with annual revenues over $5 million to 103 from 88. This includes client relationships with more than $15 million in annual revenue increasing to 34 from 30, and client relationships with more than $25 million in annual revenue increasing to 16 from 15. Adjusted income from operations for the quarter totaled $97 million, up 10% year over year with a corresponding margin of 15.7%, up from 15% in the third quarter of 2014. Margins were up 70 basis points year over year primarily due to G&A operating leverage, improved productivity, and the benefits of foreign exchange. The favorable G&A spending efficiencies this quarter have been partially offset by costs associated with investments we made in new businesses to develop capabilities in certain key growth initiatives.

Specifically, during the quarter, we continued to make ongoing investments to scale the Know Your Customer, or KYC, joint venture. The loss from this joint venture is reflected in the equity method investment activity line that is incorporated in our adjusted income from operations. And within our mortgage business, we are investing in the development of our consumer mortgage platform. While we continue to believe in the long-term attractiveness of this business, it has taken longer than expected to scale to the levels we had originally planned. As a result, during the quarter we recorded a nonrecurring charge to partially reduce the software asset on our books to reflect this delayed ramp based upon the net present value of anticipated future cash flows. This charge is reflected in other operating expense line in the statement of income.

Gross margin for the quarter was 39.2% compared to 39.7% last year. During the quarter, gross margins were negatively impacted by approximately 30 basis points from foreign currency fluctuations and 20 basis points from a nonrecurring charge. Overall, we are very pleased with the stable gross margin levels that the business has been generating. Within SG&A, as a percentage of revenue, G&A expense declined by approximately 240 basis points year over year. Sales and marketing expense as a percentage of revenue was relatively stable at 6.6% compared to 6.8% during the same period last year. Adjusted EPS for the third quarter was up 36% year over year to $0.35 per share compared to $0.26 per share primarily driven by higher operating income, gains from foreign currency remeasurement, and lower interest and tax expense.

We announced a $250 million share repurchase program in February of this year. In the third quarter, we repurchased approximately 3.5 million shares at a weighted average price of $22.30 totaling $78 million. Year to date, we have repurchased 7.1 million shares totaling $159 million. Our effective tax rate was 21.1%, up from 19.7% during the first half of the year which is directionally in-line with our expectations. I'll now turn to our balance sheet. Our cash and liquid assets totaled approximately $468 million, up from $442 million at the end of the second quarter of 2015. With undrawn debt capacity of $324 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities. Our net debt to EBITDA for the last four rolling quarters was just under 1.

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Turning to operating cash flows, we generated $139 million of cash from operations in the third quarter of 2015, up from $86 million in the same quarter last year primarily due to the higher level of operating income, lower tax payments, lower interest expense, and improved working capital levels during the quarter. Capital expenditures as a percentage of revenue were 2.3% in the third quarter. Finally, let me update you on our full-year guidance for 2015. We started the year with a revenue outlook in the range of $2.46 billion to $2.5 billion representing 8% to 10% growth which included an adverse foreign exchange estimate of $35 million. As the year progressed, currency headwinds increased, and we now expect a negative impact of approximately $50 million for the full year.

Therefore, primarily due to the continued foreign exchange headwinds and certain delays in recently signed contracts, including as an example the UK wealth management contract that Tiger mentioned earlier that was delayed in part due to licensing requirements, we now expect our full-year revenue to be approximately $2.46 billion. Excluding the impact of foreign exchange, revenue for the full year is expected to grow approximately 10% compared to 8% growth in 2014. Global client revenues for 2015 are expected to grow approximately 13% on a constant currency basis compared to 11% in 2014. Recall at the beginning of the year, we forecasted global client growth on a constant currency basis of 12% to 14%. The negative impact of foreign exchange movements in the top line has had the opposite impact on operating margins due to financial and natural foreign currency hedging as we now expect our full year of 2015 adjusted operating margins to be between 15.1% and 15.3%.

For the remainder of the year, we anticipate our adjusted operating margin to be lower than the year-to-date performance of 15.5% primarily due to the ramp and capability investments that we have discussed with you previously. Our 2015 effective tax rate is now expected to be approximately 20% to 22% due to lower assumed discrete items for the full year. Cash flow from operations is now expected to grow approximately 10% to 15% in 2015 versus our prior outlook of 5% to 10%. Lastly, capital expenditures as a percentage of revenue are expected to be approximately 3%. With that, I'll hand it back to Tiger for his closing comments.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thank you, Ed. In summary, we feel good about the business, especially the growth trajectory we are seeing with global clients which demonstrates that the focus investments we started making at the beginning of 2014 are paying off. Moving forward, our unique Lean Digital approach that delivers the full power of digital is expected to unlock significant client value by reimagining how our businesses are run and harnessing advanced technologies to automate and make companies more agile. With the strength and depth of our domain and process expertise, this represents a huge opportunity for us to drive more value for our clients.

Before closing, I want to recognize our global workforce whose dedication and passion for serving clients is unwavering. The success we've had through the years can only be achieved by constantly investing in our 70,000 plus employees across the world in order to develop and provide them with rapidly evolving skills. We were awarded 11 Brandon Hall Group Excellence Awards for our world class talent development practices. This recognition demonstrates Genpact's work in addressing global talent challenges and is a testament to our pervasive learning and development ecosystem. Genpact also continues to be recognized by the industry analysts and advisor community as we place in the top quartile of the Everest Group's PEAK Matrix for performance and delivery capabilities within banking BPO. Congratulations to all of our team members on achieving these industry honors. With that, I'd like to open our call for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ashwin Shirvaikar, Citi.

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Ashwin Shirvaikar - *Citigroup - Analyst*

My question is -- I guess the first question is with regards to the delays that you are seeing. So $15 million of debt guided to the lower end of the range is currency. How significant is the other portion? And more from a forward-looking standpoint, you mentioned licensing requirements. What's the new estimate for timeline to get there, and is it demand at the end of that journey, does it demands justify developing the utility and so on?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Ashwin, thanks for the question. Let me answer two or three questions embedded in your question. The specific licensing requirements were in the UK. It took us longer than we would have liked. But it's done and we actually signed the contract. We just signed the contract later than we would have liked to have sign it. So it's behind us. And therefore, while it obviously impacts revenue for the quarter and therefore for the year, it did not and does not impact revenue going forward. And to your other question around total value, it wasn't the $15 million. I would say less than the $15 million is the total impact of delay in contract signing off win that we've had primarily driven by the licensing requirement that I talked about.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. So just to be clear, there aren't material other delays?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

No. Not at all, Ashwin.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Got it. The other question I had was with regards to the traditional IT breakout that you did which was unusual, and I'm kind of wondering partly the rationale for breaking it out like that but you didn't provide a sizing. If you could provide a sizing of traditional IT versus what you are doing with digital and the pace of decline of traditional?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Yes, so Ashwin, the traditional IT business broadly is the business that we report as IT because that is specifically IT. It's about those technology work that we do. It's not that different from what normally one would have called technology work that is done in the legacy space. It also includes that particular reporting of IT as a business also includes the work that we do in the capital market's vertical. The digital world is a lot of embedded technologies. So let me give you a two or three examples. The embedding of cognitive tools, the embedding of dynamic workflows, the embedding of big data analytical tools in a customer service operation. All of those are bundled offerings, are solutions that are completely bundled and are bought in a bundled way. So we actually do not report that separately as IT. It is actually part of our overall BPO solutions. It gets therefore reported as part of our BPO offerings.

The UK wealth management big deal example that I provided as one of our big deal wins of the quarter is a classic example where we have a new age digital technology platform that does a lot of the processing and services in that asset management space, and we get paid on a per transaction basis. It's a combination of the digital technology plus the services we offer as well as the analytics that we provide. So our view is that segregating that out and calling that out separately is not something that we are at the moment doing and we would like to do. What we are driving hard is making sure that every one of our solutions has consulting, design, analytics, and digital technologies embedded in those solutions.

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Ashwin Shirvaikar - *Citigroup - Analyst*

Got it. And when you do digital work, I would just have to -- it sounds to mean all work should be digital and it's kind of odd we live in 2015 here, but the thing is when you do more quote-unquote digital, how does that exactly affect revenue per transaction margins per transaction?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

The way I would describe that first is from a client perspective. It has a dramatic impact on value to the client, and I would actually not start with cost because cost is this smallest of the impact. The bigger impact is often higher growth, more cross sales, lower losses, lesser fraud, winning more market share because you are able to give an answer to your clients faster such as the underwriting example in insurance that I talked about where you can give a price on the spot. That's the value of first. You also have lower costs because have less of work and less of people. That's the value to decline. The translation to us therefore becomes higher value of work potentially therefore longer term higher margin and also much more outcome and transaction-based pricing than the classic model that as an industry we've been in which is FTE driven model.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Understood. Thank you.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Ashwin

Operator

Joe Foresi, Cantor Fitzgerald.

Joe Foresi - *Cantor Fitzgerald - Analyst*

I just wanted to close the conversation about the delay. It sounded like it was just one project yet it seems to have affected your guidance. So I'm wondering if -- I assume that your guidance doesn't normally get impacted by just one large contract and I assume you kind of build up a pipeline that creates some level of cushion. So is there anything else in the demand environment that you would point to that would contribute to anything outside of FX in the guidance revision?

Ed Fitzpatrick - *Genpact Limited - CFO*

Joe, this is Ed. What I'll tell you is we called out that one item. There were a few items but what I would say is, the reason we felt obligated to call that out was because at the end of last quarter, if you recall, we didn't call out kind of we'd be at the low end of the range because we thought that some of these contracts on the timing side would come through and offset some of that foreign currency impact. If you take into account the foreign currency impact and add it to the $2.46 billion, we are kind of right in the middle of the range where we guided at the beginning of the year. If you recall, Tiger or I mentioned on the last call that even with the FX impact, we thought we might be able to cover that and still be in the sweet spot of the range that we gave you.

Now given some of the timing of these pushing out and the example that we gave which is one, there were a few others but it wasn't overly material. That's why we felt obligated to call that out so you had a picture of where we stood. If we hadn't said anything at the end of the second quarter, we would again be very much largely in line, global client growth at 13% if you remember on a constant currency basis and we guided 12% to 14% at the beginning of the year. So it's coming back exactly where we expected it to be on a constant currency basis as we stand right now.

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

So Joe, just to round out what Ed said. We actually feel exactly they was I described that we are on track. If the foreign currency in fact hadn't happened, we would be in a different world. If that contract hadn't got pushed out a little bit, we would have actually been better off than we actually originally thought. So we feel good.

Ed Fitzpatrick - *Genpact Limited - CFO*

A lot of pluses and minuses and also -- we also thought it made sense to give more color now that we're getting closer to the end of the year. Didn't give the exact amounts but the bookings disclosure that you heard Tiger talk about leading us down the path of looking like we're on that path that we had talked to you about and continuing to grow global client growth as we get into 2016.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

And just to round off therefore the question you had about is there anything else in the environment, actually we think the environment is ripe for the kind of things that clients are looking for from a number of partners, and we think we are well positioned to capture more than our fair share of the market. And the reflection of that is the inflows into pipeline, the pipeline itself, the speed at which decisions are being taken which is actually faster than it used to be, and the size of the deals and the complexity of the deals that are getting done. All of that is a reflection of the transformation journey that clients are on and we are in the middle of a number of those conversations.

Joe Foresi - *Cantor Fitzgerald - Analyst*

Okay. That's helpful. And then just on GE. As I always understood it, you are fairly heavily embedded in their organization so even though there is plus and minuses on the divestiture side, I always looked at it or thought of it as a very sticky business. Just to avoid any kind of surprises in growth rates, accelerations, or decelerations, is that still the proper way to think about it kind of post all of the changes that are taking place there? And how would you describe those conversations and potential outlook going forward past -- into 2016?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

So Joe, it is exactly the way we should think about it is exactly the way we do think about it and exactly the way it is playing out. As I said, every one of the divestitures that have been announced so far almost within a day of the announcement of those divestitures, we are with the buyers in discussions on how to take those conversations forward, both in terms of continuing services as well as looking at opportunities to expand those services. As you can imagine, most buyers and it's all in the public domain, are large enterprises that have complex organization structures into which they are buying a business and integrating them. So those are long integration journeys with a lot of decision-makers involved. The reality is that as you rightly describe we are deeply embedded. Our services are critical for running these businesses.

There will be some puts and takes. I'll give you two examples. The team that is involved in consolidating a number of the GE Capital businesses into one consolidated GE Capital business, that type of work will be less required. Second example, the team that requires -- that is required for helping GE Capital provide regulatory reporting support will be less required going into the future. those would get integrated into the buyers' organization who may have their own teams. Those are two examples where we would see some of that project was going away, some of that we've already seen, and some that we'll continue see. But nothing that materially moves, in our opinion, which is why we said it's a nice balance of risk and opportunities.

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Joe Foresi - *Cantor Fitzgerald - Analyst*

Got it and then just the last question from me. I think we had talked about some SG&A leverage going forward into next year and beyond. Is that still the case? Do you feel like you have done the lion's share of the proper investing and can we expect sort of a reasonable step function in margins into the future? Thanks.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

I'll kick that off and then I'll have Ed add to it. I would say G&A leverage, Joe, not SG&A leverage, we would like to continue and we think we need to continue to invest in sales and marketing, as the Company continues to grow. We will certainly get G&A leverage and that would be our expectation. Ed?

Ed Fitzpatrick - *Genpact Limited - CFO*

I think you're seeing that today. Year over year we're probably up 25% in lead solution architects. We're also up in subject matter experts, which is kind of included in our G&A, if you will. In G&A, there is a subset that some of the capabilities roll up to but the functions that you'd expect us to leverage, you are going to see that and you should see that going forward. With that said, the reason we are guiding to a lower Q4 operating margin is because that is the exact investments that Tiger talked about are expected to ramp in the fourth quarter. Subject matter is probably the biggest part of that.

Joe Foresi - *Cantor Fitzgerald - Analyst*

Thank you.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Joe.

Operator

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - *JPMorgan - Analyst*

I know we are going to get bookings next quarter, but how are bookings tracking versus plan? I heard the three wins, obviously, but can you just give us an update on that if possible?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

So Tien-tsin, we will give the exact numbers next quarter. You're absolutely right. All I can is it's tracking exactly as we had expected. It's tracking -- the direction it's tracking in allows us to say that we feel very good about getting into 2016 and we think our global client growth rate getting into 2016 should look better than 2015.

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Tien-tsin Huang - *JPMorgan - Analyst*

Got you. That's good. And then just as a follow-up to a lot of the prior questions. I guess for the third quarter, FX aside, how did that come in versus planned on the revenue front? It sounded like GE was in line. Any other call outs?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Yes, so I would say again, clearly FX was the biggest needle mover. We clearly had the impact in the banking space as it relates to the wealth management deal, the UK we talked about where the contract got pushed out. And finally, we did sign it which is why we reported it as a big deal because the contract is signed. On GE, the expectation that one would have had as we began the year would have been to continue to grow, for example the reporting and regulatory group that we have nicely started building out given the amount of work that needs to be done by every financial institution in the world. That obviously tapered off and actually got cut. As GE Capital divestiture got announced toward the end of the first quarter and then as that progressed.

Ed Fitzpatrick - *Genpact Limited - CFO*

And I will tell you, as we look at what was expected by some the analysts out there. As we looked at it, we don't really guide to quarters, as you know. We look at the full year, but there was a much bigger disconnect in Q3 than Q4 as we looked at it for whatever reason. But that's because we don't give a lot clarity on Q3 versus Q4, so now there's only one quarter left so you get an idea where we are looking.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. That's helpful. Thank you.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Tien-tsin.

Operator

Dave Koning, Robert W. Baird.

Dave Koning - *Robert W. Baird & Company, Inc. - Analyst*

Nice job. Just a couple quick ones. One is, did FX get worse since last call or are you just isolating the impact now and kind of in the context of some other things kind of jamming it all together and putting it towards the low end of the range?

Ed Fitzpatrick - *Genpact Limited - CFO*

FX did get worse by approximately $6 million for the balance of the year versus where we were before. So we are now we said $35 million at the beginning of the year. Each quarter has gotten worse by about $5 million, Q2 then Q3, Q1, Q2, then Q3, so we're actually $16 million worse than beginning so it's actually $51 million that we are -- total impact for the year if you want to calculate constant currency impact.

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

Dave, first of all, thanks for your compliments. The good news about our business is that we actually have a pretty globally diversified client group. Obviously, the US is the largest set of clients we have. Europe is important for us. Japan is important for us, and Australia is important for us. And as we look at our currency and the impact that the currencies have had as we have gone through the year, those are the currencies, not just the euro and the British pound, but the yen and the Australian dollar as all that have had an impact on the top line. We still obviously feel really good that we have a diversified global business because it's always good to have that in the long run.

Ed Fitzpatrick - *Genpact Limited - CFO*

And I'd just add to that that in that order, it's kind of orders of magnitude impact, the euro then the yen and the Australian dollar are the three biggest for us in that order.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Yes.

Dave Koning - *Robert W. Baird & Company, Inc. - Analyst*

Got you. Okay. And then the one other one. The tax rate has been nicely low for several quarters and I've been going back into late last year. Is there something kind of about the sustainable tax rate that has just become lower or have there just been kind of these ongoing discrete things that have kind of kept it low but it eventually kind of pops back up?

Ed Fitzpatrick - *Genpact Limited - CFO*

Well I'd say we definitely put in place tax strategies to help bring the rates down, but as you know there are also discrete items that happen in any business including repatriation types of strategies that will require discrete payments in a given period. So I feel comfortable that we're now in that lower range, 20% to 22%, based upon what we are aware of from a discrete item perspective, but it's really that distribution of income has also been favorable. And then also we have quick tax strategies in place to help bring that level down to a place where we feel pretty good about it.

Dave Koning - *Robert W. Baird & Company, Inc. - Analyst*

But you won't want us to necessarily stay at this rate into next year. You'd probably rather have us go back to what the last couple years have been more normalized?

Ed Fitzpatrick - *Genpact Limited - CFO*

Let us get through the planning cycle for next year and then we'll come back and give you the view. I think something in the -- you've always heard me say something in the low 20%s is where I would like to be able to be. And that's kind of what we're looking to plan for. But stay tuned for next year. I'll update you.

Dave Koning - *Robert W. Baird & Company, Inc. - Analyst*

Got you. That's great. Thank you.

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Dave.

Operator

George Tong, Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

In the past, you have indicated goals of reaching mid-teens revenue growth in your global client business by the end of 2016. How much additional improvement in the pipeline and win rates would you need to see to achieve this target?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

George, that's a complex question and it's a complex formula. But suffice to say that if you look at global client growth rate for 2015 that we have now provided as our outlook, that's 13% global client growth rate. Up from 11% last year, and we think that's a good trajectory. I also commented on pipeline, inflows, win rates, and bookings, and I said that that provides us the view that 2016 will continue to show growth versus 2015. So as you can see, that clearly takes us in the right direction to the question you are asking.

George Tong - *Piper Jaffray - Analyst*

Got it. And you indicated the overall pipeline is healthy and inflows are up. Can you discuss how the pipeline from large deals specifically is developing?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

I would say that we have had a period in the past over the last couple of years, let's go back to 2013 and probably the first half or so of 2014, where we had a significant surge and an increase in the proportion of big deals in our total pipeline. That's now, I would say, holding steady. And we would continue to expect that to hold steady. The other comment I would make is going back to in the script that Ed read out talking about the distribution of our clients, about $25 million between 15 and 25 and about 5. One of the most interesting things that have happened in this business over the last two or three years ever since we launched our strategy is our relationships have become more meaningful and significant with a set of clients, and we think that's the right approach for this business. Even though the total number of clients that we have has actually gone down.

George Tong - *Piper Jaffray - Analyst*

Got it. And then lastly, following up on an earlier question. Can you talk about any plans for upcoming investments in digital and client-facing teams that may be higher than recent historical levels to drive further penetration with digital and transformative deals?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

So George, the way I would answer that is we have a range of capabilities that we keep looking at adding and bringing into the Company and then bringing them together to create the solutions in the specific service lines in the verticals of our choice. We started down the path of subject matter experts, lead solution architects, analytical experts, and data experts, and over the last six to nine months, we've been on a trajectory to add much more digital experts. And so it's really a total group of experts whether they have a digital bend to them or an analytical bend to them or a subject matter domain bend to them, it's what that we call R&D and that's the group that we are investing in. Clearly we will continue to invest and bring the right people on digital because those are important in specific chosen areas and specific technology areas.

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George Tong - *Piper Jaffray - Analyst*

Great. Thank you.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, George.

Operator

Anil Doradla, William Blair.

Anil Doradla - *William Blair & Company - Analyst*

Tiger, I just want to dig a little bit deeper into this whole digital transformation efforts that you are talking about. It sounds like a lot of effort is being put in. I want to understand, I expect obviously your existing clients to seek some of these expertise, but can you kind of segment the client base from some of these emerging new business models like the internet based companies that provide services that need some back end initiatives then reaching out to you versus a traditional business that you've engaged for over several years, them reaching out to you. Where do you think the demand is coming from and when you look at the trajectory as a whole, where do you see more bullish on?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Anil, actually good question. I don't think there is that much of a distinction on the specific topic you are asking between a new age digital new business model company, and for the sake of this discussion, let's just pick Uber as an example, versus a more traditional legacy business in the CPG world and the life sciences and pharma world and the banking world, I don't think there is a difference in either one of those saying it's time for me to bring in new thinking, new design, new digital, to disrupt the industry [eye men] to become more competitively disruptive in order to change the way business gets done. So we see both playing out. The difference of course is in the former, you have companies that look smaller today but are in a hyper-growth part and as they grow, we would be the people who help them scale up.

On the more traditional companies, these are large enterprises that have large footprints that have huge legacy platforms, so the solution there is different. The solution there is how do you go and build a solution that plugs into their legacy. You cannot throw out the legacy if you have a hundred countries that you are dealing with. You have to find a way to plug into it, so system of engagement comes into play. Our analytic solution that we haven't talked about too much here, but we will probably talk about next year when we talk at the investor day, called IPIE where we actually look at data and do analysis without having to depend on the client's technology. Legacy large companies with great businesses that are threatened with disruption and want to disrupt are actually as much engaged in trying to become more digital as new age companies.

Anil Doradla - *William Blair & Company - Analyst*

Great. And just on the clarification, Tiger, on the push outs that you talked about with your UK customer. The revenues in your back end, that is something we should start seeing in the March quarter? Is that a fair way of looking at it or sometime in 2016?

Ed Fitzpatrick - *Genpact Limited - CFO*

It's already hitting. It s just hit later in the quarter than we expected.

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

Yes.

Ed Fitzpatrick - *Genpact Limited - CFO*

It's already hitting in the third quarter.

Anil Doradla - *William Blair & Company - Analyst*

Okay, great. And final, Tiger, if I could squeeze in one final question. On the digital side, everyone are talking digital both on the IT front and the BPO front and many of your peers are very excited about this. How would you say you differentiate specifically on the digital front versus some of your peers?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

I just talk about the way we approach digital. Our approach to digital is from our strength. And let's start with where do we bring digital most to play. Our approach to digital is bringing it to the middle and back office, so that's statement number one. Statement number two, we have a clear and firm belief that digitizing and making the front end of a client and of an industry highly digital is not good enough. It has to have an equally digital middle and back office, and often in many cases that is a bigger, longer time, and higher risk effort. If the two are not digital, than the two don't connect, and you have a two speed organization. We've seen this play out many times, and therefore the value that you would expect from digitizing the front doesn't come through, and therefore the client actually sees digital investments being wasted. So we approach the middle and back office and attempt to find a way to bring in new digital tools there.

The third is when you do that, our firm belief is you must understand the domain you are in, the processes you are dealing with, because one of the collateral damages, quote-unquote, that you could get when you digitize or automate something, is if you don't really understand the impact it has somewhere else in the organization, you could have a huge negative impact that you didn't even expect. It could be very quick. So bringing that to bear and finally, did I talk about the fact that these are large legacy architecture that's sitting out there, legacy processes that sits out there, how do you find a way to bring these digital interventions and stitch them together so that they are not stand alone. Stitching that together requires understanding of that domain. That's where we play strongly. That's our competitive advantage.

And how we bring it to play is using Lean, is using the removal of reworks standardization, and making that whole process agile and real time. If you go back to the principles of Lean, it's all about agility and flexibility and real time, which is what we bring to the table. That's what we've done for 15 years. We're now combining that for digital. That's why it makes it very, very different treated in the marketplace.

Anil Doradla - *William Blair & Company - Analyst*

Thanks a lot.

Ed Fitzpatrick - *Genpact Limited - CFO*

Thank you.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Anil.

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Operator

Keith Bachman, BMO.

Keith Bachman - *BMO Capital Markets - Analyst*

Two if I could. You mentioned that IT was down and it sounded to me like it actually -- the tone was that it's gotten more competitive, not less. And while I understand your comments surrounding that your IT business is strongly in support of your aggregate efforts, but given that it is still a line item, should that be contracting as we look out over the next 12 months?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

I would start by saying that if you look at any of our clients, any of the global corporations across the world, you will find that the amount of money that they are spending in maintaining and building on that legacy side is constantly being reduced. That's the role that most CIOs are approaching their role with because they want to take that and reinvest it back pretty dramatically on the digital side. So what you are seeing as contraction -- first of all, a contraction in the client's budget on the legacy side that's allocated to legacy and they're trying to drive productivity there. They're trying to do more with less and so on and so forth. And therefore to that extent, the fact that we have a business and parts of our IT business that actually does that work, that will contract so it's a little less about competitive. It's more about what our clients are actually spending money on.

Second, I will then touch upon another part of our IT business which is the capital markets vertical, and we all know some of the challenges that investment banks have had in the recent quarter and therefore, some the project work that we typically would find in that space tends to anyhow tends to drop off as you go through quarter four with a little bit of furloughs here and there. We think that's a little bit more this year that it was in the last year and the previous couple of years driven by what investment banks are going through.

Keith Bachman - *BMO Capital Markets - Analyst*

So just to be clear (multiple speakers).

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Where we are seeing that played differently for us is the way people are spending money on digital and where that comes into our business is in the way it gets integrated with all our other services and gets offered as a total combined solution. So you won't find it as a separate IT line.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay, but just so I'm clear. When you talk about global clients growing 13% and maybe at exit next year growing at 15%, that includes the impact of that standalone IT business, correct?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Absolutely, yes.

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Keith Bachman - *BMO Capital Markets - Analyst*

Okay, good. So I want to transition to one comment. You mentioned that you took a write-off on a platform business this quarter and that was adjusted out of the non-GAAP numbers. If you could just describe a little bit what that was and how much was it. I'm just trying to understand the impact this quarter of that adjustment in particular.

Ed Fitzpatrick - *Genpact Limited - CFO*

Sure. So the actual charge was actually included in the adjusted operating income, so it was a $10.7 million charge related to the mortgage platform that really was -- as we've look at the business again we do believe it's an attractive business for us to be in.

Keith Bachman - *BMO Capital Markets - Analyst*

Right.

Ed Fitzpatrick - *Genpact Limited - CFO*

But as we have looked at the revenue profile and the future cash flows, it's just in the ramp of the revenues is lower than what we had anticipated.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay.

Ed Fitzpatrick - *Genpact Limited - CFO*

And the result, we did the necessary calculations and determined that a charge was indicated. I will say that it was partially offset by -- this business relates to a business that we acquired a few years back that also had an earn out component associated with it so that $10.7 million was offset by approximately $4 million reduction in the earn out associated with that business.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay, but both of those were the non-GAAP number?

Ed Fitzpatrick - *Genpact Limited - CFO*

Yes, they are both included in the adjusted operating income. That's right.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. My mistake. Thank you for the clarification.

Ed Fitzpatrick - *Genpact Limited - CFO*

Yes. Very good.

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Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Just wanted to figure out, I think global BPO client growth was 18% last quarter year over year. It looks like that's slowed to 10% this quarter. What are the factors causing that slowdown?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Bryan, actually it's 14% constant currency, and as we've always said during this call, currency has had a huge impact on our top-line growth. That currency impact actually interestingly is most significant of all the various ways we cut the business is most significant in global client BPO because that's the one that's most globally spread into the markets we talked about, Europe, Japan, and Australia. So it's 14%. And first of all, it's quarter by quarter. We don't run our business by quarter, as we always said. This is a long cycle business. So our trajectory going into the future we think is exactly the way we had laid out on global client BPO as part of overall global client growth.

Ed Fitzpatrick - *Genpact Limited - CFO*

Two things. One, a bit lower than it was in the first -- second quarter or first half kind of as we expected because the first half year-over-year compares you heard us talk about on the last quarter call, it's harder. So that's a part of it. I'd say that's a big chunk of it. And just to add to Tiger's comment. If you could heard us talk about the IT growth and the GE pieces of it, we didn't talk about the impact of constant currency because it was negligible. So that just kind of supports Tiger's point about GC, particularly BPO being the largest impacted by the foreign currency movements.

Bryan Keane - *Deutsche Bank - Analyst*

Yes, so it was 14% I guess on a constant currency basis. What was it last quarter on 2Q with global BPO?

Ed Fitzpatrick - *Genpact Limited - CFO*

I'll have to look at it. You had mentioned 18%. I'll have to go back and see if that was constant currency. We'll have to look at it. Again, it is lumpy and it's impacted by the year over year.

Bryan Keane - *Deutsche Bank - Analyst*

Yes, because what I'm trying to figure out is on a constant currency basis, I think you guys did a 7% versus 11% last quarter on a constant currency basis, and the contract UK wasn't in either quarter. So I'm just trying to figure out if there was some run off. It sound like tough comps but is there some run offs of some BPO contracts as well?

Ed Fitzpatrick - *Genpact Limited - CFO*

No, it really is more the year-over-year comps and again, FX is the biggest impacter versus where we expect it coming into the year, and the only reason we talked about the better contract was because we thought we might be able to cover a big portion of that when we were kind of giving the read out at the end of the second quarter. So as a result of some of these contracts, signings getting delayed, that cover kind of went away if you will.

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Bryan Keane - *Deutsche Bank - Analyst*

Yes, that makes sense. And then how big is this UK contract that's starting to ramp up that's ramping in the fourth quarter?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

It qualifies, Bryan, for what we classify as big deals, and our classification is $50 million total contract value, so it is materially significant and one way to think about that significance is we've done seven of these big deals this year and 13 of them in the last seven quarters. So it is a material significant, and more importantly strategically very, very important because it's one of our key chosen service lines for the US and UK in the banking vertical. We think it's a significantly growing market space that we have a very nice capability in.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. And then the common question I often get is, with these large deals, can you still ramp and accelerate operating margins given the amount of large deals you're signing?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Yes. I would say, Bryan, the answer is yes. You get a variety of ways that help you ramp margins over time. And those are around scale. They are around the size of the relationship with the client as that relationship grows, you get an opportunity to move your margin up. You also have maturity of relationships. As the client relationship matures, you have an opportunity to move that and most importantly, the value of the work you do. As we move to higher value added work, and we called out on the three deals we signed, two of them have a material connection to outcomes and being paid for outcomes and transactions. Those are very nice contracts to have because it motivates everyone to drive better outcomes and we have a high degree of confidence historically in driving better outcomes.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Thanks for the color.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Bryan.

Operator

Tyler Scott, Wells Fargo.

Tyler Scott - *Wells Fargo Securities - Analyst*

Thanks for taking my question. Obviously on for Ed Caso here. So earlier you talked a little bit about clients bundling some IT and BPO projects and I think we've heard some others talk about some vendor consolidations. Have you guys seen any change in the competitive landscape both on the BPO and the ITO side?

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

I distinguish, Tyler, between the two statements. One is vendor consolidation and the second one is bundling. Let me talk about vendor consolidation. Vendor consolidation is around specific areas of doing the same work. An example would be how many technology vendors does a bank have. And clearly in the world of regulators, in the world of risk and regulations, a lot of the banks are looking at their vendor list and saying we need to have lesser vendors that we deeper partnerships with that we have good oversight with and good governance structures with. So there is a vendor consolidation effort that's been going on for some time that brings 25 IT players down to 15. And in some cases, obviously, we get impacted positively and in some cases we will get impacted negatively depending on the size and scale and the nature of our relationship. That is very different from bringing process and technology and all of that together into a bundled offering.

What we are finding is that there is not enough any change in bundling of legacy and process and BPO and analytics type work. There is still a clear distinction in most cases, there will always be exceptions, where legacy is dealt with separately, legacy technology arena is dealt with separately, and then there is the whole BPO and analytics arenas. Where there is clear desire and opportunity to bring new technologies in isn't the area of visual technologies that you bring in into the domain and into the process of analytic solutions they are providing and then bundle them together. Clients expect it. It is capable to be done. It's actually possible with new technologies to do it. It's all in the cloud, and we are on a good path to do that both by building a number of these solutions ourselves but more importantly bringing solutions from the outside world in.

Tyler Scott - *Wells Fargo Securities - Analyst*

Okay. That kind of leads into my follow-up just on the capital deployment, more specifically the M&A pipeline, sort of the buy versus build strategy for embracing this digital world. Thank you.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

It will be buy, build, and partner, all three of them, Tyler, and that is exactly how we are approaching it. One would approach it very similar to an objective assessment of is this one of those that we can actually build both in terms of time, effort, et cetera. Is it actually available out in the marketplace that we can bring in and embed into our solutions by establishing clear relationships with people? Is it one of those like in the case of Endeavour that we acquired where we bring in, add to our team where we think the team that's coming as the leadership team of Endeavour actually really brings new capabilities to our team, not just a solution but they themselves, that actually Turbo charges and it's an area that cuts across almost all our verticals, a bunch of our service lines, it's mobility.

So it's very core to our offerings. So I think depending on which space they're looking at it would be one of the three, build, buy, or partner, and therefore going back to your M&A question, we do have a significant material number of conversations that our teams are engaged in around a number of potential players in the acquire space in a bunch of new technology areas.

Tyler Scott - *Wells Fargo Securities - Analyst*

Great. Thank you very much.

Tiger Tyagarajan - *Genpact Limited - President & CEO*

Thanks, Tyler.

Operator

SK Prasad, Goldman Sachs

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SK Prasad Borra - *Goldman Sachs - Analyst*

A couple if I may. Probably just to start off, Tiger, you commented about investment in banks and some slowdown in the spending there. What are general observations from a vertical point of view related to financials, healthcare and some other key verticals as you see for fourth quarter?

Tiger Tyagarajan - *Genpact Limited - President & CEO*

So one, both for the first three quarters of the year as well as for the full year, banking and financial services as we called out is one of our growth verticals doing really well. If you look at the banking vertical and if you look at some of the consumer financing space and look at some of the commercial lending and leasing space with the economy doing what it's doing in the US, which is nice steady growth, and with investment cycles coming back in many of those cases including consumers probably spending a little better, I think all of that is great for the consumer banking and the commercial lending spaces. So we are finding nice growth there with a number of our clients both dealing with regulators as well as finding a way to change the way they run the business and big transformation journeys that we are very deeply embedded in given our domain and understanding of the consumer and commercial lending spaces.

Contrast that with one more side of the banking space, which is the investment banking capital market space, which has had a challenging third quarter driven by a bunch of things including for example fixed income trading and so on, and that has created a pause in some spend in some specific niche area in those spaces for I would suspect some time. Typically, those tend to happen towards the end of the year. We think it's just happening a little bit more than normal in a number of the investment banking spaces. But overall, we are very, very positive on the banking vertical and we have seen that in our results as well. Healthcare, I would call out healthcare as a vertical where there has been a lot of consolidation announcements. Those announcements have to fully play out in terms of approvals as well as actual closing and integration.

Normally those environments where that is happening and there are large enterprises coming together tend to create a pause. We are small as a vertical in the healthcare space as compared to for example banking or life sciences or CPG. So the impact on us is limited. Having said that, normally these play out in the longer term as positive because these consolidating enterprises then need to transform and that creates opportunities for a number of partners. So I would say it plays out differently in the healthcare space.

SK Prasad Borra - *Goldman Sachs - Analyst*

Okay. And then probably a second question more on the fourth quarter margins. Are you expecting a decrease in the margin profile compared to the first nine months? What portion of that is related to incremental spending around domain expertise and any of the new investments you have part of, and what portion of that is related to just ramping up of some of the larger deals, probably in this case the UK asset management deal?

Ed Fitzpatrick - *Genpact Limited - CFO*

It's really mostly the former. I don't expect a big move in gross margins for the quarter for Q4. It's mostly the spend that we're expecting in capability ramp.

SK Prasad Borra - *Goldman Sachs - Analyst*

Probably just a last question. In terms of how the clients perceive now Genpact as traditionally a BPO company with GE legacy, would you say that the last two to three years of investments have significantly changed the way customers perceive you now and to see you as a broad technology provider? Or would you say BPO still remains the first entry point and then you probably follow up that with more digital offerings?

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Tiger Tyagarajan - *Genpact Limited - President & CEO*

So I would say to some effect I don't think we've been perceived as GE and legacy for many years now, not just the last two years. Obviously, that changes continuously over time with the investments we've been making. And the direction it's going in is not to be perceived as a broad technology player. That is not what we would like to be perceived as. And I don't think we are perceived as a broad technology player. We would like to be perceived and we are being perceived as very deep in our chosen areas, very clear in those chosen areas with domain expertise, and we are now clearly perceived as someone who brings new technologies, new thinking, not only in the way you bring these technologies in, but how do you step back and reorganize yourself as a company.

And we've seen many of these play out where large enterprises are splitting into two companies. We are in the middle of those conversations and helping them split. We have many situations where companies are merging together. We are helping companies figure out how to merge, and that includes design, it includes organization structure, it's deep change management, it's consulting, it's started operating models, and then followed up with technology which is digital new tech, not broad tech, domain, expertise, data, and analytics. So it's very sharply defined rather than broad definitions.

SK Prasad Borra - *Goldman Sachs - Analyst*

That's great. Thank you.

Operator

And we have no further questions in queue at this time. I will now turn the call back to Mr. Sachs for any closing remarks.

Roger Sachs - *Genpact Limited - Head of IR*

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

Operator

And ladies and gentlemen, that concludes today's presentation and you may now disconnect. Have a wonderful day.

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