Genpact Reports Second Quarter 2018 Results

Revenues of \$729 Million, Up 9% (~8% on a constant currency basis)(1) Global Client BPO Revenues of \$569 Million, Up 11% (~10% on a constant currency basis) Diluted EPS of \$0.33; Adjusted Diluted EPS(2) of \$0.41

NEW YORK, Aug. 7, 2018 /PRNewswire/ -- Genpact Limited (NYSE: G), a global professional services firm focused on delivering digital transformation, today announced financial results for the second guarter ended June 30, 2018.

"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," said "Tiger" Tyagarajan, Genpact's president and CEO. "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 transformational 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 markets."

Key Financial Results - Second Quarter 2018

- Total revenue was \$729 million, up 9% year-over-year (up ~8% on a constant currency basis).
- Income from operations was \$80 million, down 2% year-over-year, with a corresponding margin of 10.9%. Adjusted income from operations was \$110 million, down 1% year-over-year, with a corresponding margin of 15.0%.
- Diluted earnings per share were \$0.33, down 6% year-over-year, and adjusted diluted earnings per share were \$0.41, down 3% year-over-year.
- Genpact repurchased approximately 1.1 million of its common shares during the quarter for total consideration of \$34 million at an average price per share of \$31.05.

Revenue Details – Second Quarter 2018 Total Company

- Total BPO revenue was \$606 million, up 9% year-over-year, representing approximately 83% of total revenues.
- Total IT revenue was \$123 million, up 7% year-over-year, representing approximately 17% of total revenues.

Global Clients

- Revenue from Global Clients was \$663 million, up 9% year-over-year (up ~8% on a constant currency basis), representing approximately 91% of total revenues.
- Global Client BPO revenue was \$569 million, up 11% year-over-year (up ~10% on a constant currency basis).
- Global Client IT revenue was \$94 million, down 2% year-over-year.

GE

- Revenue from GE was \$65 million, up 4% year-over-year, representing approximately 9% of total revenues.
- GE BPO revenue was \$37 million, down 18% year-over-year.
- GE IT revenue was \$28 million, up 58% year-over-year.

Cash Flow from Operations

• Cash generated from operations was \$77 million in the second quarter of 2018, compared to \$84 million during the second quarter of 2017.

2018 Outlook

Genpact now expects:

- Total revenue for the full year 2018 of \$2.945 to \$3.01 billion, up from the prior outlook of \$2.93 to \$3.00 billion. This represents a projected year-over-year growth rate in the range of approximately 8% to 10%, up from a projected range of 7% to 9.5% based on our prior outlook.
- Global Client revenue growth in the range of 9.5% to 11.5%, up from our prior outlook in the range of 9% to 11%.

Genpact continues to expect:

• Adjusted income from operations margin⁴ of approximately 15.8%.

Adjusted diluted EPS⁵ of \$1.72 to \$1.76.

Conference Call to Discuss Financial Results

Genpact's management will host an hour-long conference call beginning at 4:30 p.m. ET on August 7, 2018 to discuss the company's performance for the second quarter ended June 30, 2018. To participate, callers can dial +1 (877) 654-0173 from within the U.S. or +1 (281) 973- 6289 from any other country. Thereafter, callers will be prompted to enter the conference ID, 2281499.

A live webcast of the call will also be made available on the Genpact Investor Relations website at http://investors.genpact.com. For those who cannot join the call live, a replay will be archived on the Genpact website after the end of the call. A transcript of the call will also be made available on the website.

About Genpact

Genpact (NYSE: G) is a global professional services firm that makes business transformation real. We drive digital-led innovation and digitally-enabled intelligent operations for our clients, guided by our experience running thousands of processes for hundreds of Global Fortune 500 companies. We think with design, dream in digital, and solve problems with data and analytics. We obsess over operations and focus on the details – all 80,000+ of us. From New York to New Delhi and more than 20 countries in between, Genpact has the end-to-end expertise to connect every dot, reimagine every process, and reinvent companies' ways of working. We know that rethinking each step from start to finish will create better business outcomes. Whatever it is, we'll be there with you – putting data and digital to work to create bold, lasting results – because transformation happens here.

Safe Harbor

This press release contains certain statements concerning our future growth prospects and forward-looking statements, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These 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. These risks, uncertainties and other factors include but are not limited to a slowdown in the economies and sectors in which our clients operate, a slowdown in the business process outsourcing and information technology services sectors, the risks and uncertainties arising from our past and future acquisitions, our ability to convert bookings to revenues, our ability to manage growth, factors which may impact our cost advantage, wage increases, changes in tax rates and tax legislation and other laws and regulations, our ability to attract and retain skilled professionals, risks and uncertainties regarding fluctuations in our earnings, foreign currency fluctuations, general economic conditions affecting our industry as well as other risks detailed in our reports filed with the U.S. Securities and Exchange Commission, including Genpact's Annual Report on Form 10-K. These filings are available at www.sec.gov. Genpact may from time to time make additional written and oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and our reports to shareholders. Although Genpact believes that these forward-looking statements are based on reasonable assumptions, you are cautioned not to put undue reliance on these forward-looking statements, which reflect management's current analysis of future events and should not be relied upon as representing management's expectations or beliefs as of any date subsequent to the time they are made. Genpact undertakes no obligation to update any forward-looking statements that may be made from time to time by or on behalf of Genpact.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets
(Unaudited)
(In thousands, except per share data and share count)

		2017		2018		
Assets Current assets						
Cash and cash equivalents	\$	504,468	\$	333,903		
Accounts receivable, net		693,085		691,347		
Prepaid expenses and other current assets		236,342		207,334		
Total current assets	\$	1,433,895	<u> </u>	1,232,584		
Property, plant and equipment, net	•	207,030	•	202,669		
Deferred tax assets		76,929		88,278		
Investment in equity affiliates		886		834		
Intangible assets, net		131,590		120,624		
Goodwill		1,337,122		1,311,361		
Contract cost assets		1,007,122		162,178		
Other assets		262,169				
Total assets	•	3,449,621	<u> </u>	147,550		
Liabilities and equity	\$	3,449,621		3,266,078		
Current liabilities Short-term borrowings						
Current portion of long-term debt	\$	170,000	\$	215,000		
Accounts payable		39,226		39,249		
Income taxes payable		15,050		20,942		
Accrued expenses and other current liabilities		30,026		54,513		
Total current liabilities	-	584,482		483,241		
Long-term debt, less current portion	\$	838,784	\$	812,945		
Deferred tax liabilities		1,006,687		987,314		
		6,747		7,036		
Other liabilities		168,609		162,358		
Total liabilities	\$	2,020,827	\$	1,969,653		
Redeemable non-controlling interest Shareholders' equity Preferred shares, \$0.01 par value, 250,000,000 authorized, none issued		4,750		_		
Common shares, \$0.01 par value, 500,000,000 authorized, 192,825,207 and 189,876,061 issued and outstanding as of December 31, 2017 and June 30, 2018, respectively		_		_		
Additional paid-in capital		1,924		1,895		
Retained earnings		1,421,368		1,438,072		
Accumulated other comprehensive income (loss)		355,982		338,120		
		(355,230)		(481,662)		
Total equity	\$	1,424,044	\$	1,296,425		
Total liabilities, redeemable non-controlling interest and equity	\$	3,449,621	\$	3,266,078		

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(In thousands, except per share data and share count)

	Three months ended June 30,			Six months ended June 30,					
		2017 ⁶		2018		2017 ⁶	2018		
Net revenues	\$	670,697	\$	728,561	\$	1,293,692	\$	1,417,473	
Cost of revenue		414,508		462,898		797,845		907,222	
Gross profit	\$	256,189	\$	265,663	\$	495,847	\$	510,251	
Operating expenses:									
Selling, general and administrative expenses		167,758		176,166		328,616		347,275	
Amortization of acquired intangible assets		8,387		9,826		15,629		19,762	
Other operating (income) expense, net		(915)		149		(8,453)		(69)	
Income from operations	\$	80,959	\$	79,522	\$	160,055	\$	143,283	
Foreign exchange gains (losses), net		1,913		2,805		(3,000)		7,603	
Interest income (expense), net		(9,850)		(10,407)		(15,343)		(18,507)	
Other income (expense), net		11,560		9,748		12,113		25,298	
Income before equity-method investment activity,					-				
net and income tax expense	\$	84,582	\$	81,668	\$	153,825	\$	157,677	
Equity-method investment activity, net		(9)		(15)		(4,567)		(15)	
Income before income tax expense	\$	84,573	\$	81,653	\$	149,258	\$	157,662	
Income tax expense		15,471		17,079		27,716		29,154	
Net income	\$	69,102	\$	64,574	\$	121,542	\$	128,508	
Net loss (income) attributable to redeemable non-									
controlling interest		(156)		_		742		761	
Net income attributable to Genpact Limited									
shareholders	\$	68,946	\$	64,574	\$	122,284	\$	129,269	
Net income available to Genpact Limited common					-		-		
shareholders	\$	68,946	\$	64,574	\$	122,284	\$	129,269	
Earnings per common share attributable to Genpact Limited common shareholders									
Basic	\$	0.36	\$	0.34	\$	0.63	\$	0.68	
Diluted	\$	0.36	\$	0.33	\$	0.62	\$	0.66	
Weighted average number of common shares used in computing earnings per common share attributable to Genpact Limited common shareholders	·		·		·		·		
Basic	-	191,469,593		190,132,664		195,269,561		191,474,645	
Diluted	-	193,732,406		193,365,974		198,194,172		194,827,272	

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited) (In thousands)

Six months ended June 3	s ended June 30.	months	Six
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2017	2018

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Operating activities Net income attributable to Genpact Limited shareholders	\$	122,284	\$	129,269
Net loss attributable to redeemable non-controlling interest	Ψ	(742)	Ψ	(761)
Net income	\$	121,542	\$	128,508
Adjustments to reconcile net income to net cash provided by (used for)	<u> </u>			
operating activities:		07.040		04.040
Depreciation and amortization		27,312		31,613
Amortization of debt issuance costs		877 15 620		979 19,762
Amortization of acquired intangible assets		15,629		19,762
Write-down of intangible assets and property, plant and equipment Reserve for doubtful receivables		1,793		1,347
Unrealized loss (gain) on revaluation of foreign currency asset/liability		2,956		(7,350)
Equity-method investment activity, net		2,930 4,567		(7,330)
Stock-based compensation expense		12,351		18,724
Deferred income taxes		(5,260)		(4,194)
Others, net		(4,816)		294
		(4,010)		234
Change in operating assets and liabilities:				
Increase in accounts receivable		(1,958)		(4,548)
Increase in prepaid expenses, other current assets, contract cost assets and other		(1,000)		(1,010)
assets		(35 340)		(71 EEO)
Increase in accounts payable		(35,248)		(71,559)
Increase in accounts payable		1,624		6,289
Decrease in accrued expenses, other current liabilities and other liabilities		,		•
		(52,022)		(96,965)
Increase in income taxes payable		25,977		25,719
Net cash provided by operating activities	\$	115,324	\$	49,484
Investing activities				
Purchase of property, plant and equipment		(29,350)		(37,703)
Payment for internally generated intangible assets (including intangibles under		,		, ,
development)		(8,950)		(11,544)
Proceeds from sale of property, plant and equipment		566		309
Investment in equity affiliates		(496)		
Payment for business acquisitions, net of cash acquired		(207,181)		(728)
Payment for purchase of redeemable non-controlling interest		_		(4,730)
Net cash used for investing activities	\$	(245,411)	\$	(54,396)
Financing activities			-	
Repayment of capital lease obligations		(1,106)		(1,108)
Payment of debt issuance costs		(1,481)		_
Proceeds from long-term debt		350,000		_
Repayment of long-term debt		(20,000)		(20,000)
Proceeds from short-term borrowings		230,000		105,000
Repayment of short-term borrowings		(185,000)		(60,000)
Proceeds from issuance of common shares under stock-based compensation		•		,
plans		10,080		9,388
Payment for net settlement of stock-based awards		(9,949)		(14,229)
Payment of earn-out/deferred consideration		(1,287)		(1,476)
Dividend paid		(23,515)		(28,648)
Payment for stock repurchased and retired		(219,784)		(130,103)
Payment for expenses related to stock purchase		(16)		(82)
Net cash provided by (used for) financing activities	\$	127,942	\$	(141,258)
Effect of exchange rate changes		20,586		(24,395)
Net increase (decrease) in cash and cash equivalents		(2,145)		(146,170)
Cash and cash equivalents at the beginning of the period		422,623		504,468
Cash and cash equivalents at the end of the period	\$	441,064	\$	333,903
Supplementary information		<u> </u>		· ·
Cash paid during the period for interest	\$	10,648	\$	21,808
Cash paid during the period for income taxes	\$	28,649	\$	34,809
Property, plant and equipment acquired under capital lease obligations	\$	1,485	\$	668

Non-GAAP Financial Measures to GAAP Measures

To supplement the consolidated financial statements presented in accordance with GAAP, this press release includes the following non-GAAP financial measures:

- Adjusted income from operations attributable to shareholders of Genpact Limited, or adjusted income from operations:
- Adjusted income from operations margin;
- · Adjusted diluted earnings per share attributable to shareholders of Genpact Limited, or adjusted diluted earnings per share; and
- · Revenue growth on a constant currency basis.

These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. Accordingly, these non-GAAP financial measures, the financial statements prepared in accordance with GAAP and the reconciliations of Genpact's GAAP financial statements to such non-GAAP financial measures should be carefully evaluated.

Prior to July 2012, Genpact's management used financial statements that excluded significant acquisition-related expenses, amortization of related acquired intangibles, and amortization of acquired intangibles at the company's formation in 2004 for its internal management reporting, budgeting and decision making purposes, including comparing Genpact's operating results to that of its competitors. However, considering Genpact's frequent acquisitions of varying scale and size, and the difficulty in predicting expenses relating to acquisitions and the amortization of acquired intangibles thereof, since July 2012 Genpact's management has used financial statements that exclude all acquisition-related expenses and amortization of acquired intangibles for its internal management reporting, budgeting and decision-making purposes, including comparing Genpact's operating results to those of its competitors. For the same reasons, since April 2016 Genpact's management has excluded the impairment of acquired intangible assets from the financial statements it uses for internal management reporting purposes. Acquisition-related expenses are excluded in the period in which an acquisition is consummated.

Genpact's management also uses financial statements that exclude stock-based compensation expense. Because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use when adopting ASC 718 "Compensation-Stock Compensation," Genpact's management believes that providing non-GAAP financial measures that exclude such expenses allows investors to make additional comparisons between Genpact's operating results and those of other companies.

Additionally, in its calculations of such non-GAAP financial measures, Genpact's management has adjusted other income and expenses, certain gains, losses and impairment charges attributable to equity-method investments, and gains or losses attributable to non-controlling interests because management believes that the Company's results after taking into account these adjustments more accurately reflect the Company's ongoing operations. For the purpose of calculating adjusted diluted earnings per share, the combined current and deferred tax effect is determined by multiplying each pre-tax adjustment by the applicable statutory income tax rate.

Genpact's management provides information about revenues on a constant currency basis so that the revenues may be viewed without the impact of foreign currency exchange rate fluctuations, thereby facilitating period-to-period comparisons of our true business performance. Revenue growth on a constant currency basis is calculated by restating current-period activity using the prior fiscal period's foreign currency exchange rates adjusted for hedging gains/losses in such period.

Accordingly, Genpact believes that the presentation of adjusted income from operations, adjusted income from operations margin, adjusted diluted earnings per share and revenue growth on a constant currency basis, when read in conjunction with the Company's reported results, can provide useful supplemental information to investors and management regarding financial and business trends relating to its financial condition and results of operations.

A limitation of using adjusted income from operations and adjusted income from operations margin versus income from operations and income from operations margin calculated in accordance with GAAP is that these non-GAAP financial measures exclude certain recurring costs and certain other charges, namely stock-based compensation and amortization and impairment of acquired intangibles. Management compensates for this limitation by providing specific information on the GAAP amounts excluded from adjusted income from operations and adjusted income from operations margin.

The following tables show the reconciliation of these non-GAAP financial measures from GAAP for the three and six months ended June 30, 2017 and 2018:

	Three months ended June 30,					Six month	ded J	June 30,			
		2017			2018	•	2017			2018	-
Income from operations	\$	80,959	•	\$	79,522	•	\$ 160,055	-	\$	143,283	-
Add: Stock-based compensation		7,365			10,937		12,351			18,724	
Add: Amortization of acquired intangible assets		7,848			9,431		14,557			18,971	
Add: Acquisition-related expenses		2,969			_		3,391			_	
Add: Other income (expense), net		11,560			9,748		12,113			25,298	
Less: Equity-method investment activity, net		(9)			(15)		(4,567)			(15)	
Add: Net loss (income) attributable to redeemable non-											
controlling interest		(156)			_		742			761	
Adjusted income from operations			•					•			•
	\$	110,536	_	\$	109,623	_	\$ 198,642	_	\$	207,022	_
Income from operations margin		12.1	%		10.9	%	12.4	%		10.1	%
Adjusted income from operations margin		16.5	%		15.0	%	15.4	%		14.6	%

Reconciliation of Adjusted Diluted EPS⁷

(Unaudited) (Per share data)

	Three months ended June 30,			Six	ıne 30,			
	- 2	2017	2	2018	2	2017	2	2018
Diluted EPS	\$	0.36	\$	0.33	\$	0.62	\$	0.66
Add: Stock-based compensation		0.04		0.06		0.06		0.10
Add: Amortization of acquired intangible assets		0.04		0.05		0.07		0.10
Add: Acquisition-related expenses		0.02		_		0.02		_
Less: Tax impact on stock-based compensation		(0.01)		(0.01)		(0.02)		(0.03)
Less: Tax impact on amortization of acquired intangibles		(0.01)		(0.01)		(0.02)		(0.02)
Less: Tax impact on acquisition-related expenses		_		_		_		_
Adjusted diluted EPS	\$	0.43	\$	0.41	\$	0.73	\$	0.80

The following tables show the reconciliation of forward-looking non-GAAP financial measures from GAAP for the year ending December 31, 2018:

Reconciliation of Outlook for Adjusted Income from Operations Margin (Unaudited)

Year ending	
December 31, 2018	
11.7	%
1.6	%
1.2	%
0.1	%
1.2	%
_	
15.8	%
	December 31, 2018 11.7 1.6 1.2 0.1 1.2 —

Reconciliation of Outlook for Adjusted Diluted EPS⁸

(Unaudited) (Per share data)

Year ending	December 31, 2018
Lower	Upper

Year ending	December 31, 2018
Lower	Upper

Diluted EPS	\$ 1.41	\$ 1.45
Add: Estimated stock-based compensation	0.24	0.24
Add: Estimated amortization of acquired intangible assets	0.18	0.18
Add: Estimated acquisition-related expenses	0.01	0.01
Less: Estimated tax impact on stock-based compensation	(80.0)	(0.08)
Less: Estimated tax impact on amortization of acquired		
intangibles	(0.05)	(0.05)
Less: Estimated tax impact on acquisition-related expenses	_	_
Adjusted diluted EPS	\$ 1.72	\$ 1.76

¹ Revenue growth on a constant currency basis is a non-GAAP measure and is calculated by restating current-period activity using the prior fiscal period's foreign currency exchange rates adjusted for hedging gains/losses in such period.

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SOURCE Genpact Limited

https://media.genpact.com/2018-08-07-Genpact-Reports-Second-Quarter-2018-Results

² Adjusted diluted earnings per share is a non-GAAP measure. A reconciliation of GAAP diluted earnings per share and adjusted diluted earnings per share is attached to this release.

³ Adjusted income from operations and adjusted income from operations margin are non-GAAP measures. A reconciliation of GAAP income from operations and adjusted income from operations and a reconciliation of GAAP income from operations margin and adjusted income from operations margin are attached to this release.

⁴ Adjusted income from operations margin is a non-GAAP measure. A reconciliation of the outlook for GAAP income from operations margin and adjusted income from operations margin is attached to this release.

⁵ Adjusted diluted earnings per share is a non-GAAP measure. A reconciliation of the outlook for GAAP diluted earnings per share and adjusted diluted earnings per share is attached to this release.

⁶ Cost of revenue, selling, general and administrative expenses, other income (expense) and income from operations for the three and six months ended June 30, 2017 have been restated due to the adoption of ASU No. 2017-07 with effect from January 1, 2018.

⁷ Due to rounding, the numbers presented in this table may not add up precisely to the totals provided.

⁸ Due to rounding, the numbers presented in this table may not add up precisely to the totals provided.