Genpact Reports Third Quarter 2018 Results

Revenues of \$748 Million, Up 6% (~6% on a constant currency basis)(1) Global Client BPO Revenues of \$586 Million, Up 8% (~9% on a constant currency basis) Diluted EPS of \$0.38; Adjusted Diluted EPS(2) of \$0.48

NEW YORK, Nov. 6, 2018 /PRNewswire/ -- Genpact Limited (NYSE: G), a global professional services firm focused on delivering digital transformation, today announced financial results for the third quarter ended September 30, 2018.

"Overall, Genpact delivered solid third quarter results and we are on track to meet our 2018 full-year outlook. More importantly, the momentum we continue to see in our pipeline and bookings sets us up on a trajectory to drive strong top line growth in our Global Client BPO and GE businesses in 2019 and beyond," said "Tiger" Tyagarajan, Genpact's president and CEO. "It is very clear that our deep domain and process depth coupled with our expertise in digital and data analytics is differentiating us in the marketplace and is the key reason why clients are increasingly choosing Genpact as their strategic transformation partner."

Key Financial Results - Third Quarter 2018

- Total revenue was \$748 million, up 6% year-over-year (up ~6% on a constant currency basis).
- Income from operations was \$94 million, down 4% year-over-year, with a corresponding margin of 12.6%. Adjusted income from operations was \$124 million, up 7% year-over-year, with a corresponding margin of 16.6%.³
- Diluted earnings per share were \$0.38, flat year-over-year, and adjusted diluted earnings per share were \$0.48, up 5% year-over-year.

Revenue Details - Third Quarter 2018

Total Company

- Total BPO revenue was \$623 million, up 7% year-over-year, representing approximately 83% of total revenues.
- Total IT revenue was \$125 million, flat year-over-year, representing approximately 17% of total revenues.

Global Clients

- Revenue from Global Clients was \$683 million, up 7% year-over-year (up ~8% on a constant currency basis), representing approximately 91% of total revenues.
- Global Client BPO revenue was \$586 million, up 8% year-over-year (up ~9% on a constant currency basis).
- Global Client IT revenue was \$98 million, up 2% year-over-year.

GE

- Revenue from GE was \$65 million, down 11% year-over-year, representing approximately 9% of total revenues. GE revenue
 was flat sequentially.
- GE BPO revenue was \$37 million, down 13% year-over-year.
- GE IT revenue was \$27 million, down 7% year-over-year.

Cash Flow from Operations

 Cash generated from operations was \$153 million in the third quarter of 2018, compared to \$148 million in the third quarter of 2017.

2018 Outlook

Genpact continues to expect:

- Total revenue for the full-year 2018 of \$2.95 to \$3.01 billion, representing growth of 8% to 10% both on an as-reported and constant currency basis.
- Global Client revenue growth in the range of 9.5% to 11.5%, both on an as-reported and constant currency basis.
- Adjusted income from operations margin⁴ of approximately 15.8%.

Genpact now expects:

• Adjusted diluted EPS⁵ to be at the high end of the prior \$1.72 to \$1.76 range.

Conference Call to Discuss Financial Results

Genpact's management will host an hour-long conference call beginning at 4:30 p.m. ET on November 6, 2018 to discuss the company's performance for the third quarter ended September 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, 4276952.

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 forwardlooking 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)

	As of	December 31, 2017	As of September 30, 2018		
Assets Current assets Cash and cash equivalents	\$	504,468	\$	401,230	
Accounts receivable, net	*	693,085	*	710,045	
Prepaid expenses and other current assets		236,342		210,006	
Total current assets	\$	1,433,895	 \$	1,321,281	
Property, plant and equipment, net	Ψ	207,030	Ψ	211,382	
Deferred tax assets					
Investment in equity affiliates		76,929		94,212	
Intangible assets, net		886		825	
Goodwill		131,590		135,028	
Contract cost assets		1,337,122		1,386,408	
Other assets		_		160,110	
		262,169	. <u> </u>	147,383	
Total assets	\$	3,449,621	\$	3,456,629	
Liabilities and equity Current liabilities					
Short-term borrowings	\$	170,000	\$	330,000	
Current portion of long-term debt	Ψ	39,226	Ψ	33,476	
Accounts payable		15,050		14,436	
Income taxes payable					
Accrued expenses and other current liabilities		30,026		73,567	
Total current liabilities		584,482	· -	554,708	
Long-term debt, less current portion	\$	838,784	\$	1,006,187	
Deferred tax liabilities		1,006,687		983,884	
Other liabilities		6,747		6,512	
Total liabilities	-	168,609	<u> </u>	175,028	
	\$	2,020,827	\$	2,171,611	
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 190,053,249 issued and outstanding as of		
December 31, 2017 and September 30, 2018, respectively	1,924	1,896
Additional paid-in capital	1,421,368	1,453,674
Retained earnings	355,982	397,470
Accumulated other comprehensive income (loss)	(355,230)	(568,022)
Total equity	\$ 1,424,044	\$ 1,285,018
Total liabilities, redeemable non-controlling interest and equity	\$ 3,449,621	\$ 3,456,629

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

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

	Three months ended September 30,					Nine months ended September 30,					
		2017 ⁶		2018		2017 ⁶	2018				
Net revenues	\$	708,824	\$	747,978	\$	2,002,516	\$	2,165,451			
Cost of revenue		428,790		481,412		1,226,635		1,388,634			
Gross profit	\$	280,034	\$	266,566	\$	775,881	\$	776,817			
Operating expenses:											
Selling, general and administrative											
expenses		172,028		168,010		500,644		515,285			
Amortization of acquired intangible											
assets		10,151		9,372		25,780		29,134			
Other operating (income) expense,											
net		(64)		(4,844)		(8,517)		(4,913)			
Income from operations	\$	97,919	\$	94,028	\$	257,974	\$	237,311			
Foreign exchange gains (losses), net		5,045		7,450		2,045		15,053			
Interest income (expense), net		(8,724)		(9,139)		(24,067)		(27,646)			
Other income (expense), net		(4,498)		5,385		7,615		30,683			
Income before equity-method investment activity, net and income tax expense	\$	89,742	\$	97,724	\$	243,567	\$	255,401			
Equity-method investment activity, net	Ψ	-	Ψ	(7)	Ψ	(4,567)	Ψ	(22)			
Income before income tax expense	\$	89,742	\$	97,717	\$	239,000	\$	255,379			
Income tax expense	•	16,581	,	24,114	,	44,297	,	53,268			
Net income	\$	73,161	\$	73,603	\$	194,703	\$	202,111			
Net loss attributable to redeemable non-		•		•		•					
controlling interest		584		_		1,326		761			
Net income attributable to Genpact					-						
Limited shareholders	\$	73,745	\$	73,603	\$	196,029	\$	202,872			
Net income available to Genpact Limited											
common shareholders	\$	73,745	\$	73,603	\$	196,029	\$	202,872			

to Genpact Limited common shareholders								
Basic	\$	0.38	\$	0.39	\$	1.01	\$	1.06
Diluted	\$	0.38	\$	0.38	\$	0.99	\$	1.04
Weighted average number of common shares used in computing earnings per common share attributable to Genpact Limited common shareholders								
Basic	192	,124,366	190),024,924	194	1,221,162	190	0,991,405
Diluted	194	,947,699	193	3,115,769	197	7,112,014	194	4,256,771

Earnings per common share attributable

GENPACT LIMITED AND ITS SUBSIDIARIES

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

Nine months ended September 30, 2017 2018 Operating activities Net income attributable to Genpact Limited shareholders 196,029 \$ 202,872 Net loss attributable to redeemable non-controlling interest (1,326)(761)Net income 194,703 202,111 Adjustments to reconcile net income to net cash provided by (used for) operating activities: 47,612 Depreciation and amortization 42,271 3,546 Amortization of debt issuance costs (including loss on extinguishment of debt) 1,382 Amortization of acquired intangible assets 25,780 29,134 1,538 Write-down of intangible assets and property, plant and equipment Reserve for doubtful receivables 4,871 1,705 Unrealized loss (gain) on revaluation of foreign currency asset/liability (9,296)(4,544)Equity-method investment activity, net 4,567 22 Stock-based compensation expense 22,402 32,158 Deferred income taxes (4,589)(1,768)Provision for expected loss on divestiture 5,195 Others, net (5,261)255 Change in operating assets and liabilities: Increase in accounts receivable (30,687)(12,946)Increase in prepaid expenses, other current assets, contract cost assets and other assets (56,230)(96,300)Decrease in accounts payable (462)(913)

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

Increase (decrease) in accrued expenses, other current liabilities and other liabilities 27,723 (44,602)Increase in income taxes payable 41.324 45,798 Net cash provided by operating activities 263,693 \$ 202,806 Investing activities Purchase of property, plant and equipment (47,510)(68,027)Payment for internally generated intangible assets (including intangibles under development) (8,950)(19,397)Proceeds from sale of property, plant and equipment 499 1,648 Investment in equity affiliates (496)(108, 105)Payment for business acquisitions, net of cash acquired (277,549)Payment for purchase of redeemable non-controlling interest (4,730)Net cash used for investing activities (332,857)(199,760)Financing activities Repayment of capital lease obligations (2,199)(1,954)Payment of debt issuance costs (1,481)(4,293)129,186 Proceeds from long term debt 350,000 (30,000)(157,686)Repayment of long-term debt Proceeds from short-term borrowings 275,000 225,000 Repayment of short-term borrowings (275,000)(65,000)Proceeds from issuance of common shares under stock-based compensation plans 12,834 12,275 Payment for net settlement of stock-based awards (10,296)(14,947)Payment of earn-out/deferred consideration (6,219)(1,559)Dividend paid (35,096)(42,901)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 \$ 57,743 \$ (52,064)28,853 (54,220)Effect of exchange rate changes Net increase (decrease) in cash and cash equivalents (11,421)(49,018)Cash and cash equivalents at the beginning of the period 422,623 504,468 401,230 \$ 440,055 \$ Cash and cash equivalents at the end of the period Supplementary information \$ Cash paid during the period for interest \$ 35,082 23,414 Cash paid during the period for income taxes \$ 46,935 \$ 54,920 Property, plant and equipment acquired under capital lease obligations \$ 1,944 \$ 1,832

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 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 the Company's 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 nine months ended September 30, 2017 and 2018:

Reconciliation of Adjusted Income from Operations and Adjusted Income from Operations Margin (Unaudited)

(In thousands)

	Three months ended September 30,			N	ptember			
		2017		2018		2017		2018
Income from operations	\$	97,919	\$	94,028	\$	257,974	\$	237,311
Add: Stock-based compensation		10,051		13,434		22,402		32,158
Add: Amortization of acquired								
intangible assets		9,520		8,988		24,077		27,959
Add: Acquisition-related expenses		2,364		2,362		5,755		2,362

Add: Other income (expense), net	(4,498)		5,385		7,615		30,683	
Less: Equity-method investment activity, net	_		(7)		(4,567)		(22)	
Add: Net loss (income) attributable to redeemable non-controlling interest	584		_		1,326		761	
Adjusted income from operations	\$ 115,940		\$ 124,190		\$ 314,582		\$ 331,212	
Income from operations margin	13.8	%	12.6	%	12.9	%	11.0	%
Adjusted income from operations margin	16.4	%	16.6	%	15.7	%	15.3	%

Reconciliation of Adjusted Diluted EPS⁷

(Unaudited) (Per share data)

	Three months ended September 30,		Nine	months end	ed September 30,		
	2017 2018		2	017	2	018	
Diluted EPS	\$	0.38	\$ 0.38	\$	0.99	\$	1.04
Add: Stock-based compensation		0.05	0.07		0.11		0.17
Add: Amortization of acquired							
intangible assets		0.05	0.05		0.12		0.14
Add: Acquisition-related expenses		0.01	0.01		0.03		0.01
Less: Tax impact on stock-based							
compensation		(0.02)	(0.02)		(0.03)		(0.05)
Less: Tax impact on amortization of							
acquired intangibles		(0.02)	(0.01)		(0.04)		(0.04)
Less: Tax impact on acquisition-related							
expenses		_	_		_		_
Adjusted diluted EPS	\$	0.46	\$ 0.48	\$	1.19	\$	1.28

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

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	
Income from operations margin		11.7	%
Add: Estimated stock-based compensation		1.5	%
Add: Estimated amortization of acquired intangible assets		1.3	%
Add: Estimated acquisition-related expenses		0.1	%
Add: Estimated other income (expense), net		1.2	%
Less: Estimated equity-method investment activity, net		_	
Adjusted income from operations margin	-	15.8	%

Reconciliation of Outlook for Adjusted Diluted EPS⁸

(Unaudited) (Per share data)

Year ending December 31, 2018

	Lower	Upper
Diluted EPS	\$ 1.39	\$ 1.43
Add: Estimated stock-based compensation	0.24	0.24
Add: Estimated amortization of acquired intangible assets	0.19	0.19
Add: Estimated acquisition-related expenses	0.01	0.01
Less: Estimated tax impact on stock-based compensation	(0.07)	(0.07)
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

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

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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.

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.