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CNDT.OQ - Q3 2026 Conduent Incorporated Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Conduent Q3 2026 earnings conference call. (Operator Instructions) Also note that this call is being recorded on Thursday, November 5, 2026.

I would now like to turn the conference over to Nick Goel, VP of Investor Relations. Please go ahead.

Nick Goel - *Conduent Incorporated - Vice President of Investor Relations*

Thank you, operator. Good afternoon, everyone. Welcome to Conduent's third quarter 2026 earnings call. Joining me today are Harsha Agadi, our CEO; and Giles Goodburn, our CFO.

Earlier today, we issued our earnings release and presentation. Both are available in the Investor Relations section of our website and have been filed with the SEC. As a reminder, today's discussion will include forward-looking statements and non-GAAP financial measures. Please refer to our earnings release, earnings material and SEC filings for the relevant risk factors, disclosures and reconciliations.

With that, I will turn the call over to Harsha.

Harshavardhan Agadi - *Conduent Incorporated - Chief Executive Officer, Director*

Good afternoon, everyone, and thank you for joining us. This has been an exhilarating and exciting quarter. We recently had our Investor Day after many years. I enjoyed meeting with investors, bondholders and analysts who follow our company. Thank you to everyone who joined my leadership team and me in person and via webcast. As we emphasized at the event, our singular focus is executing our ASCEND 2026-2028 plan. I will talk a bit more about that later on in the call.

Let me brief you on what we have accomplished during the quarter. We have executed on several major milestones that I have established since the inception of my role as CEO. When we spoke last quarter, I outlined the progress on the five priorities for Conduent. Just to recall, those priorities are converting our pipeline into substantial growth, optimizing our portfolio, increasing speed and accountability, enforcing financial discipline and reducing our cost structure. These priorities currently remain unchanged with sustainable growth now being at the absolute forefront.

Today, I want to update you further on the continuing progress we have made against those priorities, but also be very clear about what we have more work to do. Our third quarter results were in line with our expectations. Revenue from continuing operations was $534 million,

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sequentially higher than second quarter. Margins continue to improve as our efforts to simplify the company, reduce costs and strengthen operating performance has begun to deliver benefits.

And importantly, we have now completed several significant actions that make Conduent a more focused company with a stronger and stable financial foundation. With that foundation in place, our focus is on converting our pipeline into growth. Let me begin with our most important priority converting our pipeline into sustainable growth.

This remains the area where we have the work that we need to do at a very focused level. We have signed new business year-to-date ACV of $249 million. At the same time, our pipeline continues to give us confidence in the opportunity ahead. We entered the fourth quarter with approximately $2.9 billion in qualified new business ACV pipeline with healthy increases since the beginning of the year in both Commercial and Government segments.

We have several RFPs in play. But as I have said before, pipeline alone does not create value, conversion does. We need to convert more opportunities into wins, improve our win rates, protect the clients we already have, and execute successfully when new business comes on board. We continue to see encouraging proof points in both Commercial and Government. That is where our maximum focus is today.

Let me start with Commercial. Commercial has generated approximately year-to-date $144 million of new business ACV. What I find particularly important is the type of business we are winning. During the quarter, almost 58% of Q3 Commercial growth activity was in the business unit, business process as a service, our highest margin business within the Commercial segment. We also continue to see diversification across add-on businesses, new capabilities and new logos.

Let me give you a few specific examples. We won a new capability program with a very large global automotive manufacturer focused on retooling and auditing critical operations inventory. We also added Gravie as a new logo in payment integrity. We expanded our claims adjucationwork with Trillium Health Resources building upon an implementation that began last quarter. And we continue to expand our customer experience relationships with Humana and Aetna as we support their respective member group. These wins are important because they demonstrate clearly what our Commercial strategy is intended to do.

We will deepen our focus on regulated industries and increase our sales bandwidth to the middle market segment. We want to deepen relationships with existing clients, introduce additional capabilities into those relationships and create differentiated offerings that we can scale across industries and clients. That is how we intend to improve both quality and durability of Commercial revenue base over time.

Turning to Government, we continue to strengthen our position across mission-critical public programs. Our first full Conduent Medicaid Suite implementation in New York has now transitioned into ongoing flawless operations and it's creating follow-on sales opportunities as the state has capabilities and enhancements to the platform.

We're also seeing strong demand from at least 10 other states, for example, Virginia, for this state-of-the-art solution. We also expanded our state disbursement unit relationship in Illinois with nearly $2 million of additional print services ACV and secured approximately $4 million of ACV supporting Pennsylvania's transition to chip-enabled EMV technology for EBT.

Government has generated approximately year-to-date $105 million of new business ACV. And looking ahead, we have nearly 30 submitted proposals awaiting awards representing a meaningful pool of late-stage opportunities, although state election cycles now over will accelerate procurement and award timing.

Our strategy in Government is straightforward. We have decades of domain expertise in highly complex programs. We want to combine that expertise with modern technology, stronger implementation and execution and new capabilities to become an even more relevant and valuable partner to our Government clients.

Now let me come to the second priority, which is optimizing the portfolio. We have completed the successful sale of the Public Transit business to Modaxo for $164 million and expect to complete the sale of the Tolling business shortly. These transactions advance our exit

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from transportation and sharpen our focus on our core Commercial and Government businesses, allowing us to concentrate our capital, resources, and management attention on those businesses. Both Commercial and Government, our strategic focus is on serving highly regulated industries and complex programs where our domain expertise and mission-critical solutions can differentiate us.

With the completed Public Transit divestiture and impending sale of Tolling, we have made significant progress on our portfolio optimization priority. When we fully exit the transportation business, we would generate $234 million of gross proceeds, which is almost equivalent to our market cap clearly not reflecting the true value of this company.

We will continue with our disciplined approach of fix, sell, and grow. We will fix businesses where we can see a clear path to improving meaningful performance, sell businesses that are no longer aligned with our long-term strategy. And grow the businesses where we believe we have the strongest competitive advantage and the greatest opportunity to create long-term value.

Portfolio optimization is not simply becoming smaller, it is about increasing focus and investing in higher margin businesses with attractive growth opportunities that have long lasting solutions. It is about making Conduent simpler, more focused and better positioned to invest behind the businesses where we believe we can create the greatest enterprise value for clients and our shareholders and bondholders. That was the objective we outlined at the beginning of this year, we have taken meaningful steps toward delivering it.

The third priority is increased speed and accountability. As we communicated on Investor Day, going forward, AI will be a very important lever across all parts of the business and we intend to accelerate our efforts. To do that, we have established an AI center of excellence that will serve as the enterprise engine for scaling AI across Conduent by identifying and prioritizing the highest value opportunities, rapidly developing and validating use cases and creating the reusable capabilities, governance, and partnerships needed to move AI solutions from concept to production faster.

The AI Center of Excellence will work across two areas in particular. One is how we create differentiation in our solutions and open new adjacencies with AI, like scaling unstructured document processing through GenAI, addressing fraud across full life cycle of benefits in the government programs.

Secondly, AI Center of Excellence will closely look at our operations and ways of working to enhance productivity and development speed through AI. An example of that will be driving usage of AI-based coding tools for developers with the right measurements and guardrails in place. We are currently shaping the long-term roadmap and expect to share more on this throughout the next year. In addition to this, we have aggressively delayered the company organization, dramatically changed the leadership team this year and moved to decision-making at light speed.

The next priority is enforcing financial discipline. On October 23, we completed a comprehensive refinancing of our revolving credit facility, which Giles will provide additional details shortly. This was a very important milestone for Conduent and combined with the divestiture activity strengthens our liquidity and gives us greater financial flexibility to execute our transformation and that allows us to increasingly shift our attention from restructuring the company to improving the performance of the company both on top-line and bottom line. Our fixation and focus on moving towards positive free cash flow is resolute. Giles will provide more details on it.

Our final priority is reducing our cost structure. We continue to simplify the organization during the quarter, reduce structural costs, and improve how we operate. You can see clear evidence of that progress in our third quarter profitability. We're also tightening capital spending, year-to-date spending in 2026 totaled $38 million compared with $59 million a year ago.

That is encouraging, but let me be very clear. We still have a significant opportunity ahead of us. At Investor Day, we discussed a broader cost transformation that goes beyond traditional headcount reduction. It includes simplifying our organizational structure, optimizing our vendor base and real estate footprint, modernizing our technology infrastructure, and using automation and AI to make our operations more efficient.

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Out of the total $120 million of cost savings target, we have already identified $106 million and have realized $55 million. The objective is not simply to take costs out of Conduent, the objective is to build a company that can operate more efficiently, increase pace of play, and invest more effectively and translate future revenue growth into stronger margins and free cash generation.

One last topic I should update you on. We reached an agreement to resolve the class action litigation arising from the January 2025 cyber event. The settlement is subject to court approval and is expected to be funded by our insurance fully.

Looking ahead, as I step back from this quarter, I would characterize our position this way. We have made substantial progress in reshaping Conduent. We have simplified the portfolio. We have strengthened our financial foundation and increased our financial discipline. We are reducing our structural cost base. We are investing in technology and AI, and we have built a substantial pipeline of opportunities across our Commercial and Government business. The next phase is about converting those actions into sustainable profitable growth.

With that, I turn the call over to our CFO, Giles Goodburn, to provide more details on the quarter's profitability, balance sheet, and our outlook.

Giles Goodburn - *Conduent Incorporated - Chief Financial Officer, Executive Vice President*

Thanks, Harsha. As we've done in the past, we're reporting both GAAP and non-GAAP numbers. The reconciliations are in our filings and in the appendix of the presentation.

Let me start by stating the results we are reporting today reinforce our conviction around our transformation journey we laid out at our investor event on September 30 this year. Since the beginning of the third quarter, we have completed several strategic imperatives and showed progression in some of our key financial metrics, all of which I'll discuss today.

First, we completed the sale of our Transit Solutions business to Modaxo on October 1 for a headline price of $164 million. We received $140 million at close, less than $18 million of international cash, which went with the transaction and also reduced our off-balance sheet financial exposure by over $200 million.

Second, we completed the refinancing of our revolving credit facilities, extending the existing $357 million, and adding an incremental $90 million of additional commitments comprising $75 million of new revolving commitments and a $15 million backstop performance letter of credit facility for a total committed facility of $447 million.

We also extended the maturity of the facilities to May 2029. This new facility provides us ample financial flexibility to execute on our ASCEND 2026 to 2028 strategic priorities. The facility reduces by $80 million by the end of the year as we divest the transportation assets and reduce our working capital requirements.

Turning to the quarter, unless otherwise indicated, the financial disclosures and related information and commentary provided herein relate to the company's continuing operations, which exclude the transportation segment. All prior periods have been restated to reflect discontinued operations.

Let's discuss the key sales metrics on slides 5 and 6. We signed $61 million of new business ACV this quarter compared to $70 million in Q3 2025. In the Commercial segment, we are consistently signing between $40 million and $60 million of new business ACV each quarter. In Q3, we signed four new logos, all new healthcare clients, signing up for solutions across our healthcare operations and enterprise operations offerings.

As Harsha mentioned earlier, we also signed a significant new capability with a leading auto manufacturer, which will support the continued growth in our finance, accounting and procurement offerings. The Commercial qualified pipeline stands at just under $400 million, which is up 27% since the beginning of the year.

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In the Government segment, we signed $16 million of new business ACV in the quarter. The third quarter has consistently been the low point in the last couple of years, this year we continue to see a steady release of RFPs from government entities, which we are actively bidding on, however the process of awarding these bids is taking longer and therefore increasing our average deal cycle times. The Government qualified pipeline continues to stand at $2.5 billion, up 8.5% since the beginning of the year.

Let's turn to slide 7 and 8 and review the Q3 2026 P&L metrics. Revenue for the quarter was $534 million compared to $605 million in Q3 2025, while down year-over-year, revenue is up sequentially versus Q2 2026. Adjusted EBITDA for Q3 2026 was $36 million as compared to $31 million in Q3 2025. Our adjusted EBITDA margin of 6.7% is up 160 basis points year-over-year.

Included in these adjusted EBITDA numbers is approximately $4 million in 2026 and $5 million in 2025 of stranded costs related to the former transportation segment, which we will address as the transactions close. Both adjusted EBITDA and adjusted EBITDA margin showed significant improvement versus last quarter and our expectation is that will continue into Q4.

Turning the page to our segment results, Q3 2026 Commercial segment revenue was $308 million, down 16% compared to Q3 2025. The decline is driven by contract losses and volume declines predominantly in our customer experience management offering. The losses include our largest Commercial client whose contract with us ended in the third quarter and is already incorporated in our outlook.

Commercial adjusted EBITDA was $29 million, a decrease of $8 million year-over-year and the adjusted EBITDA margin of 9.4% was down 70 basis points. The reduced adjusted EBITDA margin is predominantly a result of a health plan administration license agreement we signed in the prior year quarter, which made a strong contribution to the bottom line. Sequentially, both adjusted EBITDA and adjusted EBITDA margin improved $5 million and 160 basis points, respectively, resulting from our cost efficiency programs in the Commercial segment.

Government segment revenue for the quarter was $226 million versus $238 million in Q3 2025. The drivers here were completed implementation projects, lost business and lower client volumes. Adjusted EBITDA was $63 million with adjusted EBITDA margin of 27.9%, up 230 basis points year-over-year. Our cost efficiency programs drove the higher adjusted EBITDA and margin outcomes. Unallocated costs were $56 million for Q3 '26, a reduction of 16% versus Q3 2025, reflecting the continued progress with our cost efficiency programs in the corporate functions.

Turning to slide 9, we'll discuss the balance sheet and cash flow. Let's start with the temporary impacts of the renewed revolving credit facility. Due to the new facility closing after the end of the quarter on October 23, there are a couple of items on the September 30 balance sheet and cash flow statement that were impacted by the timing of the close falling outside the quarter.

On the balance sheet, we have included the full amount of the previous facility that was set to mature on October 15, 2026 of $170 million in current portion of long-term debt. Also, during the negotiations of this new facility, our factoring program provided by one of the bank lenders was temporarily paused until the new agreements were finalized.

This pausing of the factoring program straddled the quarter-end period and hence, had a significant impact on our cash flow from operating activities, our adjusted free cash flow and subsequently our net leverage ratio. We anticipate both of these impacts will be resolved by the end of the fourth quarter.

We ended Q3 2026 with approximately $295 million in cash on the balance sheet and negative adjusted free cash flow of $117 million for the quarter. The pausing of the factoring facility had a significant impact on free cash flow. But on a year-to-date basis, we continue to show an improvement versus 2025 and had our normalized level of factoring been executed, we would have been very close to breakeven free cash flow for the quarter.

Our adjusted net leverage ratio of 2.9 turns is temporarily elevated this quarter. It excludes EBITDA from discontinued operations and includes the estimated cash proceeds from divestitures at closing. Our capital expenditure for the quarter was 2.8% of revenue, in line with our expectations.

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Turning to slide 10, you will see our guide for 2026 remains unchanged compared to last quarter and what we shared at the investor event on September 30. As a reminder, it excludes discontinued operations. For 2026, the revenue range is $2.15 billion to $2.25 billion, and our adjusted EBITDA guide is $140 million to $170 million, which at the midpoint is a 7% adjusted EBITDA margin. The out years remain consistent with what we discussed at the investor event, with the addition of our net leverage ratio expectations.

The new revolving credit facility and the $520 million of senior secured notes both mature in 2029, which allows us to focus on the ASCEND 2026 to 2028 strategic priorities for the next 18 months before commencing another refinancing process.

As we execute on the ASCEND priorities, we expect adjusted EBITDA margins to incrementally improve to double digits and also begin to deliver positive free cash flow over this three-year outlook timeframe. These are the catalysts which will drive our net leverage ratio down to 1.5 turns in 2028 and steadily improve to one turn thereafter.

That concludes the financial review of Q3 2026, and now I'll hand it back to Harsha. Harsha?

Harshavardhan Agadi - *Conduent Incorporated - Chief Executive Officer, Director*

Thank you, Giles. We also recognize that our current financial results are starting to reflect directional improvement. Revenue has been under pressure from historical churn, but our conversion of our pipeline to revenue will continue to improve and increase velocity. We believe the actions we have taken this year give us a stronger foundation from which to address those challenges.

Our strategy is no longer about defining what needs to change at Conduent. We know what needs to change. It now is all about flawless execution, combined with a laser focus on selling our services as we reduce unwarranted costs and embracing today's AI-driven technology environment.

Along with that, executing on our ASCEND '26, '28, as described on the Investor Day, which is standardize our operations and infrastructure, specialize in core solutions, and scale around broad industry challenges. We believe that is the path to sustainable, profitable growth and long-term shareholder value.

Before we open the lines for questions, let me leave you with one final thought. I became CEO on January 16, 2026. Over the course of this year, we have acted decisively. We have reshaped the portfolio. We have strengthened our financial foundation, reduced our structural costs, and simplifying how we operate. We are investing in technology and AI, and we're building a stronger foundation for the Commercial and the Government growth patterns.

The work is never complete, but I believe we're ending the year as a simpler, more focused, and financially stronger Conduent than we were when we began this journey. Our focus now is execution and delivering the results that demonstrate that progress. I want to take a moment and thank all our associates around the world for their continued dedication, commitment, and hard work, and our clients for the trust they place in us every day. With that, I wish everyone happy holidays, and we'll see you next year.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

George Proost, Noble Capital Markets.

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George Proost - *Noble Capital Markets - Analyst*

Hi, and congratulations on the quarter. I'm filling in for Michael. So you talked a lot about your new business wins, but revenue was still down for the quarter. I was wondering if you could provide a little bit more color of when your new ACV wins actually start flowing through to the P&L?

Harshavardhan Agadi - *Conduent Incorporated - Chief Executive Officer, Director*

Yeah. First of all, the new ACV is flowing through to the P&L, but we have had, as I said in earlier calls, before I even joined Conduent as CEO, a large customer cycling off that has now completed. We will not see those big holes on a daily basis anymore, but as the ACV on the new wins keeps picking up, as you would expect, it will start exceeding churn.

To me, what you are seeing is like a net number, but the churn is starting to reduce with that large customer having left us. Each month, that is why you are seeing sequential improvement quarter to quarter.

Operator

Gowshi Sri, Singular Research.

Gowshihan Sriharan - *Singular Research - Analyst*

My first question is on the Virginia. How is revenue being recognized for the modernization? Is that milestones or cost as incurred? And the lift in Government Q3, is that from implementation work or rather that some kind of run rate operations?

Giles Goodburn - *Conduent Incorporated - Chief Financial Officer, Executive Vice President*

So I missed the second part of the question, but the first part of the question, Gowshi, it's on a percentage of completion basis. Revenue for that project will be recognized as we go through the project on a percentage of completion, and then, we bill the client based on a milestone basis and clearly collect the cash on a milestone basis as well.

Harshavardhan Agadi - *Conduent Incorporated - Chief Executive Officer, Director*

And by the way, Virginia will be ongoing revenue once fully implemented. And it will be actually much larger than New Mexico, and we have 10 more states lining up right behind it that we're in negotiations with because Conduent, the CMdS, the Conduent Medicaid Suite, is truly state-of-the-art, unique, and cloud native that our competitors, to the best of our knowledge, cannot offer.

Gowshihan Sriharan - *Singular Research - Analyst*

And the pricing side, how did pricing in the quarter of renewals compare with contracts that they replaced? The move to shorter contract terms, is that coming mostly from the client side, or are you structuring it that way?

Giles Goodburn - *Conduent Incorporated - Chief Financial Officer, Executive Vice President*

So we're generating price where we can on the renewals that we're engaging with the clients on. Clearly, there's cost increases. We all know there's inflationary concepts here across the globe.

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As far as the tenure of the renewals are concerned, we're typically renewing them in the Commercial space at that kind of three-year timeframe, which is the average deal size and deal tenure that we have in that space.

In the Government side, I'd say we're doing, in the last few months, certainly more add-on activity. We talked about some of the larger deals being caught in the award cycles and not being awarded due to what's been going on with the election cycle. So in the Government space, we're seeing more add-on activity, which is essentially shorter timeframe.

Operator

Marc Riddick, Sidoti & Company.

Marc Riddick - *Sidoti & Company LLC - Analyst*

I wanted to start with maybe a couple of comments around, maybe could share some thoughts around the pipeline, and maybe could talk a little bit about a couple of the catalysts that you're seeing there, as well as how the pacing progressed through the quarter and into here into the fourth.

Harshavardhan Agadi - *Conduent Incorporated - Chief Executive Officer, Director*

Yeah. So maybe I'll step back and first talk about what I call as the qualified pipeline. Even from January to now, it has actually become quite large, about $2.9 billion. $2.5 billion is on the Government side, $400 million is on the Commercial side. A qualified pipeline for us, Marc, is it has to be stage 2, where conversations are already taking place and RFP or RFI in process. So there's a fair amount of activity.

The other piece that I should tell you is the entire culture on sales has changed. We have a lot of elements in place, which some will tell me that this is normal in certain companies. Guess what? At Conduent, some of it did not exist, and now our pace of play from stage 2 to completion is picking up a fair amount of speed.

Now, the election cycle on the Government side did slow us down. Just to give you a simple example, we have 30 proposals amounting to $380 million that was in the pipeline waiting for it to be approved and move forward. I think the gates will open post-election. Frankly, with the way the election went, I think there is a greater opportunity for Conduent to partner with states that are willing to spend.

Just to give you one small example, the One Big Beautiful Bill, which is also called HR1, where a lot of Medicaid recipients were probably going to get blocked for a variety of reasons, now with the shift in the Congress, that actually will remain and might increase in activity, therefore helping Conduent.

We are actually -- it is kind of interesting, you have two sides to every election, but we are actually positive because we have the governments as our clients, and we are going to see a big pickup in activity.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Great. You may have answered what my follow-up was going to be, because it seems as though that is at least part of it, but I was going to touch on the commentary around the average deal cycle times extending. Is that the primary cause of that, or were there other factors in play with the average deal cycle times increasing during the quarter?

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Giles Goodburn - *Conduent Incorporated - Chief Financial Officer, Executive Vice President*

Yeah, no, Marc, that is the key contributor, is what has been going on in the government with the election cycles. We are anticipating that that starts to free up now that we are through November 5, and should see some of those being awarded by the various states that we are engaged with.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Excellent. I guess the last one for me, I will add on a follow-up because that was kind of covered in the first question. I wonder if you could talk a little bit about the pricing dynamic that you are looking at and how that plays into next year's portion of the three-year plan and whether there is pricing that can be captured in any of the key areas of the business.

Harshavardhan Agadi - *Conduent Incorporated - Chief Executive Officer, Director*

Yeah. Here is what I would say. Pricing is always very competitive, but we have a couple of things that I think may be in our favor. One is, there is inflation on, therefore it gives us an opportunity to do a few things with that.

Second, we are now religiously insisting on COLA everywhere. We may not get it everywhere, but we are much more forceful on that.

The other piece is, as we continue to use new and better platforms and technology, it gives us savings, makes us more price competitive as we are bidding on things. We have a number of things in place simultaneously. And I am very focused, when we look at a sales proposal, I am focused on contribution margin before corporate overhead. That is a key number for us to look at. And as I tell folks internally, we don't deposit margin percent, we deposit dollars. So we are going to look at deal by deal and make sure there is more dollars of profitability coming through.

Operator

Thank you. Ladies and gentlemen, this does conclude today's question-and-answer period as well as our conference call. I would like to thank everyone for attending. And at this time, we do ask you to please disconnect your line.

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