Kyndryl Holdings, Inc. NYSE:KD

Company Conference Presentation

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EXECUTIVES

David B. Wyshner
Chief Financial Officer

ANALYSTS

Ryan Edward Potter
Citigroup Inc., Research Division

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Unknown Attendee

Presentation

Ryan Edward Potter
Citigroup Inc., Research Division

Welcome to the next session. I'm Ryan Potter, an analyst from Citi's payments, processors and IT services team. I'm glad to have Kyndryl here for the next session. From Kyndryl, we have CFO, David Wyshner. Thanks for being here.

David B. Wyshner
Chief Financial Officer

Ryan, thanks very much for having us, and thanks very much for having us at the conference. We've been able to have a number of really good meetings with the investors here.

Ryan Edward Potter
Citigroup Inc., Research Division

That's great. I guess starting off for anyone that's maybe newer to the name, could you give maybe a 2-minute background on who Kyndryl is, your story, how you evolved in recent years and then also how you're differentiated in the market.

David B. Wyshner
Chief Financial Officer

Sure. Kyndryl is the industry leader in IT infrastructure services. We provide services around the world to large enterprises and do so phenomenally well.

Ryan Edward Potter
Citigroup Inc., Research Division

Maybe start off with that question -- that story.

David B. Wyshner
Chief Financial Officer

Yes. So Kyndryl is the industry leader in IT infrastructure services operating around the world. We generate in the neighborhood of $16 billion of annual revenue. And we offer services along a number of different practices, meeting a number of different customer needs. Some of it's core enterprise, but 1/3 of our business is cloud related, and we also provide network and security and resiliency in digital workplace and apps, data and AI services to our customers, really helping them operate the infrastructures that are core to their business.

And I would say one of the ways we differentiate ourselves and one of the reasons we're really important to the customers we serve is because of our expertise in mission-critical work. Providing absolutely essential systems for travel services companies, for financial services companies and large complex organizations around the world.

Question and Answer

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. Great overview there. I guess, you've been undergoing a large transformation since your spin-off from IBM. So maybe you can give an update on where you are in that spinoff? What have been some larger successes? What has been maybe stuff has taken a little bit longer to achieve than you thought it would take?

David B. Wyshner
Chief Financial Officer

We're thrilled with the progress we're making in our transformation. We were spun off as an independent company almost 2 years ago from IBM. And that was a game changer for us, being independent, no longer being an IBM captive allowed us to adopt a different mission and significantly increase the addressable market we're going after. And a key element of that was expanding the technology alliances that we have, signing partnerships with all 3 of the hyperscalers, Microsoft, Google and AWS, expanding our relationships with other leading technology providers, VMware, SAP, Nokia, Cisco and so forth and really positioning ourselves to be a provider of multi-vendor solutions, again, in mission-critical settings.

And by having these new alliances and having the larger addressable market and new freedom to act differently, we've been able to start transforming our business. And the progress we've made over the last 20, 22 months, I think, is really significant. We're moving our margins to a different place. We're showing up differently for customers, and I think the enthusiasm that we've been able, or the progress we've been able to demonstrate is coming across both in our results and the enthusiasm that we have.

We're coming off a quarter where we had a beat and a raise, and a raise following our first fiscal quarter really highlights the enthusiasm that we have around the year and about our prospects going forward. And I think that's resonating with investors. It's resonating among our employees, and it really reflects a lot of execution progress in our organization. And if I may, the execution has been driven by 3 strategies that we announced and have been deploying our 3As as we refer to them. And it started with Alliances, as I mentioned, and we're driving progress in cost savings and even better services to customers through our second A, which is Advanced Delivery, and then the third piece for us is our accounts.

The portion of our business, we're coming out of our spin, we had revenue streams. We had relationships that just aren't profitable for us. And one of the great opportunities for us is the opportunity to turn those around and make those more profitable. And all of those strategies are driving our transformation, driving our turnaround, and I think the progress over the last 2 years has really been tremendous. We're really excited about it.

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. And we'll get more into the 3As, but I guess what inning would you say you're in the transformation were the larger steps left to complete? And what are some of the KPIs, I guess, investors should look at to kind of gauge your progress?

David B. Wyshner
Chief Financial Officer

Sure. I think we're in the -- we're still in the early to middle innings. We finished last year having delivered $200 million of annualized savings from Advanced Delivery, $200 million of annualized savings from the accounts initiative, growing the hyperscaler signings to more than $1 billion. And those were major proof points for us in year 1, our fiscal '23 that ended in March. And we're continuing to drive progress there to move from the early innings toward the middle innings. But given the nature of our business, where we have long-standing customer relationships and really often quite lengthy 3, 4 or 5 or longer year contracts with our customers. It takes a while to work through those.

And as a result, our transformation, our progress on these initiatives is a multiyear plan. And that's actually really exciting because it means if we can continue executing, continue the blocking and tackling on these initiatives that we were able to demonstrate last year, we can again add another $200 million of annual savings from Advanced Delivery. We can continue to grow our Alliances and hyperscaler business. We can continue to significantly increase the margins we're generating from focus accounts, and having a set, a great set of executable strategies that can provide significant benefits in year 1 and then more in year 2 and then even more in year 3, it's kind of a fun place to be from our perspective. And we're just very focused on executing against that.

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. Maybe diving a little bit more into the Alliance initiative. How would you kind of rate progress there? Has there been a benefit from becoming your own stand-alone public company? And I guess on the hyperscaler front, what have you kind of done on that front to increase those partnerships and bring more sales from them?

David B. Wyshner
Chief Financial Officer

Yes. Absolutely. It has been a real opportunity for us to show up differently for customers. And that ability to help them, help customers where there may be a system of record on legacy system and systems of engagement that are being built or migrated to the cloud, being able to be a one-stop shop for the infrastructure needs for our customers is really resonating with them. It's helping them improve their infrastructure, their security, their resiliency, the efficiency with which they operate and creating new revenue streams for us. And so some of the key proof points where, as I mentioned, the -- taking that business from essentially a standing start to more than $1 billion of signings last year.

That's going to translate into more than $300 million of revenue this year and is a significant growth vector for us going forward. In many cases, with existing customers of ours where we just weren't prior to our spin, prior to being independent, we weren't able to participate in these needs that they have and now we are. And so we're taking advantage of that. I see it as a growth opportunity as our large enterprise customers take advantage of all the opportunities available in hybrid environments. And this is a -- this, as I mentioned, will be a continuing growth opportunity for us and really help us round out our offerings to customers.

Ryan Edward Potter
Citigroup Inc., Research Division

And maybe taking a step back on the overall demand environment. Kind of how would you characterize it in terms of across the verticals, geos, service lines? Are there some areas where we're seeing more macro pressure or some areas that will be more resilient overall?

David B. Wyshner
Chief Financial Officer

Yes. We're hearing what other folks are saying about the macro environment. And it's hard for us to see those challenges. Obviously, we operate in the same macro environment that everyone else does, but the Kyndryl specific opportunities are essentially overwhelming what’s probably a challenging macro environment. And our consultant signings, which tend to be our higher margin and probably are a little bit more discretionary than other things, those are up, our signings -- our revenues were up 20% last quarter year-over-year.

And so we're seeing significant growth opportunities associated with our new freedom that sort of make it a little bit hard for us to see the macro challenges that other folks are talking about. The other issue, even more core to our business is the nature of what we do, providing mission-critical work focused on infrastructure, what we do isn't discretionary. And as a result, I think it's going over time, good environments, bad environments. It's just going to tend to be more stable than folks who provide more discretionary-oriented services.

So I think there, I'm sure what other people are seeing suggests that the macro environment is a little bit more challenging. But the opportunities for us as a newly independent company are so much more significant that we're seeing opportunities for consult revenues to be up. Our aggregate signings in the first 4 months of our fiscal year are up year-over-year as well. So we're in a really, I think, a strong spot to be gone through the environment that we're in.

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. And the longer term, you have, I believe, a goal that you grow revenue in calendar 2025, fiscal 2026. Correct me if I'm wrong on that. But what gives you confidence in your ability to return to growth on that time line? And I guess, what needs to happen for you to go to return to growth?

David B. Wyshner
Chief Financial Officer

Yes. It's a great question. And I mentioned the multiyear nature of a lot of the contracts that we have. And as a result of the multiyear contracts this year, our second fiscal year as an independent company, about 2/3 of our revenue is coming from pre-spin signings. And next fiscal year, fiscal 2025, that drops down to a half. And then as we move into calendar '25 and really fiscal '26, it's an inflection point for us. The majority of our revenue is coming from what we've done, it's Kyndryl's signings that have occurred post spin.

And in that inflection point, combined with how we're showing up differently for customers, combined with the Alliances we have puts us in a position where that inflection point returns us to growth in fiscal '26 because most of our P&L, most of our top line at that point is being driven by who we are as independent Kyndryl, not the constrained business that we began with coming out of having been an IBM captive. And that's really exciting for us because as our margins strengthen and our -- and we return to revenue growth, the financial model really starts humming at that point. And we're excited about the progress we're making toward that. And by taking advantage of the Alliances that we have and the inflection point, the mathematical inflection point that's coming up, we're positioned to be in a really good spot going forward.

Ryan Edward Potter
Citigroup Inc., Research Division

And you touched on some of the success you've had in consult recently, which is kind of contrary to what we've heard from other players in the space given the market. So I guess what is driving some of the success there? And I guess, how do you feel you're differentiated versus other players and what you do there?

David B. Wyshner
Chief Financial Officer

Yes. I think the opportunity for us in consult in some ways is a bit of a catch-up opportunity. Now as an IBM captive previously, there were needs our customers had, customers for whom we were doing mission-critical work that we just previously weren't able to solve. We weren't partnered with AWS and Microsoft and Google. And the nature of the business was pre-spin, was focused on IBM centric solutions. And the ability to show up with an objective multi-vendor view allows us to not only get the managed work that we had, but to play the role we should have been playing and are now able to play in advising and implementing and then running or managing infrastructures and technology stacks for our customers.

So I think that's a that's a big part of what's driving it. And I think how we're organized around our practices, how we're showing up in front of customers, the range of solutions we're able to provide and just the know-how and intellectual property and capabilities that we're bringing to bear are really allowing us to win business that we weren't getting before.

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. I'm going to get into the other two ways, but I believe we had a question in the audience. I don't know if we have a mic. All right. Yes.

Unknown Attendee

And actually, the question that I have is very much following on the conversation you're having here and it goes to this Page 13 on this little slide because I'm not as familiar with Kyndryl. I remember I gave [indiscernible] right now it's a great story. And so when I think about [indiscernible] these focus accounts and blueprint accounts, and that's your verdict. What exactly is the difference? And basically, is the [indiscernible] looks like you maintained margin and maybe expand a little bit on the blueprint accounts, but there's a big margin opportunity. Can you talk about 2 things, one is growth, some of the revenue growth that you do see in these types of accounts. And the other is, how do you get those volumes? Is it just saying, look, you got to pay us more or look we [cannot offer] you all these other services. So just being not familiar with your terminology, explain the journey you are here.

David B. Wyshner
Chief Financial Officer

Great. So the question in case it didn't come through on the webcast is really about focus accounts and blueprint accounts and the opportunities associated with those. And it's a great question. It actually wasn't a plan, but it could have been the -- because this is such an important opportunity for us. When we became independent, we started out of the box with a 0 or slightly negative pretax margin. And we looked at the business into why is this happening? And within our business, 60% of our revenue is perfectly good revenue, generating gross margins in the mid-20s, translating into pretax margins in the high single digits, 10% range. It was great business.

And the challenge associated with our financials was essentially driven by 40% of the business that averaged 0% gross margin. So it's a cost recovery kind of contract that on a fully allocated or a fully burdened basis was losing money, losing 15-ish percent. And this gave rise to one of our core strategies, which is our third A accounts or focus accounts, fixing the margins associated with 40% of our visits.

And when we looked at why was this business a challenge, the common theme was that these accounts were typically part of a broader IBM relationship, and for one reason or another, the services element that we inherited had essentially been given away at cost. And that doesn't make economic sense for us. And it's a huge opportunity for us to be able to change that. We've sized that opportunity at $800 million of annual pretax income, moving the margins on like $670 billion of revenue, up 10 or 12 points over time. And the way we're going after that is with a variety of different patterns. Part of it is selling incremental services, consult services, hyperscaler-related services and expanding our margins in that way.

A second element is taking elements of these contracts that were under water, particularly OEM pass-through types of activity and stepping away from those. A third element of it is driving efficiency in our operations. And a fourth one that you mentioned is when a contract comes up for renewal or renegotiation, it's moving pricing up to a market level, a market level of margins. And so it's actually a range of different patterns that were in place that we're running in order to be able to drive this progress.

And one of the things that I think is really exciting is we laid out this opportunity, this challenge, which is really an opportunity for us. We said it's a multiyear 1, because it takes time to make progress in long-term relationships and with multiyear contracts. But we sized it as an $800 million opportunity. And last year, we were able to report that we were -- that we delivered more than $200 million of it. So we got more than 1/4 of the way through it in our first year doing it. As the most recent quarter, we're running at $275 million, and so we're fundamentally changing the margins on this key element of our business.

At the same time, we sort of -- the blueprint accounts would like to move margin up a little bit there as well, and I think we're well positioned. But the opportunity to change our mix of business, we're at 60%, just fine and 40% really challenge. We moved that to pretty close to 70-30 already. And then over time, we're going to get that to a position where everything is earning the sort of margins that it should, which fundamentally changes our aggregate margin profile. And I'm thrilled with the progress that we're making in this area and then the other element associated with it.

Coming back to the first part of your question, is that this is going to give rise to growth opportunities for us as well. So it's about adding consult services, adding higher-margin services, being able to provide a broader range of solutions, meeting even more of our customers' infrastructure needs. And so the immediate focus has been on margin and, call it, growth in profitability. Over time that's going to translate and even now is translating into what we refer to internally, it's operating ambidextrously. And we're part of the focus on margins and growth, but -- is on margins and profitability. But at the same time we're increasingly focused on the growth opportunities again, helping us return to revenue growth in calendar '25 and fiscal '26 as we planned all along.

Ryan Edward Potter
Citigroup Inc., Research Division

Great timing of that question because I was getting to the accounts initiative next. But on the pricing element, what has client feedback been to that? Has there been any pushback in terms of your ability to push prices on them? Or are they realize that you're delivering a higher quality work and they're willing to pay more for that?

David B. Wyshner
Chief Financial Officer

Yes, there's always a negotiation and higher pricing is seldom met with the warmest response, but there's a, as we work through it with customers, they realized that the issue is that their services contracts were a really good deal previously, but the pricing that we need to generate a normal margin is a movement of the services portion of the contract to a market level. And as a result, we've been able to work through scores of those conversations and the commonality is typically retaining the customer. And there may be elements of what we're doing that we step away from, but the customer relationship remains intact. We continue to provide the mission-critical services. We continue to operate the hearts and lungs of their IT stacks.

Third-party business -- third-party pass-through elements where we were under water, we're happier taking those out of our contracts and letting our customers go direct to the third-party providers for that. And really ending up with a services contract that makes a fair amount of sense. And I think there 2 -- there are 3 reasons why this is working. One, the pricing increases we're looking for are typically a movement to market, not that we need something above market. But the other 2 things that are really important is that our customers, generally speaking, are very happy with us. Our Net Promoter Scores, our Customer Satisfaction Scores are really strong. And we start these discussions usually with a really strong base of Kyndryl doing a very good job for our customers.

And then the second element is our leadership position in the industry. We're double the size of anyone else in infrastructure services. We've got great intellectual property and know-how, and I hope we can talk about Kyndryl Bridge, which is a key part of that. But we're -- the capabilities that we offer, the innovation that we bring, the level of service that we're offering to customers puts us in a really good spot to have even -- to have conversations even about pricing.

Ryan Edward Potter
Citigroup Inc., Research Division

You mentioned Kyndryl Bridge, I guess, getting into the third A, Advanced Delivery, maybe time in AI [indiscernible] I guess. Could you kind of talk about how you're helping your clients embrace AI and some of your AI capabilities and also the capabilities that Kyndryl Bridge, your automation platform helps clients on that journey?

David B. Wyshner
Chief Financial Officer

Absolutely. So let me start with Kyndryl Bridge, and then I'll talk about AI more generally. The Kyndryl Bridge is the operating platform that we're increasingly using to serve our customers to allow us and to allow them to manage their infrastructure. And it's an AI-enabled platform. It's not generative AI. It's called old-fashioned AI and machine learning that identifies problems and risks in an infrastructure even before there are problems or risks that materialize. It runs automations and it operates in an automated fashion in ways that further increase the quality of service that we provide, at the same time that allows us to operate more efficiently. So it's really a win-win in terms of higher, even higher quality service that cost us less to provide.

So we're thrilled with the innovation that has produced this. We're rolling it out through our customer base, and they're taking advantage of it. And it is a key part of our second A, Advanced Delivery, driving automation and efficiency in how we meet customer needs in a way that reduces our cost. And again, it's one that really is warmly embraced by our customers because they're seeing the benefits in terms of fewer issues, fewer risk, reduced planned downtime, reduced unplanned downtime and real tangible benefits associated with that.

This Kyndryl Bridge is a great example of us already employing and having deployed AI in our business. And if you think about our P&L, it's deploying AI in a way that reduces our cost of services and is helpful from that perspective. As we look at AI, in generative AI, we see that as a revenue opportunity to help serve our customers. And one of my colleagues is really fond of saying your AI is only as good as your data. And one of the key areas I see as an opportunity for us and that we're talking to a lot of customers about its data architecture, data availability, data security in order for our customers to be able to take advantage of generative AI and how they want to use AI in their business.

And so the infrastructure needs, the data architecture, data security networking needs, even, in some cases, the compute power needs associated with deploying AI ends up being part of the customer needs that we're helping to meet and will continue to help to me going forward. So that, in some way, it becomes a sort of a -- going back to the P&L, a revenue and a growth opportunity for us as an infrastructure services provider.

And then the third element that we're just in the early stages of is thinking about us as a corporation, how in our, call it, in our enterprise functions, so there's finance or HR or our operations and marketing and IT, how do we take advantage of various AI tools that are out there to drive efficiencies in our operations? And we're actively looking at those now. I think we've got some use cases that we're enthusiastic about, but I view that as early stage. And we're also going to be looking to see and hear and figure out what wins other people have as corporations to take advantage of those.

So we see ourselves as already being a beneficiary of AI because of how we've deployed it in Bridge, but it also represents an important part of how we go to market and meet customers' needs, because this is, as you know, at the center of almost every discussion about information technology and about the sorts of services that we provide as companies look to drive efficiencies from AI.

Ryan Edward Potter
Citigroup Inc., Research Division

And are there any risks to consider to the business model or financial model from AI in terms of maybe cannibalization of revenue as more stuff gets automated? Or is it more automation and greater efficiencies? So all that net positive is going to bring in more clients for you, it's going to increase potentially your TAM?

David B. Wyshner
Chief Financial Officer

Yes. I think the opportunities for us to take advantage of this and the AI is going to increase the already huge role that IT plays in the operation of organizations and how they go to market and how they operate in a global economy. And as a result, I think the trend, the now multigenerational trend of investing more in technology is going the next layer of that. The next step in that evolution is going to be investment to take advantage of these technologies.

And as a result, I see our customer base broadly defined, continuing to invest more in technology. And the infrastructure needs associated with doing that are going to continue to grow over time. Yes, there will be parts of that are automated, and we'll drive efficiencies from that. But the core needs to run business and for our customers to do what they're doing for their customers, with technology, I think, is going to continue to create significant opportunities for us.

And from a big picture perspective, part of the way we go to market is talking to CIOs and CTOs about their needs. There's -- I'd like to break them into two buckets. One is all the stuff that they have to do to keep things running, and the other piece is how they're supporting the growth and profitability of their own business. And CIOs and technologists want to spend more and more time on that second piece, helping the business grow and become more profitable. And we're really darn good at that first piece, taking care of all the things that have to absolutely have to run that are at the center of things operating smoothly, that the one optimize where resiliency and security are important, we're phenomenally good at that.

And this element of their chores are core, ends up creating, I think, over time, more and more opportunities for us. And then the fact that we're a leader in the space means that with AI, we learn faster than everyone else. And so I think the scale advantages we have as the leader in the space are going to continue to grow over time.

Ryan Edward Potter
Citigroup Inc., Research Division

That's great. I guess shifting a little bit to margins. I mean you talked about how a lot of these initiatives are margin drivers. And longer term, you have a 6% to 9% pretax margin target. So I guess if you could kind of tier or rank the things we talked about between focus accounts, advanced delivery, improving revenue mix, general efficiencies? So what are the largest drivers for margins to get to that 6% to 9%?

David B. Wyshner
Chief Financial Officer

So the 2 key drivers of margin improvement are the focus accounts initiative and Advanced Delivery. And where that's playing out, how we're seeing it is in a metric we report on each quarter, which is the margins, the projected margins at which we're signing business. And one of the key wins for us last fiscal year and into this fiscal year is that we fundamentally changed the margins at which we're signing business compared to where we were operating day 1 following our spin.

So we -- over the last 12 months, we've, on average, signed business with the mid-20s gross margin, a high single-digit projected adjusted pretax margin. And now we just need to continue that, and because what signing business with those kind of margins does is it fundamentally changes our -- the mix of business that's in our backlog and that produces our revenue and our earnings each year. And that's why I mentioned how this year still 2/3 of our revenue is coming from pre-spin signings from legacy business.

But as we're signing better quality or higher margin business, and we moved to a situation where next fiscal year, half of our revenue, half of our P&L is coming from post-spin signings. And the year after that, when 2/3 of our revenue is coming from post-spin signings, the fact that we're now signing business with these better margins, we get the math just working in our favor. And that really is going to help us move our aggregate margins up to the mid, high single digits on an adjusted pretax basis.

And that's a key focus of ours. And so again, the way we get there is Advanced Delivery, it's focus accounts, and it's the pricing discipline that we've been able to report on and show people and that I'm super enthusiastic about because it's not a -- well, we're going to need to do these things, and then we'll eventually get pricing and better margins. We are signing business and have been for over a year now. Signing business, signing contracts with fundamentally different margins than what we started out with at the time of our spin.

Ryan Edward Potter
Citigroup Inc., Research Division

And is the margin expansion opportunity pretty ratable each year as you're signing these new deals? Or is there some benefits that are expected to come later a few years out?

David B. Wyshner

Chief Financial Officer

I think it's pretty even over the next several years. We're trying to front-end load it as much as we can by making progress not just at the time of renewals and renegotiation by adding in content that's higher margin and helps us, but when we look at the expiration of existing contracts, those kind of play out 20-ish percent a year over the first 4 years and then the remaining 20% is over the tail beyond that. And so that opportunity ends up being pretty ratable, pretty even over the first several years. And that's really why we viewed the 3As and the progress on the 3As as being a multiyear exercise.

And again, it's just part and parcel of the nature of our business, where we operate under multiyear contracts. And then the corollary to that, by the way, is if -- when and as we get this fixed, the annuity-like revenue stream, the annuity-like profit stream associated with the business, that flywheel starts working in our favor, and I think becomes incredibly valuable is rather than having a backlog that doesn't have much profit embedded in it. A couple of years from now, given where we're signing business, we're going to be operating with a backlog that had significant profitability, significant earnings, significantly essentially contractually committed revenues and the earnings power associated with that signed in the vault, if you will.

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. Right. In our last couple of minutes here, but maybe switching to cash flow, capital allocation. You have free cash flow outflow in the quarter. So I guess what are some of the drivers of that? And what gives you confidence in getting free cash flow growth this year and going forward?

David B. Wyshner
Chief Financial Officer

Sure. The first quarter cash outflow was driven primarily by seasonality associated with our business, and we expect our cash flow this year to be positive. When we look at last year, even though we had an adjusted pretax loss, we had positive adjusted free cash flow, and we're really able to drive that by re-optimizing our working capital and taking advantage of opportunities that were there to do that. And then going forward, I see more and more of our free cash flow and our free cash flow growth coming from our margin expansion.

As our pretax margins move up, our net margins will move up and our conversion of adjusted net income to free cash flow should be very strong going forward. So a pretax income, we have some cash taxes. And then beyond that, I see a big drop-through from that adjusted net income to the cash flow that we generate.

Ryan Edward Potter
Citigroup Inc., Research Division

Got it. And probably have to do in 30 seconds, but on capital allocation really quick, where do you put your priorities? I know you want to keep investment-grade rating eventually return cash to shareholders? And maybe how do you think M&A as well?

David B. Wyshner
Chief Financial Officer

That's exactly right. So investment-grade rating is a top priority for us. We're rated in the BBB range by all 3 agencies. So we're in a good spot, but we want to retain that. But given the nature of our business, as our margins strengthen, our cash flow will strengthen, and we've got annuity-like revenue stream. So we do think at some point it will be natural for us to be in a position and to want to return capital to shareholders in some form. We'll look at M&A, but it hasn't been a high priority for us in our first almost 2 years as an independent company.

Ryan Edward Potter
Citigroup Inc., Research Division

All right. Perfect. Thanks, again, David.

David B. Wyshner
Chief Financial Officer
Thanks very much. Great to be here.