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Cognizant Technology Solutions Corp.

(CTSH)

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MANAGEMENT DISCUSSION SECTION

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Good afternoon everyone. Thank you for joining us today for our 36th Annual Strategic Decisions Conference. I'm Harshita Rawat, the Senior Analyst covering IT Services and Payments at Bernstein. I'm delighted to be joined today by Karen McLoughlin, the CFO of Cognizant. I hope everyone is safe and healthy. Two quick housekeeping items for investors during this webcast. They're able to submit questions through the Pigeonhole link available on the left hand side of your viewing screen. Also please complete the Procensus poll at the end of the fireside chat and you will have immediate access to the poll results. The link to the poll is also on the left hand side of the screen.

And with that, let's begin. Karen, thank you very much for joining us today.

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

Thank you, Harshita. It's a pleasure to be with everybody. I wish we could be here in person everyone, but this is the best for now.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

The safest for now.

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

Exactly.

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QUESTION AND ANSWER SECTION

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

So Karen, and this is some of the top questions I have now in my inbox too. The situation is very fluid and changing almost every day, but can you talk about the current demand environment you're seeing across different verticals and geos and also outside of travel, even in your core verticals?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah absolutely. And I think as everybody said, it's been a very interesting several weeks now and I think if we go back to the later part of Q1, the March timeframe, I think like many others, we started to see a little bit of a slowdown in travel and hospitality, but Q1 overall was quite strong and as we've talked about on our earnings call, great TCB bookings in January and February and we were very pleased with the way the quarter was shaping up. I think, as we got towards the countries around the world really started to shut down, we did see a fairly significant drop off in demand at that point for a couple of weeks. Now I think a lot of companies at that point were trying to understand what it meant to work from home and what did they need to do for their organizations and how long this might take. So, the last part of March and the first couple of weeks of April, I think, were quite uncertain for a lot of our clients.

What we've noticed in the last couple of weeks is a certain level of stabilization. I don't want to certainly imply that we've returned to strong growth or anything like that, but you have seen I think companies start to understand a little bit about what their environments going to be like for the next few months, trying to understand what their priorities are and how they're going to manage through this crisis in this downturn, and then look for ways to both, at the same time, drive savings into their business as many of our clients are struggling from a top line perspective and so also need to drive savings, but at the same time, protect their transformation agendas. And it's very different stories across the industries and particularly within clients within industries. So travel and hospitality has obviously been the most impacted industry in the short-term and I think that's very easy for everybody to understand.

When I look, for example at, say, life sciences, so in life sciences which has been a very strong practice for Cognizant over the years, we have some clients whose work is involved in dealing with the pandemics. So working on vaccines, test kits, other treatments for the pandemic. So they obviously have a lot of work going on. We also have other life sciences clients whose work primarily supports, say, elective surgeries. And so with elective surgeries not happening in most parts of the world, their work has been significantly impacted. And so obviously we're seeing a bigger negative impact there. Similarly within retail, right, you have certain retailers who are doing very well during this time. Other retailers whose businesses have been very impacted because they've had to shut down, perhaps either aren't deemed essential services or not don't have a strong online business. And so we saw a lot of pullback initially in those retailers. Now, as the market starts to open up and stores are able to start reopening, those clients are beginning to get a better sense of what their recovery looks like and what their spend would look like for the rest of the year. So we're getting to see a little bit better color there.

Communications, media and entertainment, it's another one where perhaps initially it wasn't as obvious to everybody what the impacts would be, but when you think about professional sports shutting around the world. so clients who maybe are in that business or in the TV, the cable space that provide all the cable programming for sports, big impacts there. Theme park studios shutting down, all of those things are impacting certain of our

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clients. I've seen much more than, say, just a traditional telecom company. So, very mixed behavior across clients, really depending upon how the pandemic has been impacting their business specifically.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen can you talk about how has Cognizant been positioned in this demand environment which in terms of what percentage of your revenue is exposed to critical systems and infrastructure versus revenue exposure to discretionary projects with longer payback periods? I know it's kind of like vary client-by-client too in many occasions, but any color you could provide there is very, very helpful.

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Sure. I mean if you think about it at a very macro level and think about the notion of outsourcing versus consulting in our business, so the outsourcing business tends to be the run he business spend. So it's application support, it's infrastructure services, it's digital operations or BPO type work. And so that business historically has been the longer term contracts, less sensitivity sometimes to economic downturns and so forth although there's still a volume impact in that business. So particularly when we think about some of our BPO work, a lot of that work is volume-based, so as the clients' volumes go up or down, the revenue goes up or down. The consulting side businesses is where you tend to have more of the true discretionary projects. Although even there given the nature of our work and the amount of our work with some regulated industries, there's always some level of work that is more or less discretionary depending on what its objective is. That's where a lot of our digital work obviously happens, a lot of transformational work. And going into the recession and even for the last couple of years as people have been wondering about when the next recession would come and what its impact would be on the industry, we've had a hypothesis that a lot of the digital work while one might deem it discretionary because it's project-based work, clients would actually look to protect a lot of that work as best they could through a downturn because it is so critical to the future of their business and what their business will look like on the other side of a recession.

And I think we would still argue that that that seems to be the case. While certainly we'll see a slowdown in growth even in that area. In the short-term, we continue to see a strong pipeline for digital work. We are continuing to work with clients on their transformation journeys and really focus now on how do we help them maybe drive even more savings in there, run the business side while freeing up those investment dollars to continue to drive transformation. And as we come out of this recession, when we do we definitely expect to see that part of the business accelerate faster [indiscernible] (00:08:09) even has been in recent times as clients continue to really look to drive resiliency and virtualization into their own businesses.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, I have a number of questions for you on the digital side. But before we get there, just two more follow-up questions here; so are you seeing any – in the demand you're seeing from clients, any sizeable pressures for rate reductions or any more broader pricing pressures from clients just yet?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

So we had a few requests from clients to give them some temporary breaks on specific projects or pieces of work within a client. In some cases you may have had clients defer some more, but most of those have been quite small in nature and very short-term focused. So concessions that we're doing at this point have really been

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focused on just a Q2, Q3 timeframe. And they've been quite limited to industries or clients that we know are really suffering in this timeframe, but they're suffering in what should be a fairly, I don't want to call it short-term, but a manageable timeframe, right, that their business will recover at some point. And so, those are the folks we've been focused on helping whether it's through some kind of rate concession or even some payment term extensions in that space.

You are seeing, as you would expect to see in a downturn, some pickup in vendor consolidation opportunities in captive opportunities with clients. Those tend to be larger transactions and there you will have a few folks competing for those types of deals as they have been from many years now. They will be competitive from a pricing perspective, but you also get a lot of scale with those deals. So I wouldn't say that I've necessarily seen a big change in pricing across the board. I think as we've always said, there's going to be transactions in the market that one player versus another, things are particularly strategic for them that they may go after aggressively, but in terms of broad base across the board, pricing, I haven't seen a significant change. And as we know in this industry, every now and then when a competitor tries to get very aggressive on pricing, it tends to break itself fairly quickly because the industry as a whole can move to support that so.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, on the demand side, the near-term demand impact, is it more deferment of projects or cancellations that you're seeing right now?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. It's been more deferment or slowing it down, right? So they may not shut a project completely, but they may say we're going to slow it down; so send x percentage of the team off for now and we'll pick it back up in the fall. It's a little bit of a mixed bag. Though, I think as you would expect by client as to; there's been some clients who have had to cancel projects just because of the impact to their business. It's been so great that they said we can't continue with XYZ project, but for the most part you're seeing clients try to maintain some level of the work but either defer new work or slow down, starting new work.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, you and many of your peers also have called out this demand for – increased demand for modernization projects, remote work, cloud, in this current crisis. Can you talk about Cognizant's current capabilities, their strengths and weaknesses versus peers?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So I think we've done a nice job over the years of building out our digital capabilities. We are particularly strong in digital engineering. We have a good cloud migration foundation in our infrastructure business and core modernization work that we can do for clients. We have continued and will continue to build out our cloud businesses both through organic as well as inorganic acquisitions, we believe. And I think this is becoming a strength of ours that perhaps wasn't as much so a few years ago, but really strong partnerships with all the various SaaS players and cloud players in the marketplace. And they are looking for partners who can scale with them and can really help with implementation and support for clients. So we're very excited about those opportunities. You've seen us do a number of acquisitions in the sales force space over the last couple of years. Most recently, we announced the Collaborative Solutions acquisition in the Workday space which we're very

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excited about. So that deal hasn't closed yet but it will close shortly and that will be a great partnership for us with Workday and really leveraging those partnerships, we agree. I mean certainly we think cloud migration and this notion of virtualization as we talked about; resilience is really going to be where a lot of big folks will come from in the not-too-distant future.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, just talking about the delivery side of this equation; obviously, as COVID-19 is spreading in India, could you remind us about the changes you've made in your delivery over the last few months? What percentage of your fulfillment is now work from home enabled? What are you doing for your employees and your clients in India in this crisis?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So not just in India but around the world, the vast majority of our people are working from home. In India we have nobody doing client-facing work really in any of our facilities. It's all work from home. The only folks who are in our facilities today are some of our internal IT support and security and so forth that keep the buildings running. And that's true in the Philippines. That's true in India and nearly most of our delivery centers around the world. In the US and in Europe, we have a few folks who are working in client locations because of the type of work they do. They needed to remain in the client location. We have a few clients that are asking to bring people back to work in the country, but at this point, we're not anticipating a rush back into the delivery centers in India. We will start to pilot some return to work on a very, very small scale and in one or two of our centers in India in the coming weeks, but we do not expect to have everybody in the centers at any time in the near future. We will continue to have those folks work from home.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And then, Karen, just taking a step back. Can you compare and contrast a potential downturn not just what we are seeing right now? Potentially COVID-19 triggered downturn now versus what happened back in 2008-2009 because as you can imagine, this was one of the tough questions that the investors are trying to figure out because obviously there's many differences. We have talked about it a couple of weeks ago. You no longer have offshoring as a secular growth driver. There's probably less cushion from margins, but then on the flipside, digital is a driver of growth. Financial service is not on the frontlines this time. So what should investors keep in mind?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I think that's a real key to this, is financial services because as you said in the last recession that a lot of it was about financial services and the banks were under a lot of pressure, money dried up and so forth. This time, I think obviously the financial institutions are in better shape. The governments are supporting the economy more rapidly. And so access to capital has not really been an issue at this time for most organizations. And so, certainly the behavior that we're seeing from clients is that desire to really protect the transformation work. That agenda seems to be – and I think [indiscernible] (00:16:08) more critical to clients now than it was 10 years ago. 10 years ago it really was about the cost cutting, and as you said you could drive a lot of work offshore. There were lots of levers. A lot of those levers still exist today. And so when we think about clients who are looking on the cost side of the business, there are a lot of opportunities for vendor consolidation.

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We're seeing a lot of clients say I don't want to run my captive anymore. Can you come and take my captive over? So there're still a lot of opportunities on the cost side of business to help clients, but it's really then about how do they take those savings and continue to protect that digital transformation investment that we're seeing. It is really quite different than what we saw 10-12 years ago. It's still a question in my mind, if this becomes a prolonged recession, what does happen to the financial institutions and the capital markets and does that have different impacts than what we're seeing today, but certainly right now, it feels very different than it did last time.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And Karen, let's talk about Cognizant's turnaround journey. It's been more than a year since Brian became CEO. I know it's been a very busy last 12 months for Cognizant. Looking back at the last year, what are some of the key changes you and Brian have put in place to put Cognizant back in a growth trajectory?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I think first and foremost is the energy in getting everybody focused back on our clients which is what this company has done best. And so making sure that people across the board are out in front of clients every day, and even though now it's virtually we're still doing client meetings and client sales calls and so forth of engaging with clients proactively and really keeping people focused on that. As he talked about when he joined – unfortunately, he had gone to see several clients where he didn't feel like the executive team or other leaders in the company had really been out in front of our clients enough for really showcasing what the organization can do for our clients. So that's been a big focus. And I think with some of the leadership changes we made last year, in particular in some of the North America changes [indiscernible] (00:18:31) North America. We've got new leadership in many of our businesses in North America, has really reenergized the teams and we've been able to make some great internal promotions where folks have really taken up such as our health care business where we have an internal promotion even as difficult as our retail and travel and hospitality businesses there. We have an internal promotion there and that team has been doing great as well as our communications and tech businesses.

So, lots of great stories coming about from that and you could really feel that energy, I think, in the company particularly in Q1. And then as we got into the COVID situation in April, Cognizant did what it does best which is it rallies around the crisis. And the energy and the passion coming from our teams during that first couple of weeks of trying to get everybody set up to work from home and really getting our teams to do whatever they could do to support clients through this time, it's just amazing to see. And certainly as we closed out March revenue the March revenue and into the first part of the second quarter, the performance of the company certainly was better than we might have hoped for going into this. So it's been great to see that energy level.

I think at the same time I think we've also gotten more disciplined on the cost side. And I think importantly really thinking about the bifurcation in the types of services we offer. So, we've been so fortunate over the years to be such a high growth company and we didn't have to really necessarily think about whether we were going to invest in one business versus the other because we had enough funding to invest in everybody, but at this scale and when you have businesses that are at different growth rates and different margin profiles with more mature businesses versus less mature businesses, we have to be more thoughtful about where we send our dollars where we want to make investments. So I think we've been able to bring some of that rigor and discipline to the company at the same time as we continue to invest for growth.

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Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen [indiscernible] (00:20:48) lot of really good points there and I want to zoom in on some of those. So, one of the two most critical aspects of Cognizant's turnaround are pivot towards digital and also at the same time optimizing the cost structure. So starting with digital and we kind of touched upon that a little bit earlier, but can you talk about Cognizant's digital capabilities holistically as they stand today. How have they changed over the last few years and how does that compare versus your peers and more broadly how does path to accelerate the digital growth look like for Cognizant?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

So I think if we go back, we were really one of the initial companies to start talking about digital SMAC back in the day and then Horizon 1, 2 and 3 businesses. So I think they really coined a lot of that. So I do think we got an early head start. I think so particularly in the last, call it 12 to 15 months; I think we've done a better job of focusing in on what are the areas of digital we want to be strong in. And while you need to play across the board, obviously I think each firm will have its own strengths and for us we've chosen to focus a lot on digital engineering and analytics and cloud and core modernization and so forth while we'll continue to have a strong interactive business that is not necessarily just the primary focus of our investments. So I think we've done a better job of thinking about that and building out those capabilities both organically and inorganically.

I think we've also done a much better job in the last year or so building out partnerships; so with SaaS providers and other cloud providers and really having those strong engagements and relationships and getting their support to help grow our business which is important, and partnerships wasn't always a really strong point for us. But I think that is something that as soon as Brian came on board, he realized the need for that. He came from a strong alliance and partnership background. And so, we've worked very quickly to put a lot of that in place. And so I think when we look at some of the parts of our digital practice, we are one of the top couple of firms in that space and we do think that coming out of this downturn, this will be the driver of growth. I have to say that other parts of the business will grow, but in terms of where we expect meaningful growth to come from it will be from our digital businesses and we will continue to drive investment there both organically and inorganically in the coming months and quarters.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And again you touched upon the cost structure. Your cost structure today is higher versus your peers. And this is something you and Brian have also highlighted. Why is that and what does the journey look like for optimizing the cost structure for Cognizant?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So I think it depends which peers you're obviously comparing to. So I think it's fair to say that our cost structure is higher than some of the India pure-plays or India players rather. When you look at some of the other firms, look at Accenture and then even some of the more pure play digital firms, the digital engineering firms and so forth, their margins are actually lower than ours. So I do think it's a balance and I do think it matters where you're playing in the space. I think when we look at the sort of heritage Cognizant business and this was a core legacy IT business, we do know that our delivery structure was more extensive there. It always was and that was by design in the early days of the company. When we think back to the days when we were targeting a 19% to

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20% operating margin, we intentionally had a higher cost structure than the competitors which allowed us to grow faster than the marketplace.

Now, as that business has matured, let's say, that, yeah, there's a need for less investment than it did, say, 5, 10 years ago. I think that's the pivot we have to make is how do we think about that cost structure on that part of the business differently. And I'm not sure we'll ever get to the levels of a [ph] TCS (00:25:24). They do a remarkable job on that and driving margins. But certainly, we know that we can deliver those services at a more effective cost and ultimately price point with clients, so that you can compete effectively in that business and that's what we've been working on certainly for the last year or so.

At the same time, you do want to continue to increase the investments on the digital side of the business. Digital in and of itself is a very high value business and we've got great pricing in that market and it can drive great margins, but it is still very much in an investment phase particularly with the acquisitions and so forth that we're bringing in, we do need to make sure that we can free up some costs from the other parts of the business to fund that.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, can you talk about the employee morale as you navigate Cognizant through this crisis, as well as it turnaround. How do you attract and retain talent in this environment?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

So I think a lot of it was getting the energy back into the company. So, certainly attrition has been higher than it historically had run and voluntary attrition – both voluntary and involuntary, obviously in voluntary, we were pushing, but voluntary had been a little bit higher. I think part of it is the market. So certainly before COVID, right, we were in a very hot job market around the world, and particularly in India, [indiscernible] (00:26:51) our largest people bases, the market in India is vastly different than it was a few years ago.

A few years ago, really firms like ourselves or the market in the India and that's where all the young engineers wanted to come to work. They would then get an opportunity to go on site whether it'd be US or Europe, work with clients and so forth. And it was a great vision for employees.

As the market in India has changed and now have a lot more captives in India, all the big tech companies have moved into India, the banks have moved into India, you have a lot of startups now in India that didn't really exist at the same level that they do now. And so, the market for talent in India is much different than it was a few years ago and folks who come to a firm whether it be Cognizant, Infosys, TCS, Accenture in India get this great training background and then they're doing these wonderful opportunities to potentially go and join other firms which didn't exist before.

So, I think certainly it's fair to say that unless there's a big change in the market, attrition for that purpose will probably stay a little bit high now it's slowed down considerably obviously of COVID but if we were still on a normal economy, I think we would continue to see some fairly high voluntary attrition.

The flipside is though we are really focused on getting the company back to growth. There is a certain amount of energy that has come back to the organization. We certainly went through a lot of change last year and we're still going through some of that. Any big transformation program doesn't happen overnight. But as we bring new talent in, as we bring in some of the new sales team, some of the leadership that Brian has brought in, they bring a

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wealth of experience to us and you can really start to see those teams starting to settle in and become part of a fabric of the company and getting off to a strong start in the first quarter certainly helped with that.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, one of the most encouraging aspects coming out of the first quarter earnings call was these win rates improving considerably. Can you talk – can you give a little bit more color on where are you seeing those win rates in terms of the workloads, verticals, geos, where are you seeing that?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yes. So we saw strong growth across the industries. We saw that really nice balance of particularly strong growth in digital as well as in some of the core IT work, very good growth in North America as well as some of the growth markets. But I think North America was the piece that we really needed to reaccelerate, in many ways obviously such a big piece – all of our healthcare business is in North America, and such a big piece of our banking and insurance businesses are there as well. And so it's important to really get those markets back on a growth trajectory.

And as we looked at the pipeline and the wins that we had in Q1, it really was across the spectrum, particularly strong in healthcare which is great to see. And our healthcare business, as we know, has been struggling a little bit the last couple of years. And with the new leadership we've put in there and the energy that that team has put into being back on the road, getting in front of clients and making sure that we've got the right solutions to deliver to clients, they're very quickly starting to see a nice turn around there, so that was particularly exciting and encouraging to see and great for that team. But the strength is really across the board and that's what was great. Really you could feel this great sense of energy and passion across the board and a lot of opportunity to celebrate.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And, Karen, Brian had talked about this difference which had emerged over the last few years in terms of the true capabilities of Cognizant and clients' perception of it. Do you think that in some of your core verticals you're seeing evidence that some of this energy is starting to come back, that client perception is starting to change?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

I do. We really have seen a marked turnaround in some of our client conversations. And the notion that we do have solutions that we can bring to bear upon clients and making sure that the sales teams and our client partners have the confidence to go into clients and deliver these opportunities and to make sure that they were bringing in the talent from around the company to do that. And a lot of that was some of it was comp changes obviously we've put in place, but those are recent. The comp changes are really a 2020 initiative, but it was really about making sure that our teams are working together and just opening up the doors to each other. We have become probably a little bit too siloed and we're a matrix organization and so by definition, those could be hard. But I think putting the right leaders in place who are much more open to collaboration and bringing teams in and Brian leading by example frankly.

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He spent the vast majority of his time until the middle of March on a plane not just every week and but almost every day. I think he was really out there helping teams and sort of leading by example and encouraging them to get reengaged.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And Karen, just switching gears a little bit. Over the last few years, Cognizant had a little bit of volatility in its financial performance relative to its guidance and I know there's a lot of factors there especially with regards to your concentration in financial service and healthcare where just a few clients could really impact your financial performance. But more broadly, has your guidance and forecasting framework changed under Brian's leadership?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

It's necessarily changed. Certainly, Brian is a believer of beat in race is a philosophy and certainly always make sure we guide to something that we think we can achieve. And so, we certainly have tried to make sure that we do that in the last few quarters, but it is somewhat of a science, but there's a lot of art as well in forecasting particularly when you're at a time like this where things are moving so quickly, but I think it really is about making sure we get the energy back and setting targets and creating an environment where the team could be successful.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And Karen, let's zoom in on your two key verticals, Financial Services and Healthcare. Starting with Financial Services, can you talk about the structural dynamics there? It was a growth vector many years ago because of the secular shift towards offshoring and – but also there's compliance related spend. But now, this vertical is not just weak for Cognizant, weak for almost everybody. So – and does Financial Services so important for Cognizant, what is the strategy to accelerate the growth here?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

I think I would break banking and insurance into separate pieces because, to your point, net banking across the board, it is a much more mature industry for the services players. And I think everybody has struggled a little bit with growth in banking. I do think certainly for us, that has been focused on a handful of clients. And so, certainly as we look to build out the rest of the portfolio, there are still a number of banks around the world that are not part of – certainly part of our business and part of our model. We did – we've done some nice work with smaller regional banks in the US and that was certainly a good driver of growth. And I would assume we'll continue to be, but there's still pockets of those institutions that are really not in the market yet.

I think as we look into other geographies, I think there's a geographic expansion in Financial Services. But I do think it is a different footprint and certainly, I wouldn't expect it to get back to the growth that it had several years ago, if it does, that's wonderful, but I'm not banking on that right now, no pun intended. But as I think about insurance, we are seeing a lot of traction in insurance particularly around captives and some bigger transformation deals in insurance space. So I do think that has the potential to be a bigger opportunity in the short-term than seeing a lot of growth in the banking side.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

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And on the Healthcare side, the last year or so has been weak because of M&A happening in Healthcare, there's also political uncertainty. How should we think about the long-term growth potential in Healthcare for Cognizant?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So again, I'd separate life sciences in Healthcare but life sciences is doing quite well. Obviously some impact with COVID on certain life sciences' clients particularly those in the elective surgery space as we talked about. But other parts of life sciences continuing to do very well and we're really excited about some of the investments we've made in life sciences both in the platforms and then more recently last year with the Zenith acquisition in the IoT space for life sciences manufacturing. So I think that will continue to be a nice driver of growth for us.

More recently with healthcare, as you said, healthcare was impacted by acquisitions and lots of different things. I think we've lapped the acquisition impact at this point. So again, barring the COVD situation I think we will have seen some much better performance in Q2, all else being equal, just because of lapping the acquisitions and the impact of client building out a captive last year. But at the same time we've seen very nice recent wins in Healthcare across the spectrum, so both with some of our larger existing clients as well as starting to expand the footprints beyond that core group of clients.

And we have a real strength in Healthcare on the back of the TriZetto acquisition. There's a lot of things we can do in Healthcare in terms of delivering real solutions to the Healthcare industry. As I mentioned with the leadership change, we've made in that practice recently that team has really been out working with clients on building out solutions that they know clients are looking for that we can take to market using the experience we have with TriZetto, with the product side of the business.

So, I'm actually – I've always been bullish on our Healthcare business, despite its troubles over the last few years. I think there is and will continue to be a big opportunity there over the next couple of years.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen, you have accelerated M&A as you pivot towards digital over the last year or so. How should investors monitor the success for – of M&A for Cognizant? Especially, because M&A is such a wildcard in IT services more broadly, it has worked really well for some of your peers, but for some of your peers it hasn't.

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. Look, in this business, it's a people business. So, when you're looking at acquisitions, the why that really does come down to the people and can you integrate that acquisition effectively into your culture? When we do acquisitions, we are doing acquisitions to drive growth. And our intent is that we are able to help the acquired company grow faster, and they are able to help us grow faster in the space that they are in. And it's always comes down to a build versus buy decision.

And so, with the acquisitions, we're looking to really attain talent first and foremost. And so, we spend a lot of time thinking about that cultural fit with the talent. And it doesn't always mean that we're going to impose the guidance and culture on the acquisition a lot of times, particularly with the digital acquisitions. We're looking to take some of their culture and bring it to Cognizant in terms of how we think about work and engagement with employees and clients and so forth. But is there a good fit there between the two organizations where we know we can

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synergistically come together to make us better as a whole? And that's really the key for us when we think about these.

Also, when you're buying smaller companies, which just tends to be more of the acquisitions in our industry, we also assume that these are founder-led companies, the founder themselves hopefully is a true entrepreneur and will probably need to go do their next deal. And so you're looking at that next layer of management and those are the folks who are really going to be able to grow with our organization and to sustain the value from the acquisition. So there's a lot of things that go into looking at these deals and which ones will make sense and which ones won't.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And just switching gears a little bit, Karen, one of the most frequently asked questions I receive in Cognizant is balancing revenue growth with profitability. Can you have both, especially with this urgent need for reinvestment in the business?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

So, I think it's a balance, I mean we have to make decisions, but I think, first and foremost, this is still a growth market particularly when we think about digital. And so you want to make sure that you [indiscernible] (00:40:50) to take advantage of that and to gain market share, which is certainly our first priority.

I think you can manage to a balance of reasonable margins, so I don't intend in any way to suggest that we will get to mid-20% on the margins. That's not our intention, certainly not when we see this kind of opportunity for growth over the next few years. But I think it's possible to have reasonable margins and also drive strong growth and certainly better growth than we've had last year.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And let's talk about the recent ransomware attack, Karen. I think it was a very thoughtful color you gave at the earnings call around the near-term impact that you foresee, what's the long-term impact that we can expect from this? You talked about so the legal and security cost at the remainder of the year but there's any impact in reputational damage or litigation compliance that we should think about?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I think it's early to say on that. Clearly, our focus first and foremost was to bring all of our systems back up and ensure that we were able to support the clients that we have today, which we have been able to do. Certainly as I think about the pipeline of deals right now, it continues to be strong. We've had one or two companies that were concerned about proposals, RFPs that they had underway, but as far as I know, they've all agreed to keep us in the process. They may choose to go with us or not down the road I think that's early to be seen. It's likely there could be some reputational damage, but at this point we haven't really seen any significant evidence of that.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And then, Karen, we talked about many different aspects of turnaround for Cognizant. What do you think more broadly the biggest risk as you execute your growth plan over the next few years?

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Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

We're making big bets in areas that we believe are relevant to clients' agenda and I think making sure we continue to invest enough in those areas of focus for us, that we stay in touch with clients, right. First and foremost, we can't presume we know what's on clients' minds unless we're out talking to clients. And so, I think always engaging with clients and partners in those conversations about where are we investing, what are the solutions that we are planning to build to bring to market is really key making sure we have access to the right talent. And that our folks on the ground or our sales teams, our client partners who are really on frontline with our clients have the skillset they need to have the business conversations which is most important today. Right?

While technology is a component of the solution, first and foremost these are business problems that our clients are trying to solve. And so, if we don't have the right relationships within the senior ranks of our clients and have people who have they believe they have the right business conversations, then obviously, it's harder to get a seat at the table. So those are all things we're very aware of and have been focused on investing in. But I think that's where we need to keep our focus at all times.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And then what aspects about Cognizant's business do you think Karen is the most underappreciated by investors right now?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

I think certainly some of our digital capability. And the innovation that our teams are able to drive and I don't think that's just an issue with investors. I think that was an issue with clients that Brian realized when he came in. That we had all this great work going on but we weren't doing a great job of showcasing it to clients. So I think first and foremost, it's been that.

I also think there is – it's just such a sense of this company when it's faced with a challenge being able to come together to overcome. And we've seen this time and time again whenever there is, when I call real challenges in the world, so whether it was the Chennai floods back in 2015 or the COVID situation and even the ransomware situation where this team and our – particularly our account teams just never lose sight of our customers.

And that our job is to be here to serve and help our customers and the passion and the energy and the collaboration that comes together when we're faced with the challenge until you see it, I don't think people can really appreciate it. But it's really quite remarkable to watch when it comes into action.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Karen we are almost running out of time, so my final question for you is, as you think through and beyond this pandemic, how do you expect your priorities to shift, especially as this relates to cutting costs or increasing levels of investments?

Karen Anne McLoughlin
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So I think we really want to protect the investments we're making. So both inorganic and organic acquisitions or investments, we are continuing with the sales hiring that we had underway in the beginning of the

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quarter. As we talked about on our earnings call, we will protect digital resources so even if for some reason we have digital talent that becomes unutilized during this timeframe assuming that they have the right skills and capabilities and so forth, we will protect that talent for the recovery.

On the cost side of the business, we are continuing with our Fit for Growth program and as we have said most of those resources would be exited by the middle of the year, we're still on track for that, lost a little bit of time in April, but we think we're still generally on track with that timing. And then if the bench grows beyond the levels that we think are reasonable for maintaining the utilization rates and what we see in terms of the demand environment, as we said, we will manage the bench. We've put in place some voluntary programs for folks who come to the bench. We do have a voluntary separation package that people can avail of it if they want to or if they could stay on the bench and follow the normal bench policies. But that's really focused on skills that we think are fairly recently and easy to replace in the marketplace.

So, for skills that are harder to find in the marketplace, we'll retain that talent as best we can. But there are certain skills in the market that, we all understand, are easier to find at any point in time. And so, those are the folks that would be on the bench.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

I think that's about all the time we have. For those of you, who are listening in, please complete the Prosensus poll and [ph] you'll have (00:48:18) immediate access to the poll results. And thank you very much, Karen for the great discussion today. Thank you everyone for listening in.

Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

Thank you very much. Take care.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

Thank you.

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