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Cognizant Technology Solutions Corp.

(CTSH)

Citi Global Technology Conference

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CORPORATE PARTICIPANTS

Brian J. Humphries
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Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

MANAGEMENT DISCUSSION SECTION

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Think we can start. Brian, are you there?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Yeah. Good morning.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Okay. Good morning. Good morning and thank you for doing this. So, let's just kick off. Everyone, thanks for being on. I'm Ashwin Shirvaikar. I'm Citi's payments processors and IT services analyst and the covering analyst for Cognizant, which is next up on the agenda. From Cognizant, we are fortunate to have Brian Humphries, CEO, and a very busy CEO, [ph] at that (00:00:39) with all these acquisitions and stuff that you've been doing that we hope to get into.

One quick logistical comment during the course of this if you have a burning question that you want me to ask, just email, there should be an email list, my email, as well as Ryan Potter on my team. His email should appear on the screen, you can just email the questions to us and we will try and incorporate them into our questions stream. With that, let's kick off.

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QUESTION AND ANSWER SECTION

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Brian, thank you very much for doing this. Let me start off with a year ago when we spoke at this conference, you had just announced the transformation office, it was a few months old, fit for growth initiative had just been announced. Can you talk through the main elements of the plan, where have you done well, where has performance either been lacking or you've just not got to it. And what's next on the agenda?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. So, well, first of all, thanks for having me. Yes, it's been a very busy 16 months. And last April or May we announced the transformation office and there were six elements of that. First of all, strategically who are we, what are we trying to become, what do we need to accelerate, are there elements of the portfolio we should exit including. As an example, we took the decision to exit content moderation. Strategically, of course, we decided to double down on accelerating our digital portfolio. And then we've done a lot of M&A, to your point.

The second piece related to commercial transformation, that involved better leveraging the partnership ecosystem, changing our customer segmentation model, upgrading our client partners who are at the tip of the spear for us, changing the sales force compensation and, indeed, adding 500 revenue generating resources. And all of that was with a view to kickstarting the revenue growth story. That needed to be fueled by investments and in order to get investments into commercial transformation we needed to find efficiencies. There were two areas that we look towards. One was delivery transformation which was a lot around pyramid automation, et cetera. And then the second piece was fit for growth, which was a lot around restructuring program and making sure that we have the right systems, tools and capabilities and cost structure to invest in growth and to be cost competitive. And then we had a work stream around our structure and, of course, a work stream around talent and culture. And I was running all of that, Ashwin, as soon as you can imagine change management was essential because this is a knowledge-based business.

So, one year on or a little bit beyond that, where are we? Look, I feel really pleased with the progress we've made. We had a lot of balls in the air in the first year. And in addition to that, we had a series of leadership changes and then we had some exogenous events that came into play, both a global pandemic as well as a ransomware attack on Cognizant, and I really feel as though we've made great progress against it. Our people scores, now we do an annual people engagement survey and we've just completed that in the last two months. We're at multi-year highs and actually above the industry benchmarks which is, of course, a very good data point for us knowing that we needed to win over the hearts and minds of employees as we are doing this.

In terms of execution, the transformation office I feel is 100% on track. There are certain things where of course, with COVID, the cost structure we have to go deeper because revenue as an industry, instead of growing 5%, 6%, was assumed to decline 5% or 6%, so, a 12-point swing. And accordingly, CFOs and CEOs need to change their cost structure in light of that. And as you know, we're regaining share again and becoming much more competitive. But maybe I should also illustrate that elements here sometimes take multiple years to get right. Let me compare and contrast a few things.

The commercial transformation required about six months of work around customer segmentation and sales compensation models and then we implemented this on January 1. The restructuring program was also

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implemented in Q3 2019. So, those are quick things to get done. However, at the end of every year, you will also continue to tweak sales compensation and you'll continue to upgrade your client partner teams. And that's the same as the talent or cultural elements. It is a series of years before you ultimately optimize your talent pyramid. So, Ashwin, if I take you, we put you in a role, you excel, we promote you again, if you excel again two years later we put you in a bigger role. If you take [ph] somebody called Brian (00:05:39) and put him in a role and he fails and you remove him from that role, put him in another role, if they fail twice, you should probably remove them from the company [indiscernible] (00:05:47) you have multiple placements and promotions that take time to flow through the system before you truly understand who your top talent is in various circumstances. So, good progress. Certain things triggered, everything well underway, but certain things will take longer to play out than others.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Right, right. And then the last part of that was, does fit for growth itself, as a program, does it evolve? What's next on the agenda? Is there a fit for growth 2.0 so to speak?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Well, listen, I think we're very much focused now on our clients and executing our strategy. I think it's important for any company to optimize their cost structure and keep it efficient and lean, but in the same way and as I always said I like to differentiate between a cost and an investment. So, right now our focus is on executing our strategy and of course we've been dealing with COVID just as the rest of the industry has. As long as we stay focused on our strategy and our clients, in my mind we will grow faster.

We've got three major initiatives underway which are not mutually exclusive with the transformation office. They are linked inherently to the actions we talked about already. One is to accelerate digital. As you saw, bookings are strong year-to-date for the first half of the year up almost 50%; revenue growth, up 15%; revenue mix now at 42% of the company. But accelerating digital is much more to the slide, it's all around talent, it's about portfolio capabilities we have, it's about organic investments as well as inorganic investments. It's around brand attributes. So, a very comprehensive program behind that.

Second major program around globalizing Cognizant which goes well beyond our revenue mix. Today, 75%-plus of our revenue is in North America. We naturally want to penetrate global markets more aggressively. We have two little coverage in those overseas markets. Therefore, it creates a huge opportunity for us because we are not saturated in those markets. Globalizing Cognizant also means a more global brand, a more global and diverse leadership team, as well as from a delivery point of view, much more of a global delivery network and we've made some appointments and announcements on that in recent months.

And then the third major theme that we're working on all within the construct of executing against our strategy is increasing our relevance to clients. That is a lot about continuing to fine-tune our understanding of the pain points by C-suite, by industry. It's a lot about continuing to evolve our solution portfolio to address those pain points and our partnership ecosystem to enable us to go-to-market jointly. But it's also about us evolving from rate card type work to more selling a Cognizant offering that aligns to a client need or a client desired outcome. And if we get all of those things right, our relevance to clients will be greater even than it has been historically.

Brand is permeating all of this. We've done a lot of work, Ashwin, in our brand in recent months. We've broken down our brand attributes. It's kind of interesting, we're neither perceived as an American company nor an Indian company nor a global company. And that's why you're going to see us roll out a pretty comprehensive injection of

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branding and marketing into the company in the coming years because as a percentage of revenue, our brand spend has been much lower than the industry norm.

Generally, now we're in the mode of executing. Our leadership team is more settled. I firmly believe it's stronger than it was a year ago and actually we'll bolster that further with hopefully two announcements that we'll announce in the coming four to six weeks, which will include us announcing the new leader for Global Growth Markets and indeed a new Chairman and Managing Director of India, which is the – an appointment I wanted to make. We wanted to upgrade that role and put somebody of the caliber of an EC level person to be the Head of India and that's what we'll announce imminently.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Understood. So, in terms of the actual execution of this, maybe let's start at the top of the funnel. Let's start with bookings. And booking's not necessarily a metric that Cognizant has historically shared for many years, it's relatively new metric. So, perhaps we can start with defining what goes into bookings just to make sure that we kind of level set, does it have renewals, does it include – is it TCV or annualized, is it M&A, is M&A in there and then while bookings have been solid recently has your win rate actually improved [indiscernible] (00:10:41)...

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah, let's get everybody in line on vernacular, because I myself used to call bookings TCV, but I've been convinced by our SEC reporting team, I should call it bookings. So, that's the [indiscernible] (00:10:49). But bookings, in essence, refer to the total life time value of new contracts plus renewals and expansions. Annualized value of a contract or ACV is, if contract is greater than 12 months, then you – ACV is the equal to 12 months of the value. And then maybe there is even another term we should familiarize ourself, which is in-year revenue and that is of course calculated based on the remaining months of a fiscal year when a contract starts.

So, let me make this really simple so we can all be very clear in our heads and if only the world was this simple, but imagine a scenario where we were performing a service for a client and we sold a contract over 24 months at $1 million per month and we started that in July 1, and we were able to rev rec as of the month of July, TCV would be $24 million, ACV would be $12 million and annual or in-year revenue would be $6 million in that illustrated example I gave you. Now, of course, the next obvious question is when does the booking show up in revenue? It's obviously the question I'm also putting pressure on my team to see in forecast reviews. Naturally, the timing of the conversion of bookings to revenue will vary based on a number of factors. It could be service line, it could be customer behavior, it could be the market backdrop and, as you know, today with COVID the timelines are more challenging. But I actually do feel is that we've made huge progress in that and some of that has been fueled by just much more client centricity and a tone from the top starting with myself and expectations of our leadership team to be in front of clients every single day as well as a big push towards digital and a big push naturally towards international markets. So, hopefully, we'll see this show up in the foreseeable future.

I kind of view it in the same way now and however as this is a growth company. We had grown enormously relative to market for the first two decades. Maybe in the last three years or so we had not been hitting our stride and to use an analogy of a Lake in California for instance it had been [ph] a few drought year as we (00:13:00) hadn't really replenished it at the level we might have, so, the backlog was burning down. Think of this now as a few very heavy winter showers and the more quarters we have with strong bookings, naturally the reservoir will be replenished and you'll see that show up in the goodness of revenue.

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Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Understood. Understood. And so, some of increase in bookings is getting those 500 extra sales people, some of it is improving capabilities, so your win rate actually improves. At the current time, what's the bigger contributor so to speak and in situations – so, you're win rate actually going up in situations where you don't win, what your clients tell you, where do you think you need to be?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Well, first of all, I think our win rate – well, I know our win rates [ph] are up (00:13:54) actually against both Indian pure plays as well as western competitors and that's expected of me because we were too low. But also, you need to understand we are actually investing in growth. We're hiring, to your point, 500 revenue generating resources. We are overhauling our commercial organization in a form of a multiyear transformation [ph] line behind (00:14:14) sales compensation partnership customer segmentation. So, I feel good about that.

And I also think we are benefiting from a few other trends in the markets. Digital is a natural growth driver in the market and we have massively embraced that even more than ever in the last 18 months. And I actually think our portfolio is one of the few – we are now one of the few players in the industry where we can actually benefit, if you will, in the form of fly wheel from our legacy or indeed our new. We can modernize with our traditional offerings at portfolio and the legacy tech stack that will free up efficiencies and the branding and the greater client partner capabilities we have in place will allow us in the future to better capture the efficiencies which are being used to fuel digital transformation and to make sure that as we are allowing a client to save in one hand, we are also capturing the spend that they are making on the other hand. And that's been a very deliberate strategy of ours.

And secondarily, we can also come into clients leading with a business value, leading with digital and, ultimately, if you lead with a value or a client outcome that's enabled by experience, it's powered by software product engineering, fueled by intelligence on the back of data and data modernization, all that will fundamentally run in a modern cloud-based platform which will pull through our legacy and that's the strategic posture we're putting forward. We'll have multiple on ramps and certainly pure play companies will not be able to do that. Some integrated companies have been able to do that but they have had less competition from Cognizant historically than they will in the future.

So, look, we're growing and I would also argue part of our core value proposition has been our delivery satisfaction where historically we have always landed and expanded and mined accounts. [ph] When we lose deals look as ever, (00:16:03) sometimes pricing gets to a level that frankly I'm not comfortable with. We're not trying to rent market share. I would rather have viable relationships that last over multiple years where there is a win-win for the client as well as for Cognizant. And sometimes, candidly, we're not even at the table because people haven't been fully aware of our digital capabilities and we have been playing, historically, maybe more into build or operate space and that's why we've been very adamant to build out our digital portfolio. You've seen us turn to the balance sheet to accelerate that and you'll see us launch a different brand campaign in the foreseeable future here as well to building those capabilities whilst also building out much more consultative capabilities at our client partner level.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

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Right, right. So, this next question might head into the accelerating digital that you spoke of and also take from the last response. One of the success factor that I tend to always look for in a company is the ability to sell, sole sourced deals as opposed to just responding to RFPs. Where does Cognizant stand today on that metric?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Look, like every company we have both sole sourced deals as well as other deals that go into RFP. The more we can lead with a consultative sale, the more we can lead with problem solving to clients outcome or desired outcomes, the more we'll be able to shape deals in our favor and potentially even keep them from going to an RFP. But our win rate, overall, as you know and as you've rightly pointed out has been increasing across the board, so I don't have a number in my head in terms of what percentage of our business is sole sourced or otherwise, but we're winning more than our fair share these days.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Okay. And many investors kind of have this view in their mind that the growth rate at Cognizant – and it is not a wrong point of view, the growth rate at Cognizant can only improve if you fundamentally improve with financial services and healthcare in spite of what you're doing to globalize and to get into newer markets those are still very important. So, could you kind of take a verticalized look and tell us where you're putting in these resources and where the response has been best?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. Well, look, factually it's correct. Financial services and healthcare are 63% of Cognizant. So, we will live or die [indiscernible] (00:18:42) impact on a macro level people talked about certain verticals like retail, consumer goods, travel and hospitality in the vein of COVID and we benefited in those verticals because we have less exposure to those verticals than most of peers.

On the contrary our heaviest exposure was in financial services and healthcare and they were exposed more to the ransomware attack because they are heavily regulated industries. So, we actually took a bigger hit on those than perhaps others, but less of a hit because of our mix on the so called industries impacted by COVID. I would say the way I think about financial services is it remains somewhat challenged I think for the general industry, but for Cognizant as well because we have some self-inflicted wounds. I'm anticipating it will grow below company average for the next several quarters. Insurance has been volatile for us over the last few years, especially in North America, but bookings year-to-date have been extremely strong and the pipeline was strong and there are certainly some nice captive opportunities for us.

In banking, on a macro level, payments and capital markets have been weak. Retail and commercial banking have been growing. And look, we have a big effort underway to accelerate more with client partner upgrades to push into regional banks. I'm going to note today one of our regional banks, for the first time, has surpassed $100 million per annum, well ahead of plan for the year, better account planning, pulling through digital. And so, we have big efforts both on the let's say Tier 1 banks where we have some accounts that we have not broken into in recent years. But we have big efforts underway right now. And some of our competitors make $200 million, $300 million, $400 million in those banks. So, I'm not saying we have to win $400 million, but if we get any inroads into those, you will see a major share momentum change. But nonetheless, I'm still cautious around financial services in the foreseeable future.

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On healthcare, I'm actually quite optimistic. We're a healthcare business. We've got [ph] care provider (00:20:40) and, of course, the TriZetto business that was acquired quite a few years ago at this stage. I don't think the TriZetto business has performed per business plan at the time of the acquisition. But we've rolled our sleeves up a lot on that in the last year and actually we're now starting to see some really strong momentum on the license side, on the new logo side as well as in a more broad let's say non-product side of the business. Our bookings and our pipeline in healthcare has been very, very strong this year. Last year we suffered from four large clients that merged into two, but those accounts are now growing again on a year-over-year basis. So, I'm actually more optimistic around healthcare and I'm feeling good about the momentum we have there at this moment in time.

The other portions of our portfolio within healthcare, we also life sciences. That's a gem in Cognizant. I'm delighted with the performance there. Both healthcare and life sciences by the way are led by people we promoted in the last year into those roles and they're doing a great job. And then we're actually also performing well in communications, media and technology. That has been pulled down a little bit by exiting a subset of content moderation, but generally that business is performing well for us as well.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay, okay. No, those are really good updates. Appreciate that. Just a quick clarification, you mentioned pipeline. Did your pipeline also grow in spite of the good bookings or did you draw down?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

No. Actually, our backlog and our pipeline grew in year-to-date, actually our qualified pipeline was up 15% last quarter. Now, of course, I also said we have strong momentum. So, the stronger bookings momentum you have the more you draw down on your pipeline. But backlog is a core metric as you pointed out and that has been building through 2020. So, I'm actually pleased with the second quarter but maybe not satisfied and I guess the way I'd qualify that [ph] quite pleased (00:22:40) well, we managed the here and now, we managed through COVID, we managed through a ransomware attack, we meaningfully beat Wall Street estimates and yet we invested in the business in the form of extra investments around security, around our commercial transformation , et cetera. We managed through leadership transitions and we build solid leading indicators for future simultaneously, backlog, pipeline and the win rates have been strong as have bookings.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Got it. Got it. I did get a question from an investor that I want to kind of ask, it does relate to demand and specifically within banking. In a continuing era of low interest rate environment, are we kind of past the mid to high growth potential for banking despite the tailwind from digital strength, trying to balance kind of the environment versus demand for digital...

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Right. Look, I think payments and capital markets are weak for us but retail and commercial banking have been growing for us, so it's almost a tail of two cities. Digital for us needs to be how – look, there's three or four major things we're trying to do, to be honest, to get banking back on track. One is to lead more with digital. We're in dialogue right now with one of the biggest banks in the world, a Tier 1 logo where we haven't really shown up in prior years and we're not leading with legacy, we're actually leading with digital and if we break into that, it will be a very strong proof point for us.

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Secondarily, we're actually building out our regional bank footprints. You've seen us maybe announce some wins there, but as I said earlier today, we have one bank that crossed $100 million for the year. So, that's something to, I would say, diversify our portfolio away from major banks towards. But simultaneously there are some of those major banks that even in the legacy business we haven't really challenged some of the competitors. And so, I'm not necessarily assuming that is a high growth market but there is a share swing opportunity for us to get after that. And personally, as a CEO, I'm involved in those transactions myself with a view to making sure we show up and give those banks optionality. All of those banks, of course, want to use – want to partner with Cognizant and we are customers of theirs. So, this is in the vein of creating shareholder value by doing business with people who do business with us.

Now, against that backdrop, of course, you need to have a world class client partner who is on those banks who's showing up, walking the corridors and who is fluent in both our legacy offerings but also in the new offerings around digital and we're quite pleased with the portfolio of acquisitions we've built out in the last year, new signature, collaborative solutions, 10th Magnitude, Tin Roof, more recently. A lot of these actually have strong presence in some of the biggest brands in the world and so we want to [ph] parley our way forward (00:25:34) with those capabilities as well.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Got it. Okay. Okay. I want to talk about capabilities and talent just a bit. By the way, protecting and helping your delivery employees in the pandemic I thought was the right thing to do. The quick question there is, has it helped with hiring and retention? You mentioned the survey that you annually do. Are there practical implications of that from a business or cost, employee sat perspective that you can share?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Well, what you're referring to I imagine is twofold. One, we gave a 25% increase to select associates in the month of April because they went well, above and beyond our normal let's say call of duty to ensure continuity of service for clients as we dealt with a massive shift to work from home in a global pandemic. And on top of that, we certainly protected our digital employee base during the pandemic because we know these are constrained assets and the talent that we need to keep on our books was the right thing to do for our employee base in both regards. But it was also the right thing to do for our clients and our clients have noticed that.

Is it helping? Yeah, I think it – of course it helps. But of course, employees want to work for a company that's growing. They want to work for a company that's winning. Very encouragingly for us as we continue to underscore our commitment to fresher hires on an annual basis, we are hiring 50 to 20,000 in India. Our acceptance rate remain best in industry in that category. And that's really a powerful testament to the Cognizant brand and the agenda we drove over the last 2.5 decades. Lateral hiring, acceptance rates have been lower but I think the more we started winning again in the market the more we'd be better able to attract talent.

And quite interestingly, actually, in the 500 head count that we're hiring in from a commercial point of view, we're having no difficulty getting good talent from other companies. And I'm even seeing now one year, 1.5 years almost into my tenure here in Cognizant, I'm getting more executive interest from competition who are seeing what we're doing, like what we were doing, like the fact we're investing in growth. I'll give you some examples. For instance, we've been upgrading our country leadership team around the world and we just hired the ex-CEO of GlobalLogic Europe to be our German CEO or our Australia and New Zealand business, we just hired a very strong female executive who ran a huge business in the Central Australia and more recently was in PWC to run

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Cognizant Australia and New Zealand. And those are good examples of people I dare say a year ago we might not have been able to attract, but actually I think there is a momentum swing towards Cognizant and at this moment in time.

And then we've made a huge effort as we've been transforming to put forward a point of view around why we exist and how we will measure ourselves, and we call that the Cognizant agenda. We've come up with a purpose statement and we've come up with a vision statement and a series of bold moves we need to make and the values that we will adhere to you as we're making those or the behaviors, if you will, that we will celebrate or tolerate. And it's kind of funny that that Cognizant agenda has really landed well in the company. We haven't had one of those previously and now I think employees know why we exist, what we're setting out to achieve, how we will measure ourself and the values have been refreshed. And most of those values are actually are consistent with traditional values of Cognizant and that's been very important over the years that as we are transitioning and saying we need to change, why do we need to change, why is it good for the company, why is it good for you, it's also important to have a common thread around things that we remain extremely loyal to and there are certain values that do not need to change. And so, I'm quite excited about our ability now to attract develop and retain employees and I was personally very motivated about the people engagement scores we saw.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Okay. Now taking that a step higher up, there has been a certain level of management turnover we see, headlines, I'm not necessarily always sure I should trust every headline I see it about management leaving but you've seen your fair share. Can you provide some context on the situation in the ground? Is it primarily sort of let me call it the old guard that's been leaving? How much of it has been voluntary versus involuntary? Is this something that concerns investors a lot because you don't want to see a steady stream of drumbeat of management leaving? So, can you provide maybe some comfort that the leadership team you have in place sticks?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. Well, first of all, I'm not here to tell you what to do or what not to do as an investor or potential investor. If I could make one – I would discourage anybody from making investment decisions based on Times of India, News Headlines, because [indiscernible] (00:30:51) Times of India. So, please bear that in mind. Let's go back to facts. Voluntary attrition is down four quarters in a row. People engagement scores show they're actually ahead of industry benchmarks and most engagement factors and we're at our highest level in multiple years. Most of the major changes are behind us. We're entering a period of what I would call, Ashwin, maybe business as usual executive changes rather than the acceleration you saw on the last year which was very much part of a transformation agenda. We're kind of now entering a phase that I would call the norm for a Fortune 200 type company. You will have retirements. You'll have some periodic upgrades, if people are underperforming. But the major transformation is behind us.

I think what you'll see periodically now is some of the people I brought in which I actually believe I now have a world class leadership team. I would challenge people to go head-to-head with my Chief People Officer, some of my service line leaders, my delivery leader, I think we have a world class team. And as you know we've just recently hired Jan our new CFO.

My sense is though you'll always have churn. And those strong leaders I brought in will naturally upgrade their teams behind them. But in the same vein, I also want to have a big shout out to the talent we have in Cognizant. My hope in the years ahead is as I am – as I am filling roles, you'll see us promote more internal people rather

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than going outside to the external market. The reason we've had to go out so often is because we needed to get some fresh ideas, get some fresh energy and stamina and candidly our talent management system wasn't as sophisticated as I would like it to be. And I believe in diversity and inclusion and meritocracy and those guardrails we are now putting in to make sure that in the future we'll actually be able to promote more people from inside the company.

There is nothing wrong with spending 10, 15, 20 years in Cognizant. If anything, what I wanted to make sure is those trajectory people who are in Cognizant have an opportunity to get to the top and maybe some of the middle management who've lost their motivation or optimism or their desire to see clients on a daily basis if they're in those kind of roles, we have to move those people aside. One of the great examples I would say in the last year and two of the promotions I'm most pleased with relate to our Head of Healthcare and our Head of Life Sciences, two individuals in the company who've been here for many, many years. We promoted them into leadership roles and they've grabbed the bull by the horns. They're doing a great job for us. And so, it doesn't have to be external hires. We will make sure that talent wins above all.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Got it. Got it. One other sort of relatively frequent question we get is sort of – there's a broad expectation amongst investors that what we have seen with the pandemic is going to potentially dramatically accelerate digital adoption, cloud transformation, so on and so forth. The timing of that, the specific timing whether it's later part of this year, whether it heads into next year is less certain. Could you maybe give us an early look at what you see on the ground with regards to some of this transformation?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. Look, of course, and actually I've also said in the past that I actually think the effects will be lasting and certainly the longer the current pandemic continues, the more I think my belief that the effects will be lasting will actually increase. And lasting in terms of how we work, where we work, a notion of hybrids kind of [ph] coat-tailing (00:34:32), if you will. And the implications on real estate and the travel industry are huge, of course. Look, what we're seeing on the ground is major ERP projects are slow, but project in-year returns or in-year payback are actually continuing. Digital is solid. We've seen a V-shaped recovery driven by cloud, Software as a Service, AI and analytics, digital engineering, software engineering within that is very, very strong but also our interactive business or experience business. And I also see a phase happening at this moment in time of vendor consolidation.

Personally, Cognizant is showing up from my perspective better than in recent years and I want to truly be a challenger brand in digital. And I do not want to be in any way disrespectful to our digital business because it is $5 billion-plus in size, so it's not a small business. But too often in the past, our client partners didn't evidence our digital portfolio, our brand attributes didn't necessarily speak to that. Our portfolio wasn't fully understood. And I want to make sure that every client going through vendor consolidation views Cognizant as a vendor that needs to be down selected, not just because of our chops and our historical technological abilities in the build operate, but also we have strong capabilities to be a extremely strong challenger in digital. And that's happening in a period in my mind where I'm seeing clients openly welcome us to the table in digital because in some ways they are a little bit jaded with some of the bill rates and the pricing and engagement models of the so-called Big Four and some of the pure play digital companies and indeed some of the integrated leaders in digital, and that's a trend I want to continue to take advantage of and be there for clients and never let them down.

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Look, I think we're in the early stages of digital. I genuinely do and while we have been behind we're catching up rapidly. We're investing heavily in both the talent, the brand attributes, the portfolio both organically and inorganically as well as the partnerships. And in some ways, you can [ph] almost (00:36:35) think of the digital transformation. We're through in three phases, Ashwin. The first phase is very clear and the McKinsey's of the world make a lot of money in this, helping clients understand what digital meant to their industry. The second phase is largely what we've gone through in some form [ph] in that our (00:36:53) clients are implementing discrete digital projects. These are nonetheless, if you will, primarily industrial age type companies and they're not really digitally transforming in some ways. They're not really changing the customer experience. They're not really changing the operating or financial model. In some ways, it's playing with a system of record, some application layers, but it's not really along the customer journey.

I think we're now entering phase 3 and this is where clients will shift to digital-centric business model. It's not around a system of record. It's literally around the business model and the customer experience and the IT processes that will be driven by software and built around horizontal or vertical workflows or use cases. And that plays to the strategy we laid out last year around cloud, around DevOps, around AI and analytics, around customer experience, and IoT and data and I'm personally very, very excited about our ability to participate in this third wave of digital.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Okay. I agree with you and also from a demographic perspective, I mean middle management now grew up with iPhones and they want to bring that experience to the corporate world. So, I agree with you. Could you maybe give us some examples with regards to digital momentum? What's going really well? What's maybe not yet going well but there is lot of promise longer term? Could you talk a little bit about that?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

I'm really excited about our digital engineering business. We have aligned that whole organization which is around app modernization. It's around our interactive or experience business as well as our software product engineering business which was built around the SoftVision acquisition. Collectively, that together now is the third largest digital engineering company in the world and we are growing at rates equal to EPAM. It's all aligned behind communities [indiscernible] (00:38:51) and that is right model to drive this forward. So, I'm truly excited about our potential there.

I'm very excited about what we're doing in the cloud business. You know we have deployed the balance sheet to accelerate our position in cloud and that is showing up in the market not just financially but also our recognition. Two years ago, we were niche player in the Gartner Magic Quadrant in cloud. Today we are a leader. We went from niche to challenger to leader in two years which is somewhat unheard of. But also, what I'm seeing is see – what I'm seeing is in the field there is just a lot of momentum behind the Workday practice we've setup that's on the back of the collaborative solutions acquisition that we made. And in some ways, certain clients have said to me you know, Brian, in the old world I had the Big Four and I had certain large integrated digital companies. And then there were boutique firms like Collaborative, but I as a CIO could never have deployed Workday globally on this company that was just $100 million or $200 million in revenue or less. But in the hands of Cognizant, I now have a viable alternative to position Cognizant as an alternative versus some of those that are players that I've inferred have traditionally been at the table [ph] without (00:40:05) Cognizant challenging, and it also distinguishes us from the Indian pure plays. So, [ph] we suddenly (00:40:10) get into the boxing ring with a different set of competitors and we're in a position to truly add value to clients.

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And then I'm quite excited as well around what we're doing with AWS, with Microsoft, those business groups. The Microsoft Business Group's on the back of the New Signature acquisition where the CEO of New Signature, Jeff, is now the Head of our Microsoft Business Group, just like the CEO of Collaborative Solutions. [ph] That reverse merger (00:40:33) is now the Head of our Workday practice and that's a great example of them also believing in the vision we put forth in the transformative agenda where we really want to get back on the attack as a company and outgrowing the industry once again.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Yeah, yeah. Got it. And I appreciate you're looking in the recent M&A in there to help us understand. Time's winding down. I did want to get in at least one margin question. Where do your priorities rank in terms of rev growth versus margin expansion? And in terms of just as we think of investing in the digital business, as we think of – is there a headwind from pricing in the legacy business? Because you have more automation and things like that. So, talk about margins just for a bit and then we'll kind of wind up I guess?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

So, I have the benefit of having spent three eight-hour reviews on my three service lines in the last six days, so 24 hours of knowledge and probably hundreds of actions from those reviews. I'm actually quite excited about the entire portfolio. But our operations business, the so-called Cognizant digital business which includes our digital engineering, our interactive or experience business, IoT, as well as data and analytics, and then the technology and systems business which includes more application development and maintenance, our testing business which is world class and our cloud business. Collectively, all of those business can grow each and every one of them. And our goal is to outgrow their market peers.

So, yes, while we have legacy headwinds there's also opportunities for us to be smart to consolidate the so-called Tier 2 vendors. Or if a company is going through an app maintenance renewal, to make sure we take advantage of that renewal discussion to also upsell then to app modernization, not just maintenance and then testing will become naturally I think ever present on a go-forward basis in the DevOps world. So, first of all, I don't subscribe to the notion that we have a legacy business that will drag down the growth rates and that will have to be fully offset by digital. It will not grow as fast as the digital business but I'd like to think we can still grow that as well.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

But your margin impact of that – the margin impact of that, if you can talk about that?

Brian J. Humphries
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. With regards to the margin, so, like this has been a bad year for margin to be honest and it's been a bad year because of expenses that were unexpected and abrupt changes in top line and some degree of uncertainty of course against the macro demand picture that has been out there, particularly earlier in the year. And in a head count based business as you know when you have a major inflection point down on revenue you have to adjust your cost curve thereafter. And we've had a great deal of impact as well from the ransomware attack which I think we've handled quite well to be honest based on client feedback.

I'd like to think we can build off these year's margins. But if you were to ask me my priority, my priority is to accelerate revenue growth. This has been the secret sauce of Cognizant over the years. It's been a company that

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had I would say solid margins albeit lower margins than Indian pure plays but that afforded us the opportunity to invest in the future to please clients, to forward invest and, ultimately, to outgrow the industry by a factor 1.5 to 2. And my goal is to get Cognizant back on a growth trajectory that's ahead of the industry and ahead of the competition again. It's one of the reasons even the last year when we're going through a restructuring program on a fit for growth initiative, we already started feeding the notion of getting the company back on a growth trajectory by hiring or committing to hire 500 revenue generating resources and aligning ourselves behind the hyperscale players and doubling or tripling our head count in that regard as well. So, that will remain the priority.

Now, I take my commitments to quarterly earnings seriously but in the same vein, I'm here to create shareholder value in the medium and long-term. So, the only way I know how to do that is to juggle both by setting expectations in a manner that I know I can meet but also in a manner that allows me to invest into the medium and long-term, and that's what we're setting out to achieve and I'm pretty excited that we can do so.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc. (Broker)

Great. Thank you. Thank you very much. I mean, we're out of time. We're actually a couple of minutes over. So, I want to say thank you very much, Brian, for your insights, for doing this. I also want to thank the audience because they did send four or five questions which we incorporated. Good engagement.

Thanks all around. Appreciate it. Have a good day.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you, Ashwin.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc. (Broker)

Thanks.

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