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# Cognizant Technology Solutions Corp.

(CTSH)

MoffettNathanson Payments, Processors, and IT Services Summit


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# CORPORATE PARTICIPANTS

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

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**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

# MANAGEMENT DISCUSSION SECTION

### Lisa D. Ellis
*Analyst, MoffettNathanson LLC*

All right. Welcome, everyone. Welcome back. Thanks for joining us again. For the next fireside chat, I am very delighted to be joined by Brian Humphries, the CEO of Cognizant. Brian, thanks for joining us.

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

You're very welcome. Happy to be here, virtually.

### Lisa D. Ellis
*Analyst, MoffettNathanson LLC*

Virtually at least, yes. Good. All right. Couple housekeeping items just before we get started. You all know this by now, but if you would like to ask Brian a question, type them into the screen that says ask a question right below the video and I will see them on my screen. We can layer those in. If we don't get to them, we'll certainly follow up with you afterward.


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# QUESTION AND ANSWER SECTION

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

And with that, I think we'll jump in. So, before we get to the events at hand, which, of course, is top of mind for everyone, I do want to do a little bit of a step back. Looking at the calendar, I think yesterday, June 1, was exactly 14 months from when you started at Cognizant as the first ever non-Founder, CEO of this company. So, now that you're a year-plus in and what a year-plus it's been, what are your views on Cognizant's greatest strengths?

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

A

So, it's been a busy year, Lisa. And I hadn't realized yesterday was the anniversary, but time flies, I guess, when you're having fun. Greatest strengths for me, I think the portfolio is very, very strong. It's compelling. It's probably better than it is marketed. I brought a new CMO in, in recent months so we have to get that story out there. Marketed not just to clients, but also to folks like yourself.

I'll take an example. Our digital engineering business is now the third largest in the world. It's growing at rates equivalent to EPAM, but not many people really realize that before. In fact, the capabilities were scattered across 11 parts of Cognizant. I've grouped them all together under one leader and we expect to go on the attack there.

Strength is also client relationships. We are truly embedded at the application layer and at the data layer. We have rich industry expertise in areas like healthcare and financial services in particular. Of course, life sciences is one of the businesses I cherish a great deal and think we can even do better there. And I think that depth of experience gives us an opportunity to upsell and cross sell.

A growth culture or a winning culture is something that candidly I haven't truly appreciated until I joined, and it's one of the things I tried to tap into very early on. Lisa, I think you know, in Q1, we grew TCV over 30% year-over-year. Most of that – three-quarters of that actually happened from pipeline builds that happened in Q3 and Q4 of the prior year. So, this isn't just because we changed sales compensation or we were hiring more commercial people. It's because we really started tapping back into that notion of going back in the attack, spending much more time with clients, bringing our solutions to bear. So, that's an asset we plan to continue to leverage. And, of course, in moments like today, balance sheet and liquidity strength is obviously a huge asset. So, we're really pleased to have the flexibility and the optionality that that gives us.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. And the flip side of the coin, what are some of the biggest challenges you find that Cognizant bases?

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

A

This sounds a little bit like an interview, what are your weaknesses?

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

Yeah.


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

A

Look, I don't think there's – the good news is there's nothing there that I think is, in any way, insurmountable. Personally, my style is always to focus on controlling the controllables. So, I'm really focused on things like accelerating our digital mix. We've really scrubbed that in recent quarters. It's now 41% of our portfolio, which grown 19% year-over-year. You know I'm personally committed to scaling the company internationally. We are underpenetrated overseas. 76% of our revenue is in North America. We don't have enough coverage and of partnership strength in the international markets. As I think about a pivot that we need to truly unlock, it relates to our commercial plan partners, they are the tip of the spear for us. We need even more thought leadership than ever before. We need that alignment by industry to be stronger than ever before.

And, of course, I still feel as though – while I'm delighted with our client engagements and contacts and we are building on those, we frankly don't have enough clients. And even amongst the clients we have, not all of them truly understand the breadth and depth of our portfolio. And some of that goes back to the brand and how we evolve the brand to be much more global, much more evocative of digital capabilities. Many clients don't truly understand the capabilities we can do.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. So, in light of those both opportunities and challenges and strengths in the Cognizant portfolio, you've undertaken a pretty comprehensive transformation strategy over the last year and maybe some aspects of that get a little bit lost in the current crisis environment, where there's a lot of just sort of day-to-day triaging going on. Can you just take a step back and remind us what are the major elements of that transformation that you have in this life?

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

A

Yeah. And I can tell you they do not get lost day-to-day under my leadership. So, while we get distracted perhaps externally, internally, we're making sure we don't lose line of sight on these things. Looking at the end of April 2019 and into May, I set up a transformation office. It became clear to me we needed to [ph] qualify (05:44) certain things and accelerate others and actually really initiate some things as well. And that's with the form of six individual work streams. We brought up together a few hundred employees of the company to really get the fingerprints of large countries, small countries, delivery, commercial organizations on this.

Ultimately, that went out the path of strategically what are we trying to do, what are we not trying to do; structurally, how do we set ourselves up to be most effective to move with speed, to clarify roles and responsibility and clarify accountabilities; culturally, how to drive a performance culture that's much more diverse, much more inclusive, much more driven along the lines of meritocracy; commercially, how to transform the commercial teams, how to upsell or cross-sell better than ever before, how to change the sales compensation program to make it more leveraged than previously, how to implement the new customer segmentation strategy.

Delivery transformation was a lot around tooling, automation, global delivery network, permit optimization, and then Fit for Growth, which some people think is a cost initiative only and, of course, we do have to make sure we differentiate between a cost and an investment. But it's very much in my mind as well around digitizing Cognizant and making sure we got processes and scalable systems that enable us to get from $17 billion to $25 billion to $30 billion in the years ahead.


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And that transformation office ultimately served up a set of recommendations, some of them are quickly implemented, some of them will take multiple years to get it right. Culture for me is a living organism that evolves every time you promote or demote or hire or fire somebody. Sales transformation effort, you can implement a new sales compensation program at the start of the fiscal year.

Of course, we're a people business. So, Lisa, you know as much as anything that change management is key. So, we also wanted to communicate and contextualize all of these with great rigor, why a change was needed, why it's good for the company, why it's good for the employee. By the way, what doesn't need to change as we're doing all of this. And more broadly, I think and very importantly in today's world, what is the purpose of Cognizant and what is our vision, what are we setting out to achieve. So that we are now down the road of implementing that transformation office. The office has been disbanded, but the work streams exist and the tasks that we set out to achieve are still now very much in implementation mode.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. Well, you highlighted – let's maybe touch on some of these areas a little bit deeper. One of the things you highlighted there was the digital mix and highlighting the digital services, I think, are 41%, grew 19% in the most recent quarter. You have that framed around, I think, four digital battlegrounds if I've got them right, AI and analytics, cloud, digital engineering and IoT. Can you just talk through, one, how did you pick these – digital is obviously very, very broad, so why these four, and what is the Cognizant differentiation in these areas of digital that's enabling this piece of the business to be growing almost 20%?

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

A

Well, first of all, when we took over the company and we started thinking about what are we trying to achieve strategically, it's the classic market. You're an ex- McKinsey, so you'll appreciate this. My chairman is also ex-McKinsey. Classic market analysis, SWOT analysis, market maturity curve, how do we think about the elements of the portfolio that are in line to mature or declining categories versus growth or emerging, what's your capital allocation and portfolio spend against that. And we've really worked over four months against that market backdrop, the SWOT analysis, the industry dynamics, the [ph] profitables (09:30), etcetera.

Then we set about aside, there are certain categories that are no longer core to us. By the way, some of those categories were higher growth elements, such as a subset of content moderation. It's not because it had good financial characteristics that it was necessary aligned to the strategy. So, we exited the business. That was $250 million growing 20% plus year-over-year. It wasn't strategic and had low bill rates, high attrition rates, low IP. It hurt our brand, and in my opinion, it hurt our employee morale.

We then got very back to the strategic postures, and ultimately, I would say in three elements, we wanted to make the company more global, that run attributes that leadership team should be more international and more globally dispersed. Revenue had to be much more globally, I would say, expansive in the years ahead, that takes multiple years to happen. The delivery network needed to be more resilient, more robust.

Secondly, we wanted to evolve from let's say a rate card staff augmentation input model, much more towards a technology consultancy firm that's very much focused around managed services delivery. And thirdly, we wanted to focus on digital.

So, within digital, to your point, we chose certain things. And we chose them as I thought about the secular trends happening in the market, and I always think about is [indiscernible] (10:43) worth winning? Is it winnable by us?


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How many casualties would you have getting to the top of the hill? And then, if you get to the top of the hill and you put your flag in, does the Luftwaffe come tomorrow, the Panzer division would kill us all.

And I felt, honestly, cloud was very intuitive. That's a secular trend that will be here for years and years ahead. A lot of workloads are naturally moving to the cloud. I believe it'll be multi-hybrid cloud. We were not as strong as I felt we needed to be. It was the place I chose to prioritize, to be honest, in 2019. We tripled head count on the hyperscale providers. We're making big bet on SaaS players like Salesforce, Workday, ServiceNow, SAP. In the last probably six months, have acquired three sales [ph] prospect (11:25) and partners. And now, in the last month, I announced the acquisition of Collaborative Solutions, which allows us to stand up in Workday practice, which we never had before.

We are recognized now, by the way, as having made substantial progress. Two years ago, we were niche according to Gartner in their Magic Quadrant. Last year, we were challenger. And now, in the last month, we've been announced to be in leadership quadrant. So, that's very fast progress.

Digital engineering was very intuitive to me. As I said earlier, we're an applications company at our heart, developing, maintaining, modernizing, refactoring, testing. And as the world moves into [ph] at (12:05) modernization, but also software product engineering and much more consultative selling, that is right at the heart of what we do.

And so, that felt very intuitive to me that we needed to pull that together and to stand much more authority in that regard. So, as I think of the Endavas, the EPAMs, the [indiscernible] (12:25) of the world and, frankly, when I meet their CEOs, I always let them know that the battle is going to be tougher in the years ahead because we, frankly, will have sharpened our pencils and we will show up with 10,000-plus software engineers. A very strong culture, by the way, in Softvision, a company we acquired and deep knowledge of our clients' application and infrastructures.

In analytics and AI services, we're a leader in enterprise data management and BI services, business intelligence. We've got about 25,000-plus data and analytics and AI associates. We just need to build on that and move much more into operational and customer intelligence.

And IoT was maybe the one that caught people by surprise, but I actually think 5G is less about [indiscernible] (13:07). It's much more about B2B applications. It's much more about latency, network slicing and security considerations. And so, for services companies like Cognizant, there will always be a horizontal systems integrator role to play. But the real sweet spot here is around the alignment by industry vertical and this is where things like Industry 4.0 become very pertinent or automotive as a vertical as well.

And that is not a hill, by the way, that is particularly dominated by anybody. So we wanted to not just be a fast follower and catch up in certain areas, but we wanted to take the leadership position in certain areas. And it's great to go on the attack. And obviously, I've been in telco in the last few years so I have a point of view on this as well.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. The another piece of the transformation, I think, that's very near and dear to your heart is on the commercial transformation side, where you were showing very, very significant progress in 1Q, at least up until the pandemic hit, but probably even subsequent to that. Total contracts up 30% in Q1, win rates up I think you said hundreds of basis points, etcetera. If you are going to – so what's the formula [ph] like (14:24)? What's the


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timeframe? Or if you're going to convince a skeptical investor around the commercial transformation, how does that translate over time into revenue growth or revenue acceleration for Cognizant?

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

A

Yeah. So this is your role, Lisa. This is not my role. I wake up and think about clients and employees, and I'm going to let you focus on skeptical investors. I'll work the numbers and then you can hopefully sell the numbers for me. Look, it's not rocket science. At the end of the day, we needed to go back to basics. We needed to start. We are running all for growth. We needed to build the pipeline. Our pipeline has five stages to get through a unqualified pipe into qualified pipeline, ultimately to closure, convert the pipeline to TCV with signatures and then convert TCV to revenue.

And subject to the business we were in, that timeline of transformation can happen quicker sooner or later. As I said earlier, three quarters of our bookings that were acknowledged in TCV in Q1 actually did not happen in Q1. It happened in Q3 and Q4. That's when they entered the pipeline. So, I've been trying to get much more rigor around the CRM tool.

I used to lead the B2B sales force in Dell. And over there, it's just muscle memory, you just do it by definition every single day. So, we haven't been as strong on that historically. We are now. The good news about the Q1 results, by the way, it was all industries, all geographies, and indeed, the three service lines. It's one point and a data point, Lisa, to be honest. What's more encouraging actually is Q2, we actually continued to see better than expected TCV growth. So, this is – I don't really want to get into interim quarter updates, that's not my point here, but the point is more that momentum didn't happen haphazardly, and it is somewhat continuing, notwithstanding COVID and the ransomware attack that impacted us in the second quarter. I'm actually very, very pleased with the TCV growth I'm seeing even entering the second quarter.

We definitely had a slowdown at the latter part of April, and I certainly felt the ransomware attack will impact us by $50 million to $70 million of revenue for the quarter. But the good news is that bookings continue to be actually strong and North America, which is three-quarters of our business, bookings or TCV are still up more than 20% year-to-date.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. Good stuff. Looking forward to that.

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

A

[indiscernible] (16:48) We're working [indiscernible] (16:50). We need more.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

Yeah. [ph] Give me more good (16:54). All right. But we'll take one or two to start. You highlighted up front the Fit for Growth plan, which, as you highlighted, is both a cost initiative as well as a digital transformation initiative. Talk a little bit about – and kind of the overall margin improvement. So, for investors that have been around with Cognizant, Cognizant did undergo a margin improvement plan a few years ago. So, when it comes to Fit for Growth, just talk about what's different. This time around, what is different about what you're trying to achieve, both from an efficiency perspective as well as organizational effectiveness?


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

A

Look, to be honest, Lisa, I don't really want to get into a look back on what was done before I arrived, or otherwise, I'm really focused on the here and now and the future, not looking back, nor will I say that I'm overly focused on [ph] only one (17:54) individual quarter. I believe my goal is to drive shareholder value creation in the medium and long term. I, nonetheless, recognize that earnings consistency and credibility is important, so I have to drive quarterly expectations and execute within those parameters whilst achieving the longer-term goals that I'm setting that to achieve.

And so, cost and revenue are core elements of that, but so too is cash flows, so too is capital allocation decisions and all the other investments we make. I'm very focused, first and foremost on getting us into higher growth categories. At the end of the day, that will not happen haphazardly, we have to associate the portfolio into elements of the industry that are higher growth categories; digital is a very natural example of that.

Scaling into markets where we are underpenetrated is another natural example of that. And we're willing to invest in that. And even in a COVID world, we're still building at commercial sales force. We're still hiring 20,000 people at the bottom of the curve and to course correct the population curve that we had in place. And of course, we're still protecting at all cost digital. We have a separate bench policy for digital resources because we do not want to lose those, even if there is a demand-supply imbalance at the moment.

So, I want to get the balance between revenue growth and margin growth right. Now, entering 2020, seems like an eternity ago at this stage, we talked about driving about 100 basis points of margin expansion whilst spending $250 million to $300 million back into the business to drive growth. And fundamentally – and by the way, that would've been on things like sales force hiring, brand, technology investments, academy investments where we are reskilling our population, etcetera.

Fundamentally, nothing has materially changed in my mind in terms of the mental modeling app or the P&L archetype that I'm trying to drive for the company. But, I think where I'm pretty clear is I want to get a lot more [indiscernible] (19:54) than ever before, spans and layers and all those boring things, but they are what make companies work. I want to truly differentiate between a cost and an investment. And, look, we'll see what we can do.

The disintermediation of revenue and margin, as you said, look, we were starting to show a turnaround. Two exogenous events kicked into play, one is somewhat self-inflicted regrettably and ran a ransomware at that. We dealt with it as best we could. One is more macro, COVID. They create an imbalance between revenue, so you have to address your cost, but obviously the services business. It's a people business. You have to move as quickly as you can to rightsize that. But I would say I feel, more or less, this is a multiyear project. This is a blip, we'll get through it, life will go on and we'll continue to execute the turnaround story we're trying to put in place.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

I think you've highlighted I think earlier when you've been asked a question on the earnings calls about how you think about the trade-off between revenue growth, which you've stated as your overarching goal for Cognizant over the next couple of years, and cost and margins and you've sort of responded that you think that's a false trade-off or a false pairing. Can you just elaborate on that and sort of your philosophy as you're driving this turnaround between those – balancing those two – the reinvestments in the business versus driving and stabilizing margins?


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

A

Yeah. Well, look, those kind of questions are not questions that clients ask. Those are questions that people like you ask, Lisa. So, revenue growth is not my overarching priority, but it is a byproduct of one of my overarching priorities, which is being a preeminent services provider for IT services buyers, if you will, and hopefully a C-suite of major corporations across the globe.

As a consequence of that, we get revenue growth and revenue in many ways is panacea. With regards to Wall Street, when asked the question bluntly, I've always said they're not mutually exclusive. People who tell you they are, in my opinion, are not thinking about life the way I'm thinking about life. There is plenty of opportunity in the company like Cognizant, where you have $17 billion of revenue, and even if you made 15% bottom line, you can do the math, everything between the bottom line and revenue is cost. So, if somebody tells me we're 100% efficient on cost, it'll end up being a long discussion, because I don't think we are.

But what I do want to do is not play through all efficiencies back into the current quarter and give it back to shareholders. I want to create, as I said, a franchise year. It's a multiyear agenda. It's a multiyear project. You want to turn it around. I actually think this is a growth company. I actually think this industry has a lot of growth left. I personally maybe selfishly feel as though Cognizant can completely shake up the landscape, the competitive landscape. And three, four years from now, we would be looking back I'd like to think in a very different competitive landscape and hopefully you can see that.

So, I want to drive those efficiencies with [indiscernible] (23:03) plan and back into the business. We're investing for growth and then – but we're going to see what happens. Hopefully, we can surprise a few people.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. You highlighted earlier technology partnerships as another big area of focus and one that I think often gets overlooked, but as you know, I view as being very critical to the success of IT services firms. So, where are you in the journey around technology partnerships? Where is Cognizant strong? What are the areas you're investing in? And how should the investor community, like, sort of track and see progress against that?

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

A

So, ultimately, I think the acid test for us is whether we can outgrow the competition. I mean, at the end of the day, everything else's means to an end, how many people I deploy, what my marketing mix is, what my pricing strategy is, what my partnership strategy is, the M&A strategy we need to invest in. We have some very strong, I would say, vertically aligned partnerships whether it's a Guidewire or [ph] Temenos (24:09) or the like.

I've been very adamant that our digital strategy requires a very strong set of digital partners. Earlier today, I was with one of the hyperscale CEOs, I'll be with the other – one of the other ones later this week. So, that's just, in one way, two and that's illustrative, as far as I'm concerned, of the intent we have to go scale practices behind Microsoft, behind Amazon, behind Google from a hyperscale point of view. And by the way, that hyperscale is simply not about getting workloads out there and I believe in platform strategy with open APIs and I believe this will give rise to data and analytics and IoT business models as well.

In the same vein, as companies like Microsoft are deploying a holistic cloud strategy across their three clouds whether it's Azure, Office 365 or Dynamics, they will actually have, in my mind and the years ahead, intersection


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points that compete with some of the leading SaaS players today. I'm not sure they're fully there yet, but actually we're hedging our bets. I believe they will ultimately get there over time.

In the meantime, companies like Salesforce are absolutely critical to us, Workday, ServiceNow, platform companies like this. Similarly, SAP is very interesting to us because of their installed base around the world, particularly international markets where we need to scale.

So, those are the kind of companies we want to double down with. And as far as I'm concerned, it's no different than if you have kids. You want your kids hanging out with the bright kids in class so that they are synergistic with each other, as opposed to hanging out with drug addicts, and we want to hang out with companies that are going 20%, 30%, 40% [indiscernible] (25:40). I think it will rub off on us, Lisa.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

Fair enough. I don't want to ask who the drug addicts are. All right. I guess, maybe the complement of partnerships is M&A. You highlighted you have continued to make a number of tuck-in acquisitions. In fact, if anything, the pace of those, while always somewhat optimistic, has, if anything, gone up over the last year or so. Where are you focused when it comes to tuck-in M&A and where do you looking to grow that to?

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

A

Well, perhaps, it's an unsatisfactory answer. I'm not looking to grow into anything. I don't think about it that way. So, sorry. We think about capital allocation priorities, we think about share repurchases and dividends. Well, certainly, we did $2.2 billion last year of share repurchases, we'll do less this year. But we will definitely offset share dilution on an annual basis. That's part of our commitment to shareholders.

M&A is simply a means to an end. It is not a strategy. I don't wake up with money burning a hole in my pocket. I don't feel as though I have to spend a certain amount every year. I am very fortunate that I have a board, who, I believe, believe in me 100% and actually believe in the strategy we put forth and the project to turn the company around. And our strategy is very clear in my mind. Any M&A we do needs to be 100% aligned to that strategy and I need to have confidence that our team is capable, with the business case that they put forth, capable of integrating the company that we have brought forth, or incubating the company, as will be the case more and more as far as I'm concerned. But ultimately, extracting the values that were suggested in the business case.

And as I say internally, the world is full of people who want to buy a dog at Christmas, but not everybody wants to walk that dog when it's raining and cold on a February night. And we need people who are serious about M&A. Lots of people, for some reason, love working with Wall Street, love working with bankers and private equity folks. Frankly, the thrill of the acquisition should not be in consuming the acquisition, but it should be in extracting the value from that acquisition, thereafter.

So, that's the path we're on with M&A. I certainly feel with every passing month, I understand this industry better, Lisa. I understand the company better. I understand my leadership team better. I know who I can trust to get things done. You will certainly see, from my perspective, turn to M&A to accelerate our strategy, but that M&A will fundamentally be mapped against digital or international expansion or leading with technology consulting aligned by industry as opposed to something else.

Now, the healthy thing about our industry portfolio that we have been acquiring is it brings a accretive revenue CAGR to Cognizant. And so, when we talk about 41% revenue, the so-called digital growing 19%, that is to


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illustrate above the kind of world I want to be in. There's lots of talks now and I'm sure we'll address later perhaps the notion of COVID and opportunities that that has given rise to. There are certainly structured deals or captives out there. And in some ways, it is appealing to go after that, and we will go after some of those.

But I also say to my team internally, let's be very clear, that is a very different strategy than our M&A strategy. Our M&A strategy is to buy assets that are digital models, that are aligned to a higher growth model, that are accretive to our aspirations. Buying structured deals will certainly give you an apples-to-orange compare in one year; or perhaps the year after, you will get 12 months annualized benefit. So, you might actually get two years of apples-to-orange comparison. But thereafter, they are revenue [indiscernible] (29:30) dilutive to my aspirations, and very often margin dilution as well in the shorter term.

So, we have to be careful of the mix that we drive towards. I'm not saying I'm precluding structure deals. On the contrary, I think it can help restart the engine. Folks like you, maybe people who are less diligent than you, Lisa, will actually feel very good about this and not [indiscernible] (29:48), not think about the negative side of this as I would. Employees will actually feel good about the company growing again. So, there are benefits [indiscernible] (29:56) in the short term. But fundamentally, we're after an acquisition strategy that is digitally [indiscernible] (30:03).

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. Well you touched – mentioned COVID and I made it 30 minutes through the fireside without talking about that. But certainly, of course, it's top of mind for folks and maybe I'd broaden that out not just to the pandemic specifically, but as we're now almost three months into it, as it's transitioning maybe more into a recessionary environment. How has demand changed in the current environment? Demand and then you touched a little bit on the sales side but also just on the sales side of – demand side and then also just the sales dynamic behind that.

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

A

So, I think, COVID actually brings different characteristics to some of the companies you're covering in your landscape, whether it's a payments company versus an IP services company. For us, of course, we have a fulfillment side and a demand side. And the fulfillment [indiscernible] (31:05) pop up in the month of March, we see a massive dive in cash to try to save [indiscernible] (31:12) I think we did an exceptional job and I'm forever grateful for our team for working around the clock, seven days a week to make that happen, to make sure that we could fulfill and make sure work-from-home enablement.

The demand side became more interesting than once. We obviously got through March because it started getting more topical, people started revising their budgets, etcetera, for the year. And then, actually, now we're digesting and now we're second-guessing ourselves and looking at each other and talking in ourselves a year into a recession or otherwise.

If you listen to Everest or IDC or Forrester or Gartner, everybody will tell you that the IT services industry will go from an assumed growth rate of 5%, or 6%, or 7% growth entering COVID, to potentially negative [indiscernible] (31:55) call it a 10-point swing. And, of course, then there are situations aligned by certain categories or industries within that, travel, hospitality, consumer goods, retail will take a bigger hit. Fortunately, for Cognizant, they represent less than 15% of our revenue. And in some ways, actually, I'm feeling quite good about Cognizant's position in a COVID world, because 76% of our business is North America, that tends to be more resilient, it tends to rebound faster. I gave you a data point earlier that North America bookings or TCV year-to-date are up 22%.


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So, strength – in fact March, was even – sorry, May, the last month, was even stronger, which tells you we may have come out and hit a bottom and started rebounding a little bit, but it's still very, very early to tell.

The Cognizant story is somewhat convoluted as well because of the ransomware impact, which is unique from my perspective to revenue and margin in Q2. There will be some hardening of the environment in Q3 and Q4 and into Q1 of next year, which will be more an expense, but revenue and margins is [indiscernible] (33:07).

So, I think ultimately, the way companies work is you've got CFOs who tend to set a budget for the year, and CEOs tend to bless them. And then, if you have a extraneous event like this, we tend to reset your budget for the year. You don't do that every month. You might have a forecast and that's quite a large process.

So, I personally think in the last two, three months, a lot of people have turned to the debt markets, a lot of people have looked to liquidity. A lot of people have shut down expense and reset budgets for the year. Now, there's a little bit of a pause and we're all second-guessing whether that pessimistic case is going to materialize or whether it's going to be a little bit better than we anticipated in that moment of doubt eight weeks ago.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

What areas – sorry.

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

A

[ph] Take that out if you want. (34:03)

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

I'd get that dealt with in the background. What area specifically – so I think this – what you're saying there's acceleration in TCV that you're seeing through the year. Now, part of that obviously is the transformation backdrop going on at Cognizant, which likely washes out a certain amount of the macroeconomic background. But it certainly is contrary to the pullback in some of the discretionary spending areas that we're hearing about. So, what are the areas that you're seeing demand picking up or actually in the current environment?

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

A

Look, it's actually more – first of all, I've always felt that COVID had a long arm and it would impact more industries than people maybe give their original thought towards. So whether you're a retail store or whether you're a payments company, credit card company, if you're something like Amex, you're heavily exposed to the US SMB business, you're heavily exposed to travel and entertainment, you're heavily exposed to international travel.

So, it's not just the retail companies, consumer goods companies, etcetera, and you know this better [indiscernible] (35:24). I've been quite surprised. I mean, the place that has been weakest for us has been retail, consumer goods, transport and hospitality, and that is less than 15% of our revenue mix. Healthcare for us has been very strong year-to-date. We've known that was a pain point of Cognizant in the last year. We've put a lot of attention on it. We had a little bit of a false start last year. We have adjusted that. We actually have an interim leader on the business now who's done a fantastic job.


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I personally have spent a lot of time with my head of North America come through this. We've second-guessed the road map. We've second-guessed cost structure. We've second-guessed where we want to make investments. We've spent a lot of time with clients. And I think we have more credibility, but there's a lot of work to do in our healthcare business, though, but it's going very well right now.

Banking and financial services, which is the other major component for us, we seem to have a lot of momentum in insurance. I'm really pleased to see that because that was a business that wasn't performing as well as it should last year as well.

But more broadly, we're also seeing [ph] decent (36:26) trend actually in manufacturing, logistics, and utilities. Life sciences is strong for us and that's a great business for us and I think we need to build upon that. We have some nice IP, some nice platforms in that regard. So, Lisa, look, it's too early to call anything except month-by-month trends at this moment in time. But I feel as though we were overly pessimistic a few months ago.

Now, I'm talking very much by the way around bookings or TCV, which again is a leading indicator of the future. Again, I need not just two data points or three. I think four, five, six, and seven, [indiscernible] (37:02) start showing up in the P&L more and more. The problem we have against this backdrop nonetheless is revenue disassociation with cost structure. Even as revenue was weaker, notwithstanding the fact bookings could be actually reasonably strong, the fact that revenue was weak gives you a cost structure issue and then you have to adjust your cost abruptly.

And of course, [indiscernible] (37:25) compounded by the ransomware attack, which is unique to Cognizant. We had thousands of employees who I had to keep on the bench or had to keep on our cost structure waiting for clients to get us connected back to their networks as well as who are [indiscernible] (37:41) being very aware of Cognizant's ransomware attack, which, of course, we've contained.

So, I would try to encourage investors or yourself to think about our Q2 earnings and here on out, the P&L, the revenue, the margin dynamics against the backdrop of COVID and ransomware. But also try to have a train of thought around the inherent turnaround story and all of the leading indicators of that turnaround, because still think that's quite exciting what we're onto here and we starting seeing green shoots become more and more prominent.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

Are you seeing – so, past economic downturns have had some – they've been, in some cases, sort of dislocation points or accelerants of broader technological change or even adoption of new waves of IT services, whether that even be like Y2K triggering a lot of uptick and ERP system adoption and then also eventually offshoring, etcetera. And then, really, the last financial crisis was the beginning of the big digital trend. Do you see that type of thing happening this time around and if so, in what areas?

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

A

Look, it's hard to say. I think, first of all, Cognizant was very different back in the day. The industry was very different back in the day, and fortunately, many things of the past, the last decade. I mean if you think about or the resilience of the financial markets, the resilience of major corporations throughout the world, our ability to get work done as a society in this moment of time – here we are conducting this via video, 20 years ago, this pandemic could have been a disaster for the world, and we are much more robust and resilient now than ever before.


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I personally think the strategic bets we have made around cloud, data modernization, core modernization are the right bets. And in a COVID world, you see trends accelerate towards obviously those kind of, what I would call, horizontal solutions. You're also seeing, I would argue, certain industries where you have industry-specific solutions accelerate pretty meaningfully; virtual clinical trials, e-commerce, e-banking, virtual home healthcare, intelligent insurance.

So, my supposition is the world is much more mobile, much more virtual, much more personal than ever before. I don't know whether there is a natural inflection point or certainly some of the trends we've had before will simply accelerate.

Work from home is the wild card for me and the maybe psychological self-doubt that people had or achievers out in the bus saying, well, listen, I have to be in the office to make sure of my promotion paths, etcetera, etcetera, etcetera. I actually think we've all proven – two weeks ago, we had a board meeting via video like this. We do our executive committees via video. We've all ultimately proven in the last two months that life can go on. We can make informed decisions. You can interview people. You can hire. You can conduct M&A and approve M&A.

It's harder, and I still find myself I'm in client meetings and one finishes at the top of the hour, and one minute later, I'm in my next client meeting, and it's fantastic because you can get through so much in a given day. But then, that evening, when I'm typing up my summary notes of the client and we agreed to X, Y, and Z, I find myself typing I want to make sure I have dinner with this client in New York soon, and I'm back immediately to being dragged back into the analog world as opposed to the digital world. But I do think the shift to cloud, the notion of a segment of WAN, monetizing the value of data, a virtual world, customer intelligence, client intelligence, that will accelerate more than ever before.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

Right. I've had a couple of questions coming in through the little tracker here related to talent and how you're thinking about talent management. I mean, you are people-based organization. That's the DNA of Cognizant. How are you communicating – I mean, it's obviously a period of a lot of anxiety for many people, both as individuals but then also obviously as employees of Cognizant as you've shifted to work from home and had some of these other disruptions to the business. How are you communicating on talent internally? Maybe that's question one I got coming in. What's your message to the troops internally through this difficult time?

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

A

Well, it's funny. On one hand, it's difficult because as we all work from home, it became enthralling in the first week or two, and then you realized, oh my God, this going on and on and on. When's it going to stop? And for those of us who actually feed on client contact and engagement with our colleagues, at some stage, it carries on too long.

But at least in the same vein, look, there's two trains of thought to this. First of all, employees like working for a winning company and when you post – it wasn't 30%, it was actually 30%-plus TCV growth – people actually think, oh, wow, there is a growth story here in the company. This new regime has – there's a method to the madness and many eyes are, oh my god, they're ripping out cost, that's growth what's the CEO is saying. And then I actually say, well, actually maybe this is true, we can grow and drive margin expansion. We can differentiate between a cost and investment.


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So, on one hand, actually, there's a great momentum, I believe, building in the team in terms of the confidence that we actually have a winning strategy. We have a leadership team that can lead us forward and we have a future [indiscernible] (43:27) back to strong growth and winning share gain and getting [indiscernible] (43:31) et cetera, et cetera. And I actually see people speaking more and more, talking about [ph] RAD (43:37) and segmentation and pipeline growth and TCV and win rates over 12 months. And you actually think okay, now, this is permeating the organization.

In the same vein against that backdrop, you also have, let's say, a bifurcation in the team between those who are very loyal to the past and very loyal to an operating model that was very heavily dependent upon India outsourced operations. And that's where it gets harder as a CEO because I'm trying to thread the legal here to say our future is a global IT services firm. Like in global, we have to evolve our brand. We have to evolve our leadership team. We have to evolve how we think about the location strategy of our leadership team.

We have to have a strong degree of meritocracy, diversity and inclusion. We have to have a delivery model that is truly global to make it more resilient. And that's the harder dialogue to have with people as we go through this period of time. And it's easier to do that, trust me, when you can do coffee talk after coffee talk and town halls, and I can fly around the world and visit three conferences in one week and crash on a Friday night or Saturday morning in an airplane. But ultimately, keep up the stamina. It's harder remotely. And it's not just because it's virtual. It's also harder because of time zones and [indiscernible] (44:51) you're trying to get around.

I actually think there will be more changes in Cognizant from a leadership level because I think what effectively happens is you bring in the leaders. My new chief people officer is very strong, Becky Schmitt. Becky is operating her team below her. My new CMO came in. He's operating his team below him. And so, that tends to ripple through an organization. But in the same vein, I believe in transparent communications and I believe in setting our stall in terms of what we're trying to achieve and why we're doing these things. Some people will vote with their feet, some people will actually love it.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. And on that point, I mean as you were just highlighting, you've brought in a number of new senior leaders across Cognizant. Generally, looking back on that, I guess, one, where are you on that journey and then, how has the organization reacted to that? Always a little bit of a concern with this new team coming in that there'll be sort of a organizational – organ rejection.

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

A

Yeah.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

So, yeah, just looking back over the last 12 months, how have your new hires assimilated into the organization?

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

A

Look, well, to be very honest, I had a full start in one of my hires, which was a quick hello, goodbye. In the same vein, we've also – let's not be anything but honest here, we've also made a lot of internal promotions. My new head of life sciences, Srini Shankar, I promoted a year ago. DK, who runs North America, which is 76% of our


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business, we promoted him in the last year to run North America. He's been with Cognizant for 23 years. And so, throughout the company, including, by the way, my interim head of healthcare, who's doing everything in his power to make sure he keeps healthcare, and long may he continue that and then he will keep it, he's been with Cognizant over 10 years.

So, there's been a series of internal promotions, but to your point, there's been also a series of external appointments. By the way, I actually think that is the model. In the future, hopefully, however, less external appointments. And in order to have confidence around talent management, you have to have a very sophisticated succession planning model around sophisticated 9-box, who's performing, who's not, why aren't they performing, have you hooked them out, are you willing to remove people.

And I honestly don't feel as though we were truly doing our best job [indiscernible] (47:22) around succession planning. [ph] It's how our management (47:24) did in the past. I think we will now. But, of course, it takes multiple years to get it right. How strong did Lisa do? Was it because she had an easy compare to prior year? And if we threw her off the building, will she land on her feet and therefore, will I throw her off the building on the next floor, and will she land on her feet and again. And this [ph] class A (47:41) matrix of performance versus potential, where your longer-term potential is always somewhat dictated by your last innings from a performance point of view.

I would say, all in all, I'm actually not concerned at all about the people I brought in. On the contrary, I'm delighted with them. I've had extremely good experiences with them. The board actually, who like you would have been wondering perhaps in the early days, okay, are we doing too much too fast, are very, very comfortable with the people we brought in and I've got a lot of recognition from the board on the fact that – but you had a lot of plates in the – certainly in the early months and early quarters, [indiscernible] (48:13) wrestle them to the ground.

And so, listen, that's not what worries me in today's environment. What worries me in today's environment is making sure we develop a six pack, making sure we outgun the competition, make sure we bring more innovation there for our clients and truly making sure that we have a strong understanding of the pain points by the C-suite by industry. And if we can get that right, look, that's what's top of mine for me.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. As we are running out of time, I just have two wrap-up questions for you. Look, we're living through an extraordinary time and you already have a lot on your plate with the transformation that you have underway. What are your top priorities managing Cognizant over the next 6 to 12 months?

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

A

Well, look, first of all, I don't normally think in short-term intervals like this. Of course, I do 13-week intervals, but in the next six months, health and safety of our associates is really important to us and it should be, by the way, of any CEO who's running a people business or even a smaller business than we are. And as we get that right, we have to think about motivation, you have to think about career planning. The normal cycles that we've taken for granted in the past, onboarding, promotions [indiscernible] (49:33) we're actually doing more remotely these days. But then, there's also return to office.

I don't see a return to work because people are actually working and being quite productive out of the office environment. But as you return to work, how do you think about social distancing and lockdowns, and these are things that you don't always think about: the bus routes, the elevators, the cafeteria, the lavatories, all the practical


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things that, frankly, it's a massive undertaking in its own right. Of course, we're here to serve our clients and if our clients don't buy from us and if we can't develop compelling solutions for them in and a strong point of view and thought leadership, we won't have employees.

So, by definition, focus on our clients and their business continuity and making sure that we have a strong point of view to help them in their innovation agendas and it'd be their efficiency agendas. And many of them today are looking for, by the way, for variabilization of their cost base, for efficiency, for innovation and, of course, on doing our best to make sure that we show up more than ever before.

And, of course, Lisa, I still think in longer term cycles, I actually think 2020 will be a challenging year for the entire industry, but I have a strategy in my mind that's always been in multiyear projects. And I will never lose sight of the fact that when we initiated this with a transformation office and there are series of threads that I want to see through. And that's what I'm also focused on as we're setting about achieving that. That, by definition, requires us to have workers, the best leadership team I can get my hands on, etcetera, etcetera.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

All right. And then to close...

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

A

[indiscernible] (51:12) worried about sell-side analysts? I don't think [indiscernible] (51:17).

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

Q

Not to worry about us. How would you frame the investment pitch for Cognizant, maybe framed against, like you've said, the two to three-year transformation time horizon that you played out?

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

A

So, look, the way I'm thinking about it is our goal or our vision is to be the preeminent technology service provider to Global 2000 C-suite. And if we achieve that, the investment thesis will follow naturally. We'll be a company outgrowing the industry. We'll be exposed to faster growth categories, digital international expansion, etcetera. We will do so at appropriate levels of margin because we won't [indiscernible] (51:58) we won't sell rate cards or [indiscernible] (52:01). We will sell value and business outcomes.

We should be a company that clients turn to to help them innovate in a time of need to help them compete in a digital world. I believe that we will have a reputation of the company that executes well, that is operationally diligent, that delivers consistency of earnings, nonetheless invest for the medium and long term to create shareholder value creation, and of course, that will have a thoughtful capital allocation strategy that goes against that. We will both return cash to shareholders in the form of share repurchases and dividend, but we'll also, from my point of view, be very thoughtful in terms of strengthening our strategy via the acquisitions.

**Lisa D. Ellis**
*Analyst, MoffettNathanson LLC*

All right. Excellent. Well, thank you, Brian. Very wonderful to have you join us today. Any final remarks before we close or we can close the session? All right. Wonderful.


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### Brian J. Humphries

*Chief Executive Officer & Director, Cognizant Technology Solutions Corp.*

[indiscernible] (52:58) conference, I'm going to make some customer calls. Take care.

### Lisa D. Ellis

*Analyst, MoffettNathanson LLC*

All right. Wonderful. Thanks a lot. Thanks again. We look forward to chatting soon. Thank you.

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