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Cognizant Technology Solutions Corp.

(CTSH)

MoffettNathanson Payments, Processors, and IT Services Summit

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MANAGEMENT DISCUSSION SECTION

Lisa Ellis
Analyst, MoffettNathanson LLC

All right. Welcome, everyone. It is 3:00 PM on the East Coast. That means we are in our anchor session of the two-day summit, and what better way to have our grand finale then with Jan Siegmund, the CFO of Cognizant. Jan?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

Thank you so very much for having me, Lisa. Delighted to be here.

Lisa Ellis
Analyst, MoffettNathanson LLC

The only CFO that I've had the pleasure of working with on two companies that I've covered [ph] since being (00:00:33) equity research analyst. This is delightful.

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QUESTION AND ANSWER SECTION

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

So, you just joined Cognizant about eight months ago as the new CFO here. So, talk a little bit about, for the audience, why you chose to join Cognizant, like what in your view are the strengths of Cognizant and the challenges perhaps that attracted you to the company.

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. That's a good warm-up question, Lisa. I joined Cognizant September 1. And when Brian approached me about the opportunity, I had the benefit of knowing Cognizant as a fellow New Jersey company as a former client of Cognizant. And, obviously, had also some interested citizen followed the fantastic success that the company had over decades. And I was also aware about basically potholes and struggles that had evolved in the last years prior to Brian's arrival. So, I knew that strategic transformation was needed.

And I was impressed with Brian as a person. His drive, his clear intellect, his ability to articulate clearly of where we wanted to go, and his willingness to tackle big problems and not only on the surface to rearrange shares, but to go at the heart of change that the company I felt also had to embrace. And I like the overall industry, probably like many of you who are investors in the segment, like key services and large industry; has a fragmented supplier base, room for consolidation, but also very healthy organic growth rate.

So, it's a good industry baseline to have, and I liked the clarity of the strategy. So, it was a fairly nuts and bolts. We're going to shift into higher growth areas of these industries. We have dependency on legacy industry IT services segments that we need to deemphasize. We are very US-centric in our client base. We have opportunities elsewhere [ph] in the world (00:02:51), so we need to globalize. We probably can do similar things on delivery capabilities. So, I felt the actions that had to be taken, I could translate into – I'm a very pragmatic kind of person – into actions that we would do for the next three/four years that would be I felt would yield success.

And then on the counter side, I was also aware that the change process would be very hard, in a sense hard work and would require a good deal of energy and tenacity, and maybe in a sense of overestimating kind of being too proud of my own capabilities. I felt at ADP also we had – which was my prior employer for 20 years, we had a strategic transformation to undergo from a, in a nutshell, core payroll provider to a cloud-based HCM provider.

And I had, I think, experienced some of the organizational tenacity that you need to bring too, patience, and push over multiple years to be successful with such a transformation. And so, I had a feeling that that skill set and experience on hope [indiscernible] (00:04:14) contribute to Cognizant. So it's too long of an answer, but I think it gives a little bit investment thesis that I had when I joined the company.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Yes. Well, on the transformation, yes, you highlighted shift into higher growth areas, globalization of Cognizant. We've been hearing, in the investor community, Brian describe the Cognizant's transformation for the last two years. I think it's useful, though, particularly for investors, to hear through the lens of the CFO and somebody new,

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a senior executive new to Cognizant like in your words how do you describe the transformation goals and objectives that Cognizant is trying to undergo.

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So, we really align our actions around these four strategic tenants in our execution, strengthen our brand for what we are known. We don't want to be known only for a legacy IT type of service. We want to be known for innovative solutions and differentiation. We want to globalize the company. We want to be more relevant to our clients, deepen our client relations to become better trusted advisers, and we want to – did I say globalize the company, meaning expand our client base, as well as our delivery capabilities.

Those are the four areas, and each of them has initiatives attached to it. So, we're not varying – I'll give the same explanation that Brian is giving, because we're really aligned around what that strategy is and I try to make, as a CFO, sure that we fund those things, so that these initiatives can be real. But I want to add a different angle to it, which I'm sensitive to it, because when you have a company like Cognizant which has an incredibly proud history of client centricity, of entrepreneurship, of growth orientation, you have strengths and you have capabilities that we want to leverage.

And then, to find a good way to augment that with skill sets that may not have been as important in the past, but are now more important and changing the culture to new things, not kind of embracing things, and also recognizing change, I think, is a true management challenge that goes beyond – a set of acquisitions that goes beyond big announcement and branding efforts.

It goes to the heart and soul of our management layers. It goes to the heart and soul of our associates. And those types of changes tend to take a little bit more time than the things that you can impact at the highest level of management. And I think we have work to do and we're making progress, but I'm very interested and engaged in also facilitating that type of change so that we move as a company to capture the full opportunity.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

So, in your view, what are the top couple of three/four areas where Cognizant have made a lot of progress already in the last couple of years?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. The most obvious is we employed a whole bunch of capital and accelerated our acquisition program to strengthen our exposure to the digital battlegrounds, and acquired small and medium-sized companies in these strategic areas. And made a difference in our – what we define as our revenue, digital revenue share. And we moved up in the last 12 months by 5, 6 points in share up to 44% now of digital revenue, with digital revenue growth this quarter in 15%.

So, I think that is probably one of the most important factors to name. And there are a sequential important components to it. So, for example, when you look at industry analysts; not financials analysts, but industry analysts and our ranking as industry leader in certain digital – core digital areas of how we have moved from being there to being in the leader pack just in the last 18 months, I would say, it's really quite impressive of how we have become relevant in many areas that we hadn't been relevant before, hyperscalers, cloud software, digital engineering, now emerging also IoT.

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So, I think this move triggered and initiated by acquisitions has been reflected by the industry. And we're seeing it also reflected by the demand for these solutions and our bookings. So, that would be my clear number one, relative to business impact that we have seen.

I think where we had lesser progress yet is to shift our revenue – or have a meaningful acceleration of our international revenues. That has not have happened yet. And we clearly have opportunities, we believe, in the opportunity we have outside North America, and Brian has made really important organizational adjustments, strengthened our management team and focus to it. We've provided incremental investment opportunities in those areas. And some of the acquisitions also regionally have strengthened us, but I think there's more work to be done on that component.

And I may pause here. So, those would be my two top things of mind. The area where that is a clear concern that you undoubtedly will be asking about is the attrition and our kind of delivery capabilities, and that is the focus – current focus of management right now and where we probably have opportunities to improve.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

So, knowing you for a number of years, you're extremely metrics-driven. So, what measures or metrics are you really focused on to ensure, track the progress of the transformation? Maybe some that investors can see externally, but also perhaps some that you're watching internally.

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I think of these four strategic initiatives almost like you would think about a balanced scorecard. As a matter of fact, we're putting together a balanced scorecard for our board around these initiatives. And each of the four initiatives has obvious measures, like percent of digital revenue or digital revenue growth, percent of globalization, percent of global revenue, percent of delivery outside in a variety of areas across the globe.

Others are a little bit more subtle of our brand recognition, the depth of our client relationship, how much are we growing with our largest clients, is it new, is it expansion. So, we're fairly detailed into the style of how we are growing and can we get grab of that we are really growing in the areas that we also have invested in and seeing progress to it. So, yeah, there's a balanced scorecard. And maybe I'm with you. I'm – still in light of the fairly critical stock market reaction to our quarterly earnings.

But in the sense of executing this type of transformation, while going through a ransomware attack, while being in complete virtual lockdown for 300,000 associates on screens, and shifting this was a hard work. So, obviously, a lot of kudos to the management team and to the associates that went through it. But clearly that has also probably slowed some of the progress that we wanted to make relative to the strategic goals that we have.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Well, you're two years in and I know that all companies are always in a state of continuous improvement, so there's never really an end. But when you're thinking about the time horizon where you kind of get out of transform mode and into more business-as-usual, maybe type of mode like where are you on the journey. Is two years in like halfway or not quite halfway?

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Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So, I think Brian said in the first quarter call, we're in the midst of it. So that would indicate kind of really that time horizon. Now, I think how do we interpret that being in the midst of that. So, we do work hard; and our increase in our guidance on revenues despite a difficult supply environment, despite uncertainty of COVID, we're signaling our confidence that we have made relative to the robustness of demand that our clients have shown.

And so, I guess I'm saying we're in the midst of it, but we do want to see improving economics as we go. And hopefully, throughout this year, we see accelerating performance. That's kind of what our guidance actually indicates. And so, the results should improve. Brian put basically a clear focus at the lower end of the margins where we can be. So, we want to improve our margin profile, and we want to increase our overall revenue growth profile, and that should happen in the quarters to come.

So, we're in the midst of the transformation, but we should see improving financial results basically coming.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Okay. All right. We'll come back to some of the details there, but I did want to just talk a little bit about the overall demand environment that you're seeing now that we are starting to emerge, at least in the United States and parts of Europe, I guess, from the pandemic. I know you're fairly new to this industry, but what are you seeing like when you're looking at the pipeline or new bookings in terms of the strength of the demand environment for IT services and some of the real pockets of demand?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So, I have to be a little bit careful, because you're not talking to a 30-year industry sage here. So, I want to preface that. But, undoubtedly, COVID has pushed forward digital, the need for virtualization, and the need to move into today's generation of IT infrastructure. So I think everybody is uniform that we have seen a real move towards this type of demand – or services that I would think goes beyond a few quarters. I think that's going to be generating good longer-term growth environment.

The more specific answer I'd be comfortable with is maybe to illustrate a little bit the bookings dynamic that we experienced in the first quarter, because I think the general assessment was that the bookings growth of 5% was maybe a little bit moderating or slower, and Brian and I came into the call really actually quite more positive about it. And we finished our bookings in December with quite a bit of growth and had a little bit of a year-end dynamic of our sales force pulling forward deals into December.

So we started with a relatively low pipeline and a difficult grow over, and out of that throughout each consecutive month or pipeline rebuild and we gained momentum into bookings growth, and it spilled over and continued. So, we had really a lot of positive notes out of that. That growth was broad-based, was much stronger in the digital areas, as you would see. And even areas like our banking and insurance sector showed good pipeline growth, good bookings growth in the first quarter above company average, that led us to a more positive outlook, I think, on banking and insurance, for example, but broad based across the industry groups. And again, maybe the detail I want to disclose is the digital strength that we also saw in many sectors.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

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Yeah. And on the digital, I mean, again, realizing that you don't necessarily have the before/after view. But is there other certain service lines that you're seeing really strong demand and that appear to be pandemic driven or pandemic accelerated?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

I wouldn't go as far, because this is all in the double digits growth area. Strong demand for digital engineering that we had in the fourth quarter. I think we disclosed a little bit of weakness in [ph] AI&I and M&A (00:18:44) and we gained momentum in the first quarter. So, digital was really strong across the board. And I don't know if I would attribute specific COVID trends already in that demand thing.

For me, the characteristic of the digital demand is that I think there tend to be a little bit smaller projects and quicker realization. And we saw that the overall bookings portfolio trended a tiny bit smaller towards smaller deals, which from my understanding, has been observed elsewhere in the industry as well.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

You called out that 44% of Cognizant's revenues now in digital. Digital is very broad. So can you remind us like within digital, what are the areas that Cognizant particularly focuses on?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. Like, we're carving out in our definition of digital what we call the digital battlegrounds and digital engineering, analytics, and data IoT, and the hyperscalers would be four areas that come foremost to my mind.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Got it. Okay. All right. Let's go to, yes, the topic that's been – a topic we've talked about a fair bit these last couple of days, and then also has focus, as you highlighted, for Cognizant, which is around the talent dynamic and the war for talent. Honestly, one of the trends that a year ago I don't know that anyone could have imagined that this would be the position we were in now a year later, which is this intense scarcity and war for talent, where we've got mismatches in skill sets and geography. So, just talk first, yes, about the attrition dynamic. I know we're seeing this across IT services, actually seeing it even more broadly than that. What steps is Cognizant taking to address some of the attrition challenges?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I think there are – the industry dynamic is very clear. It's broad-based and, I think, we all in the industry have faced pressure on attrition. I think we're doing pretty much what you would expect. The most obvious thing is we – not only for the increased attrition, but also for meaningfully increased demand coming out of the second and third quarter had dramatically to increase our hiring capacity. So, we've been scaling up our hiring to make a record amount of offers for growth and for replacements.

So, that has worked relatively well. But it was a meaningful effort as we had kind of adjusted our recruiting capacity to then in the second and third quarter anticipated volumes, which were, of course, all clouded by doomsday scenarios. And so, we had work to do on our recruiting thing. We also had fine-tuned our

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competitiveness relative to compensation and benefits. So, I think we have improved our overall posture relative to the basics.

And we improved our recruiting processes also, faster decision processes, quicker onboarding of our associates, etcetera. So, a number of operational issues that you would assume could be – we have been also, of course, focused on competitive wages in particular for the high-end demand digital skill set, where we had to make adjustments. The market had moved on us. And we had to basically improve compensation for these types of skill sets which we have. And we have seen also positive feedback and impact on retention for those who were beneficiaries of those things.

And we have worked on retaining our associates through a number of measures. They are more emotional measures. Cognizant has taken a leadership role relative to fighting the awful pandemic in India. We have a big, we call it the 3C program, in which Cognizant is really going extra step of converting facilities of ours into vaccination centers, helping our associates delivering oxygen to their homes if they don't feel comfortable in joining the hospitals or providing extra access to private hospital facilities, which may have offer at times better quality of care, paying for vaccinations.

There's a long list of things that we have done in order to lead and help for the safety of our associates, and that actually had a very positive impact on the company, the feel and feedback that we get from associates, to specific focus of retaining, of course, associates at risk. We saw market improvement and rescinding and reversing resignation letters because of the focus on both actions.

So, we net-net all those initiatives, and you can see I have a long list just off the top of my head that this is a clear focus at the company. We saw an improvement in the trend of these resignations. They peaked and have continued to improve in April and to May, as Brian shared in the call. So, that's a positive trend, but unfortunately, I think we will see some impact on attrition also in the second quarter.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Well, I know you mentioned a number of them, but I wanted to make sure that the audience here was fully aware actually of everything that Cognizant is doing in India right now. I mean you employ over 200,000 people in India. You're one of the top private employers in the country. And, yeah, why don't you just talk a little bit more about? I mean I know direct assistance to the employee base, but also more broadly to the country, some of the stuff that Cognizant is doing.

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I shared basically a little bit the elements of our effort to combat COVID. It extends actually beyond our associates. We included all of this – their families of our associates as well who have the same access to these types of services. And we also have been receiving requests from some of our clients to help. So, we are deeply involved.

We have our Chairman in India, Rajesh, who is in India, leading this effort and coordinating it with the facilities. We have been donating obviously resources and participating in UNICEF initiatives for oxygen. So, it's a comprehensive effort because our hearts are, of course, with our team. And it's heartbreaking to see the pressure that our associates are under and still deliver every day.

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So, very, very important for us. And as I switch back out of that emotional time into a more business environment, it is rewarded also by external ranking. So, we were very pleased that Forbes and LinkedIn and [ph] all this would lead (27:03) – have us back at one of the leading employers in the country, which is really a place that we think we deserve and working hard for to win the hearts and minds of our current associates and future associates.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Well, realizing that, right now, you're, as you mentioned, taking a lot of like fairly tactical steps to address that resetting the talent balance in the near term. But as you think more broadly and maybe as part of the broader transformation of Cognizant, what is the longer-term strategy around talent? Are you looking at diversifying globally your talent base or doing sort of different onshore, offshore models just as you think about bringing in digital skills and just how that needs to evolve as Cognizant evolves over the next few years?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. In a sense, I can – in an odd way, can say yes, yes, yes to you, Lisa, because India will remain just the way the math is working, a critical, critical cornerstone, so for Cognizant, we're planning to accelerate growth. And at our growth rate, no matter how fast we're going to be scaling globally, which we do intend to do, India will grow and India will be important for us. And so, that's kind of an important cornerstone. But having said that, I think some of our digital services will do and grow in other areas of the globe as well. Our clients demand that and talent will also help us to do. We can't even do it all in India and would be a dependency that would not be wise to pursue.

So, we are globalizing, in particular, in focus areas that – really nothing too exciting to report and would be in Latin America and it will be in Eastern Europe and primarily – and those are important reorientation. Some of these delivery capabilities come with our acquisitions and some will be driven organically in the expansion.

So, I think that's important is probably also the employment model for digital engineers. We call them [indiscernible] (29:36) working together in teams, obviously, in agile development teams and different stack capabilities. So, it's probably a little bit different than some of the more traditional models where you may have been under the management of our client, long-term employed as at – on projects for that employer. I think it's a little bit more dynamic. And that will be an exciting transformation I think by our associates with new opportunities also.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Got it. Okay. Let's turn now to maybe a few more info type of questions. Talk a bit about Cognizant's long-term, what I would call, growth formula with your CFO hat on? Not looking for like long-term guidance obviously. You have not done that. And I realize that right now in 2021, obviously, things are still very much in flux. But more conceptually coming into Cognizant, how do you think about how investors should think about Cognizant's sort of steady-state growth objectives for revenue, for margin [ph] expansion, whatever (30:55).

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I've said this elsewhere like it would be not a big leap of faith to assume that when we look at this industry that we, as a company, have an ambition to shift share onto our side. And the share shift should come

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organically, but also will be aided by M&A. So, we, clearly, in all our setups, would be striving in an environment where we would think above-industry growth would be a good aspiration strategically to have.

So, the margin is low to our historic compares. And I said elsewhere that I feel a combination of sustainable organic revenue growth paired with reasonable M&A and a moderate but consistent margin expansion over the years would be, I think, a very trustworthy business model to do. And I feel that's well within our reach.

We have invested into SG&A by accelerating M&A. But, obviously, we're maturing now. We're not expanding consecutively the capital. We ramped into a range of approximately $1 billion of capital to spend on M&A. So, I think the dilution will kind of level in that sense, but, hopefully, not more pressure on us. And then, I think some of these investments in SG&A now will mature and will be aligned to either at or below revenue growth rates. So, we have sources on the SG&A line, which I feel has opportunities for us relative to our competition.

Now, we have sources on gross margin side relative to price realization, relative to overall us growing, having better opportunities to shape our delivery pyramid and finding opportunities in cost of delivery. So, I feel fairly optimistic that, that formula that I just described is achievable. And so, that's on my mindset on how I want to do that.

And then, I pair that with commitment of how I use the cash that we're generating. We had a little bit of a focus on cash conversion in order to kind of signal that I'm sensitive to how we use our cash. And I feel that's kind of a fairly intuitive business model to me. I don't want to oversimplify it, because the reality, of course, underneath is complex, but that's my guidepost basically.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

So, double-clicking for a minute on the cash conversion, it's very CFO question, but also one that when I talk to investors about Cognizant, I think of it as like the third leg, meaning a big driver – a potential driver of Cognizant's stock price appreciation actually would be around cash conversion. And I know that something that's near and dear to your heart is increasing Cognizant cash conversion, which has historically run like 85%, 90%. And what are some of the initiatives? I know just even since you came in the [ph] door (34:17) eight months ago, you've highlighted [ph] your focus (34:21). So, what are some [ph] of the difficult things (34:22) you're doing [indiscernible] (34:24) around cash conversion?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. Look, like in all fairness, I think if you look at the trend line, Cognizant's line has been improving for a little bit. And I think when you get hampered in cash conversion, you have one-time elements of certain tax things happening that kind of really destroy the picture. What you can do from a management perspective, like at this high level, we made in the last year good progress on our DSO. We improved our DSO from 74, I believe, to 70 days, more kind of aiming for further improvement in order to achieve what we talked as a framework around 100% cash conversion I think for this year.

And so, I think that's the most operational. They are small. We have a plan, it's the guidance that we focus on in order to be thoughtful on cash generation and use. But I think that's kind of from an operational side probably the most meaningful. The first quarter was [ph] historically sort of (35:32) a complicated quarter for us on free cash flow because we paid bonuses. Bonuses were higher this year in mere payouts than last year. And we had also tax items impacting our cash flow from deferred taxes out of COVID that we now had to pay out. And so – but we

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kind of feel comfortable with our initial indication in fourth quarter on our goal [ph] of 100% cash conversion (35:55).

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Okay. Okay. Another hot topic with Cognizant as always, you touched on this briefly, but let's kind of get to it more explicitly. It's a question around revenue growth and margin and whether or not there's sort of – whether or not there is an implicit trade-off between those two or whether you think – meaning can Cognizant accelerate revenue growth and at the same time maintain or expand margins or is actually the investment required to drive revenue growth, imply that margins [indiscernible] (36:39). So, how do you do [indiscernible] (36:43)?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

[ph] Lisa (36:43), fair question. And maybe I think of it at really simple terms. So, we increased our sales force by 500 – around 500 people. We made other investments to professionalize our distribution capabilities. It had impact on SG&A and contributes to the growth of our SG&A and created margin pressure. We acquired and integrated 10 acquisitions, last year 9 and now another 4 and put pressure on our SG&A margin. And it contributed to not only inorganic revenue growth, but also organic revenue growth through the synergies that these guys created.

So, the trade-offs are, in a sense, very pragmatic and real. So, there's no secret sauce. We put a little bit more money into marketing to improve our brand. And so, probably the growth impacted a little bit more longer term as we repositioned the company. But those are the type of things that drive the P&L movement on the SG&A line. And it's fairly intuitive of how they should translate. We see bookings growth that's generated by those plus other salespeople and distribution capabilities in the company.

And the M&A, we're watching that with meeting our business cases relative to revenue. So – and like in all the chaos here is actually very simple and clear to me on how it works. Now, I feel we have a good distribution capability right now relative to the size of Cognizant. So, I would work not so much into increasing that cost load, but I would probably work to optimize it, to streamline the processes, to gain the full productivity of our relatively young sales force, in particular, for the incremental 500 people.

And I talked elsewhere about our focus on driving a little bit more margin through integration, focused on our M&A, so that we can improve our return on invested capital, that we can still reap the benefits of why we acquired those companies, but can – obvious opportunities through integration to let the companies benefit from the scale that Cognizant can bring to the table, which should also help.

So, kind of just two examples of how I think we're going to be moderating our SG&A growth going forward. And then, hopefully, the overall growth, our focus on competitiveness and pricing as well as other measures in the cost of delivery side will allow us to drive continued good margins on the gross margin side. So, it's really not too much of a secret sauce. I think it's kind of what three or four things that you would focus on when you have business like this.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Okay. You touched earlier on M&A as one of the initiatives you said right off the bat that you [ph] see very vividly Cognizant (39:50) has improved your M&A muscles significantly in the last couple of years as part of pivoting the

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business to growth. So, just talk a bit about what your approach is to M&A at Cognizant as you've kind of built up that muscle. How do you source targets? Like what's kind of the differentiation that's coming out around how you do and execute M&A?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. It impressed me really what Cognizant was doing and it is – and it has – Cognizant has the benefit, all of us have [indiscernible] (40:30) in this industry, but it's a target-rich environment. So, if you never had a responsibility, an area that is fragmented and offers ample room for consolidation is a good area for M&A.

Now the team and Brian have built, I think, just a very good process relative to setting the priorities in which areas we do want to hunt and then to align our resources on the development side to build pipelines and then have just a good process of prioritizing the areas that matter the most to us and then also following through and being willing to do the deals. And so, be decisive in that so that you can be competitive in the deal process.

I think Cognizant has established itself somewhat as a good acquisition home because we have a good and [ph] friendly (41:31) culture for many of these acquisitions, they were the new cornerstones of our areas. If you don't have a Workday practice and you're acquiring the leading Workday [ph] credit (41:40), it's exciting for that team to now basically lead that effort for a Fortune 200 global company.

And so, we had advantages like that, that we have leveraged in the process, but we had also really I feel a very good deal sourcing process in which not everything is 10 times revenue. We have [ph] bargains (42:02). We have fully-priced deals. We have it all in the portfolio. And the outcome I think is a good balanced mix. I'm personally a fan of these medium-sized-type acquisitions where you kind of know about not everything will be perfect in your life, but when you have 10 acquisitions of $50 million to $100 million and the risk is balanced to the portfolio, which is also I think a good thing for our company to do, not to bet everything on one horse.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Good. All right. Well, we only have about five minutes left. So, I want to pivot to some of our closing questions and I'm going to start with your priorities over the next couple of years, eight months into the job here at Cognizant. So, yeah, how do you think about you as the CFO, your personal top, two or three or four priorities?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Look, we as a company have deployed a lot of capital in the last two years. I'm planning to continue to do so. We have made investments through our P&L. So, I view it as my top priority really ensuring that we get returns for these types of investments. And so, this return and accountability focus is going to be primary topic number one. It's from portfolio management and accountability for our M&A performance to sales productivity measures to return on investments for a variety of initiatives that are underway. So, I think you can expect from me that type of discipline, because we were granted an ability to invest in order to transform and reposition the company [ph] over (44:06) to our investors to deliver and be keen on the returns.

So, I think at times easier and a time of excitement of changing, to put money down and collecting the money is also a little harder and that's kind of where you sometimes need a little bit of the help of the CMO.

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And I say this in the most loving way. I think the stage that Cognizant is, to offer a second comment, is if you have grown and have been wildly successful and have a very entrepreneurial-type culture, client-centric culture, it may at times comes at the expense of a disciplined process, a review process, an accountability-type process in – I'm not saying it's bad, the past, but I'm saying there's maybe a natural evolution to professionalize ourselves even more and add into our quiver that we hold ourselves accountable in a whole variety of measures and process.

And coming from my background from a very, very organized company I think as ADP is kind of a natural thing that I would bring to the table. And I hope I can add a little bit of that type of discipline throughout. Those would be too personal that – little bit of a personal notion also that I bring to this, [ph] because (45:36) just prefer it that way and I think it's going to be more effective in the long run.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

And if you were to articulate for investors, if they're looking out say two, three years, how will Cognizant look most different relative to today?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Two, three years out, you'll see in a good outcome. I see Cognizant not talking about digital revenue anymore, because the vast majority of our business is like that. You will find us a vibrant organization that is attractive to a diverse group of associates that we want to work for Cognizant because we solve the best problems, we have great clients and we have a wonderful, inclusive thriving work culture that would make me very proud and that's going to be the Cognizant that you hopefully will see [ph] it with this (46:36).

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

All right. And so – and for you, I'd just say what is the area that you think looking across everything Cognizant is doing that you're the most excited about?

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Easier to me – for me to say like I'm really focused right now on our delivery program. And as a CFO, you deal really a little bit more with the areas that need attention rather than the areas that you celebrate. So, I'm hesitating almost, but I continue to be, on a personal level, the most engaged about the team that I'm working with, the excitement, the alignment. Many of us are new, which has disadvantages, but the big advantages we all brought into this vision to drive this very clear. So, we're aligned on working hard and that's fun to be in that environment with a great group of people.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Well, why don't we close by having you give the elevator pitch from an investor perspective for Cognizant? I mean I think it's a very, as you said, unique opportunity in Cognizant's history, given the growth in the industry, the fragmentation in the industry as you highlighted them and all, so that's sort of idiosyncratic unique transformation program going on at Cognizant. So, if you are going to talk directly to your investors, what's sort of the pitch from here?

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Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. That Cognizant is positioned in a highly attractive industry in a unique position due to our history, client relationship and scale to disproportionately participate in the success of this industry by being willing to undergo the transformation that will shift us into the most attractive growth markets and creating returns by balancing our organic and overall revenue growth with a solid focus on continuous margin expansion, the compounding results of that I'm convinced will create a very meaningful total shareholder return.

Lisa Ellis
Analyst, MoffettNathanson LLC

Wonderful. All right. Terrific. Well, thank you, Jan. What a fantastic way to end our summit. And for everyone watching, thanks so much for joining us for Jan Siegmund from Cognizant and were broadly joining us over the last two days for our third annual summit. Next year, we will see everybody in person, hopefully, back in New York.

So, thank you, Jan. Thanks for joining us.

Jan Siegmund
Chief Financial Officer, Cognizant Technology Solutions Corp.

Thank you, Lisa, a great pleasure. Bye-bye.

Lisa Ellis
Analyst, MoffettNathanson LLC

Terrific.

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