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Cognizant Technology Solutions Corp.

(CTSH)

MoffettNathanson Payments, Processors and IT Services Summit

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Brian J. Humphries
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Lisa D. Ellis
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MANAGEMENT DISCUSSION SECTION

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Welcome, everyone, for joining us virtually and some folks here in-person. I'm delighted to be joined for our 1 PM Session on Day 2 of our Summit by Brian Humphries, the CEO of Cognizant. Brian, thank you for being here. Before we dive in, do you have any opening comments that you'd like to make?

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

Listen, I think many of you know the story quite well. I took over the company three years ago. Great company, growth DNA, a company that maybe had slightly gone off the boil, trying to get it repositioned. The strategy, I think, it's clear, at least in my mind, is quite simple. Expose the company to higher growth categories by scaling internationally, by scaling massively into digital and, frankly, showing up differently by selling solutioning and delivering client outcomes and evolving away from being a provider of resources. And as part of that, we've been repositioning the companies via M&A. We spend about half of our free cash flow on M&A per year, so that's about a $1 billion per year. We've been repositioning the brand. I think it's a company in transition. Last year, we had our highest growth since 2015. And I think we've been dealing with a lot of exogenous events and some events, by the way, that we are self-imposed over the years, but I think we're doing the right things and making progress.

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QUESTION AND ANSWER SECTION

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. Good. Let's jump in. All right. Well, speaking of the three years, yes, you have been at the helm of Cognizant for just over three years. And looking back, just to set the stage a bit, when you look back over the last three years, what are the top three or four ways in which Cognizant has transformed over this time? What are the things that you're the most proud of in terms of the progress you've made?

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

A

The first thing that comes to mind is digital. Digital is now about 50% of our business. When I joined, it was about 30% of our business. And digital is really important, both for our financials and many of you as shareholders or analysts care about financials more than most of our employees perhaps, they don't get excited about basis points improvements and margin. But digital exposes us to double-digit growth and it exposes us to higher margin categories. So, it's good financially.

Number two, it's good for our clients, engagement with clients because we become more intimate with clients, because we get to work on projects that are more strategic to them, more relevant to them, their innovation journey. And digital is also good for our employees, particularly in today's market because attrition is the order of the day and trying to mitigate that and having employees to get to work on cool projects with great skills of leading-edge technology, it tends to keep people more engaged. And getting digital therefore from 30% of our business to 50% of our business is really essential along those lines, and that should continue to grow in the years ahead. That's maybe something I am very proud about and something I think we recognize internally. We make good progress on.

Positioning the company internationally. We are making progress there. Sometimes, I wish I could go faster, but on the other hand, I don't want to get there via a numerator/denominator dialog because North America has actually picked up for us simultaneously as well into the high single-digit growth. And we got ambitions, of course, over time to do even better there. But internationally, I'm pretty fixated on the fact that our Head of Japan will speak Japanese and will likely be therefore a Japanese executive, which we didn't have before. We have these days. Murakami san is doing a great job. Our Head of UK, we refresh, we brought in somebody senior from the outside. They're growing the UK 20% plus organically and that's important. The UK is our second largest country, as an example. So, getting the brand and getting the leadership team internationally to be, let's say, more established, more connected into society at large is something that we've been working on and something I think we make good progress on.

And then more broadly, I think just getting the people to think about Cognizant differently. That's a multi-year journey. But I see that in my client engagements, and I've probably been with 70 clients in the last six weeks, and we're talking about things we weren't talking about a few years ago. In my first few days in a job, I met many clients and they were talking a lot about, well, we're doing this, with that, we love you guys, you served us well, you deliver well. But by the way, we need synergies, we need savings because I need to free up money for digital transformation. And when I've asked them about, well, who you're spending that money on with digital transformation was never Cognizant. And they actually, in many cases, didn't know that we had digital capabilities, albeit our digital capabilities, Lisa, actually were less mature at the time.

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So, the brand perception of the company is important, and that changes every single time you talk to clients and how you talk to them and how you show up and the people who show up on our behalf. So I would say those are three things that I feel were important to starting to reestablish ourselves hopefully as a growth company. And we're not done. It's a company in transition. We're certainly not top quartile on growth yet, but we've had bookings growth for two years and, as part of that, we've driven a sales force transformation, which I think is pretty important as well.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Okay. Good. All right. Well, speaking of still being in transition or in transformation, looking forward now, sort of resetting yourself after three years, what are the top priorities over the next three years?

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

A

I think it's more of the same. The strategy we refine periodically, and as part of that, to be very honest, everything follows strategy, what portfolio do you want to have. We exited content moderation 2.5 years ago. We wanted to double down in digital. We've been spending $3 billion in that in the last year. So, strategies are never done. But I'm very much [indiscernible] (06:23) we need to now execute against our strategy. The first thing in the last three years I talked about was getting the strategy right, getting the portfolio right, starting to get the bookings momentum there. We've had two years of mid-teens bookings and a book-to-bill ratio of 1.2 these days. And as part of that, there was a lot of work not just around the portfolio, but around skilling and partnerships.

I think in the coming three years, the fruit of that labor should become more apparent, stronger revenue growth hopefully now out of a period of heavy investment and hopefully into a period of margin expansion. And we've guided 20 basis points to 40 basis points of margin expansion for the next three years, a little less this year because of labor and whatnot. But the next three years, for me, it's around executing the strategy we put in place. And then there are certain other categories that we will continue to drive there. Maybe you guys talk about less. Globalizing our delivery network is something we've made progress on. We'll continue to do that, continue to scale the brand. But it's fundamentally now about unlocking the value from the pivot we've been going through. Obviously, the industry alignment of Cognizant is something we're proud of. We want to continue to strengthen that. And there are new industries within that, frankly, that are of interest to me that you'll see us continue to invest behind growth categories.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. Good. So, let's double click on the shift to digital. You name that number one on your list of things most proud of the transition from 30% at the time you joined Cognizant to 50% of revenues just last week on your earnings call. You achieved that milestone. What are the areas within digital where you view that Cognizant is particularly differentiated?

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

A

I think this differentiation is an interesting choice of word because very often I think differentiation in a services company happens at the client interface, both in terms of delivery excellence as well as your commercial engagement model and the subject matter expertise you bring. So, you can talk about differentiation in terms of the portfolio, but we're all out there extending our cloud capabilities, our digital engineering capabilities. We can all

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talk about communities and guilds and the methodologies we use. But at the end of the day, we're all deploying more or less the same things.

So I would say, from our perspective, I certainly felt we had to scale our capabilities three years ago. As an example, we were viewed by Gartner as a niche player in cloud in 2019, which – it's not as though cloud had snuck up on the world in the prior decade. So, we had to really get after that category. What did we do there? We set up a Microsoft Business Group, a Google Cloud Business Group, a native US Business Group. We built out SaaS capabilities by acquiring our way into Workday. We acquired three Salesforce Platinum partners and that changed our perception of brand in cloud. We quickly went from niche to challenger in 2020. I think we'd already established ourselves as a leader. And for partners like Salesforce, that inherently meant going from partner number 12 or 13 or 14 to partner number 3 or 4 in the space of two years.

So, what we've been really getting after in our digital build-out is making sure our partnerships are different, making sure our portfolio is stronger, really strengthening our digital skilling capability internally and making sure Cognizant Academy is accommodating that. So, last year, we did about 23 million hours of learning and development in digital, 30,000 digital courses, and making sure we have a curriculum that's available to people and almost creating this upward mobility in the company by creating almost a self-service career path that unlike other years where you'd wait until the end of the year and Lisa would get promoted, congrats, Lisa. And poor Brian would say, well, you're close by, but not close enough. Let's come back next year. In today's labor market, that doesn't work. In today's digital market, that doesn't work. So, this upward mobility [ph] threat year (10:12) is important, we can talk about that.

So, it's really been for us about client interface showing up differently. One in two of our client interfaces in FSI is new. We try to hire more senior people who can show up with a point of view by industry and sub-industry and sell solution and deliver an outcome. And those outcomes tend to be more digitally-oriented. So, supporting that client interface refresh with a much broader, deeper portfolio was the second part of that. And then the third part of it for me is around skilling our peoples to attract, develop and promote people with digital capabilities. Everybody's got a Microsoft Business Group and everybody's got relationship with Salesforce. That's not differentiation. That's table stakes.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. One of the challenges you highlighted, for example, exiting content moderation, making that decision a couple of years ago that you've faced over the last few years since taking over Cognizant has been sort of managing the traditional revenue streams where you've had to exit some accounts, you've had to stabilize some other accounts, and then reposition some other ones. So, can you talk a little bit about what I'd call the other 50%? You've got 50% in digital. The other 50% of revenues and sort of like what's going on underneath the covers there and how can you give investors confidence that that piece is now in a good spot?

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

A

Yeah. Look, to be very honest, content moderation, financially, it was good business. So, for investors, there was a debate to be had undoubtedly as to whether we should stay in it or not. I didn't think it was a good business strategically for Cognizant. So, when we exited that, it wasn't a problem category per se financially. It was a good financial category. It was one of our highest growth categories frankly in the company back in a day. But it was bad for the brand, it was bad for morale, and it was certainly not aligned to my strategic priorities to reposition the company to be a digital leader. So I didn't view that as a negative comp. That was just a leadership decision that I

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had talked to the board about on a number of occasions and talked with a lot of employees internally about as well. And we just didn't think it was appropriate to be in.

The only one of the legacy businesses that I exited was a large financial services contract that had been signed in 2018 in Europe. That inherently, I think, was optimistic, let's just say, in the solutioning. And I don't think we could have delivered against it. And it would have been a disservice to our brand and to our customers and candidly would have cost us a lot of money and penalties. And I think it was better for the client and indeed for us to not proceed with that. The rest of the portfolio was kind of fundamentally the same.

So, what is the rest of the portfolio. In that 50% that we assume will grow in mid to low single-digits, as outlined in November.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yeah.

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

A

We have some really wonderful businesses, including our testing business, which one could debate, should that actually be there or not. Because while testing was very often done in waterfall in the past, if you are building a digital solution for a client these days, whether it's a member onboarding, portal for a healthcare company or a frequent flyer portal for a large airline, testing is done throughout on an iterative basis in an agile way. And so, we call that non-digital. It's in the non-digital 50%, but it's actually enabling digital.

We have our BPO business. And by the way, testing is one of our most profitable business. It's an absolute gem. I love it. Our BPO business, which is a higher growth business for us than company average, in the definition of BPO, we've characterized certain elements that are included in digital, such as IPA. But for the classic BPO business that's included in the 50% that's non-digital, we've been growing that in strong double-digits for the last two years. Exiting content moderation encouraged us to look at higher growth categories. And we've done a fantastic job there, and the business has gone from strength to strength. And that is probably been propping up the growth rates above the industry norm because some of our peers of that area of their business that's actually shrinking. Ours is mid to low single-digits.

And then in the rest of that, you've got your classic application development, maintenance, those legacy areas that are not high growth by any means. On the contrary, at a time of renewal, you're always trying to modernize and upsell and cross-sell with a view to getting out of that legacy environment. So I don't think it's a risky portion of our business. You shouldn't necessarily think of it as a low margin portion of the business. It's certainly lower than digital. When we price digital appropriately, I'm sure we'll talk about pricing in a moment, but it's I think a pretty sound business at this stage and there are elements that are more profitable than others.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Okay. All right. And maybe asking a similar question, but through the customer lens because, like you said, you've seen 70 customers in the last six weeks. And I'm pretty sure you've been running at roughly that pace with clients since you started three years ago. How would you characterize kind of the state of your client relationships right now within Cognizant across the top few hundred that drive the majority of your revenues?

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

A

I characterize it as healthy and frankly, developing. Clients increasing – I spent yesterday – all day yesterday with clients. And I think they're beginning to realize that the portfolio is different, the company can provide different forms of services to them, and that we are quite intentional in evolving from being a provider of resources to really trying to own outcomes aligned by industry and sub-industry. So, whether you're in property and casual versus life or in commercial banking versus capital markets or any such thing in any of the other sub-industries and products and resources and the like, the pain points are different. If I walk into a telco, whether it's Verizon or AT&T or a SoftBank or Vodafone internationally, they're all fixated on monetizing 5G and are fixated on trying to reduce churn and increase ARPUs. And that's a universal truth. So, it's providing outcomes to them in terms of new product introduction, Customer360, that's very different than us passively waiting for them to say, I need certain skills, do you have them on the bench. That leads to a certain culture. It also leads to a certain position of Cognizant vis-à-vis a strategic vendor list. And I don't think staff augmentation is particularly strategic, to be perfectly blunt.

So, customers have really started to see Cognizant evolve in recent years to be much more, I would say, of a company they can turn to to drive an innovation agenda. And that's been pleasing for me. I also think, frankly, some of that is now starting to creep into us having a better opportunity to get newer logos. So, larger deals than we've had in more recent periods. And I'm certainly having driven $23.4 billion of digital bookings that are heavily digital-centric in the last year, I'm more open to some of those, getting back into some of those larger banks that we have been into in recent years – we haven't been in recent years, I should say.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. I want to remind folks quickly because I don't know if I did at the beginning of the session that if you want to ask questions to Brian in the room, funnel them up to me online, send them in through your chat, and I will see them here. All right. Let's go to technology partnerships. This is one, as you know, I'm a big fan of. And you highlighted some of the big cloud partnerships that you have gotten underway in the past few years. You've expanded the breadth and depth of Cognizant's technology partnerships significantly over the last few years. What are some of the ones you're most excited about? And also just talk a bit about how you've kind of built that function to be able to nurture and identify and build those partnerships over time.

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

A

So, we overhauled – it was something existing, by the way, an alliances team. But I'm very fixated on these things, in the sense, first of all, you have to have strategic alignment with your partner in terms of what you're trying to achieve together. And then there needs to be muscle memory to make sure that it's followed up with action in the field. So, you look at, A, symmetrical accounts, Lisa is in Account A, I'm not in Account A, and vice versa and/or do we go to joint calls together where we show up and do an account plan together, we show up to the customer together and we co-create together, et cetera. So I've really tried to get sharper in terms of what are we trying to do with each of these partners, but fundamentally then get into field motion of showing up with even myself with Adam from AWS or Omar from – or [ph] Judson (19:02) from Microsoft or otherwise showing up and showing in a joint commitment to clients if you take some of the hyperscalers, Thomas in Google, of course.

So, that's fundamentally what we've been getting back [ph] the basis on (19:13) what are we trying to do and how do we bring it to market. And as I said, the UK is 10% of our business, the US is 74% of our business, or North America I should say. So, you've got 85% of Cognizant fundamentally in two countries that are aligned by industry

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and with the hyperscalers going to market with financial services cloud or healthcare cloud, et cetera. Then you have a real opportunity to align in the field around going to market together. The roadmap upfront needs to be very clearly defined as well. Because everybody, let's face it, hyperscalers aren't necessarily exclusive with Cognizant, nor is Cognizant exclusive with hyperscalers to use those as a cohort of the partnerships we have. Just getting alignment around a topology, what are you trying to do together.

So, as an example, if I take Azure with Microsoft, we're very clear with them. We're going to market amongst other areas in healthcare. And as part of that, we're going to do certain things where TriZetto is aligned to Azure and we will do joint co-creation around things like what are we doing around telehealth, what are we doing around remote patient management, we will jointly build solutions behind initiatives like that. So, it's really about getting a cadence around what you're trying to do together, and then the cadence in the field in terms of how you execute against it.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

All right.

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

We have – I don't want to just talk about hyperscalers, whether it's Guidewire or Duck Creek or Temenos or others aligned by industry, of course, there's plenty of industry specific plays as well.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

All right. Another you highlighted earlier in terms of the differentiation the fact that you have one out of two client interactions are new with BFSI. So, meaning, you've done a lot of refreshing of the go-to-market model of Cognizant and how you're interacting with clients. Can you talk about that? I know when you started three years ago, this was one of the major pillars of the transformation. Can you just give us a bit of a snapshot of how far you are along, what the major elements are in the go-to-market transformation?

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

The commercial transformation has been broad-based. By the way, it's not one out of two interactions, it's one of two FSI client-facing individuals rather than interaction. But the go-to-market transformation, first of all, started with clarity as to what are we trying to achieve. And that starts with customer segmentation, which customers that we want to go after and how do you tier them. You don't tier your customers based on what they buy today. You tier them based upon the purchasing power of that customer or the share of wallet that we have vis-à-vis what we could have. So, the art of the possible. You also tier customers then into an acquisition customer, a new customer versus an existing customer that you're either trying to develop and/or retain. So, those three tiers – intersected with three tiers is what we would call a segmentation 9-box. And if you're a Tier 1 acquisition customer, by definition, the CEO is going to be heavily involved trying to win them over and some of the larger banks, I'm heavily involved in trying to win them over. If you're a Tier 3 retention, the other side of the 9-box, it's probably less likely that you're going to be invited to a Formula One race as part of client hospitality. You're probably not going to see the CEO every quarter, et cetera, et cetera.

So, customer segmentation is important because against that many other things follow, where do you do account-based marketing. So, digital marketing, which can be expensive. But if you're geofencing and making sure that

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people who are in those buildings or those sites see Cognizant when they search on cloud migration capabilities, you're not going to do that for hundreds of customers. You're going to do it for a select few. So, segmentation matters.

The second thing we did, and that's done, by the way, and it's refreshed annually, it's becoming part of our muscle memory. It's not perfect for any company, but it's now becoming mainstream. The second thing we've achieved two years ago was to move to a variable compensation model more readily in Cognizant. Two years ago, three years ago, we were kind of 85% to 90% fixed compensation. And I don't necessarily align to that model. And we're talking about commercial, by the way, a lot of our selling happens in a delivery organization because our commercial team, all they do is commit that we will deliver something so we can talk about delivery in a second, too. But on the commercial side, I wanted to make sure that folks woke up in the morning and were somewhat motivated financially to upsell, cross-sell and to make sure they exceeded their plans. And we moved everybody to a 70/30 plan, and that's been executed for a few years. And now, I was in the Bahamas for something like 25 hours a few weeks ago to celebrate Presidents Club, the high performers. And that's, for me, pretty fundamental in a high-performing organization that you reward and those who excel. And variable compensation was one of the major factors that led to people to be there.

So, segmentation of variable compensation. And then refreshing the team to make sure we had people who could walk the corridor. Not that COVID has particularly helped this, but the virtual corridor. Because very often in the past, if you've been associated with the non-digital space, you've ingratiated yourself in the CIO or CTO organization and sometimes a level below, and you put smart people on accounts and you try and upsell and you cross-sell. But digital, which was a smaller portion of our mix two, three years ago, is classically sponsored well beyond the CIO, CTO space. It could be the Chief Marketing Officer who is building up marketing clouds. It could be the Chief People Officer who has got a HCM modernization agenda in front of them. So, we needed to have people who were comfortable walking across the entire C-suite and having those conversations. And of course, in a portfolio, whether it's Oracle or SAP or Workday, to be able to accommodate those capabilities as well. And that's one of the reasons we really wanted to continue to refresh our teams as well.

So, the commercial transformation, I would say, the heavy lifting of that's behind. It's now becoming muscle memory. And I firmly believe some of the great people we brought, the eight players attract the eight players, so they've been continuing to expand their team below them as well. And maybe the icing on the cake on that in the FSI space because that's where you started. We brought in some heavy lifting what I would call rainmakers in New York and London, people that can get us right into the C-suite, right into the CEO's office, built in relationships that they've had over the last 30 years. And that's one of the reasons I have more confidence now in financial services that while this year it will grow lower than the company average, I think in the coming years you'd really start to see that start to contribute to our growth rating.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. And one of the, I guess, milestones on that from an investor perspective at least has been that you've started to release formal bookings numbers and book-to-bill numbers and figures like that to kind of give the investor community a window into the health of sales. So how are you feeling also just about maybe that – the operational side of it?

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

A

Yeah. The – at the end of the day, [indiscernible] (26:25) returning commercials and commercial transformation, but as I said two years ago, you've got to start by really building client-facing teams, customer segmentation,

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getting variable comp, all with a view to getting people in front of clients more often, building a pipeline, our pipeline has five stages, getting deals across to stage five, getting deals signed, that becomes bookings and eventually that becomes revenue. And so the fruit of our labor is becoming apparent. We've had two years of mid-teens bookings. Our book-to-bill ratio is now about 1.2. In the course of the last year, it migrated up from 1.1 to 1.15, 1.2, and that's a very healthy space for us to be in.

So, I feel as though we got more discipline on sales, what I would call sales operations now, than at any time in our history, certainly since I've been here and what I inherited in terms of which customers are we going after, how do we think about the bell curve of our commercial performance that those were in accelerators and those who were missing the gate, etcetera, etcetera. All that's now at our fingertips. Massive reporting on a quarterly and monthly basis in terms of pipeline shape and qualified pipeline versus unqualified. So we're in good shape there.

That was certainly in the last quarter, you have – I've always encouraged people. I tend to talk about these things when we're good as well. In Q3, Q4, we had bookings of 25% and 22%, respectively, year-over-year. But I always tell people don't think of bookings in 13-week intervals. A deal that slips from Friday to Monday could change things or vice versa. So always look at it on a trailing 12-month basis. And so in this last quarter, I had got a lot of questions, oh, your bookings were only 4%, does that mean something's gone wrong? No, relax, book-to-bill's 1.2. Sales people have a habit of trying to maximize their earnings, which kind of good commercial people.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

Yeah.

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

[indiscernible] (28:16) client centric and maximizing our earnings. We pulled some bookings into Q3, Q4, but Q4 was strong. December was strong. I know what April is. I'm not concerned about April whatsoever, and I'm certainly not concerned about a book-to-bill of 1.2. So, that discipline is stronger than it's ever been.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

Good. All right. Well, you mentioned the delivery transformation, because you highlighted that's where all the real hard work is done. So you've taken a number of actions there too on the delivery side. I know you've empowered, done a lot of work to empower frontline workers and kind of reduced the layers of – in between the frontline workers and their more senior managers. You've done a lot of automation-related initiatives, etcetera. What's working particularly well on the delivery transformation side? What are you focused on there?

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

There was probably less of a transformation there in the sense I felt this is an area of the business, Cognizant is known for delivery excellence. But the evolution there as opposed to transformation perhaps is how I think about it is multifaceted. First of all, we had to – we had slowed hiring in the pyramid, in the prior two years before I joined. And I felt that was something that was going to come back to bite us and haunt us and so we've gone from less than 10,000 hires, I think, for two years in a row, one year, particularly low to 17,000 to 33,000 freshers; this year, 50,000 freshers. And that's important to get to the bottom of the pyramid in a manner such that in today's world

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you can have upward mobility and promotions. And we should double click on that in a moment, but addressing off your first question here, but that's already a evolution or back to getting delivery where it needed to be.

Second thing I would say is India is the heart of Cognizant. I'm very proud of our heritage in India and I was over there a few weeks ago. I'll be back there soon again. In my first year of pre-COVID, I was there every seven or eight weeks for a week. But we need to complement India with a global delivery network. And I actually believe what the world is going through in Eastern Europe at this moment in time will give people, clients a moment's pause to determine, well, whether we need more business continuity and delivery. And India will ultimately, I think, win just given the talent and the scale. But complementing India with Eastern Europe, with onshore and near-shore capabilities is something that's important to me as part of a global delivery network. And we've been building that out quietly over the last few years. And it's hard to move the needle in terms of absolute head count when you've gone from freshers in India from less than 10,000 to 50,000 a year, because you can hire all you want in Canada or Mexico or Spain or Eastern Europe as we have been, it doesn't move the needle big enough relative to the sheer mass of India. But we have been building out a global delivery network to complement India and I'm proud of the progress on that.

Then the last piece and this is important as we evolve the business, because if you want to sell solution and deliver client outcomes, it's not just the Samlinks of the world that can create problems for you, you're committing to, as an example, a fixed bid or a fixed price type deal, you're taking responsibility for the delivery of that. Conversely, if we are providing resources and somewhat overseeing them, but it could be under the delivery methodologies of Customer A, B or C, you don't necessarily have the same delivery methodologies that are [indiscernible] (31:33) culture, because you are providing resources to others. And so this shift of our business towards selling a solution and delivering client outcomes by industry, it's inherent upon us to make sure we have a much more sophisticated solutioning arm and much stronger than ever project and program management within Cognizant.

And as you industrialize delivery by owning outcome, automation such as Cognizant Automation Center, I think I may have referenced on my earnings call last week, that becomes important as well and that's important for our margin in the years ahead, but will only show up in increased margin, Lisa, if we get it right. So it's inherently more binary, but we've put a lot of process around deal governance to make sure we think about these things right. So those are some of the evolutions I think that are happening in delivery. It's less of a transformation, it's more – most of the leadership team and delivery are consistent, folks who've been there for years. There's been certainly internal promotions, but I would say 85%, 90% of the people have been there from before I came and they're doing a great job.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. Well, since you mentioned it in there around talent, let's go there and then maybe come back to some other topics, but – so Cognizant is – of course, in the midst of a very fierce war for talent in IT services, attrition elevated across the industry, particularly in India although it's starting to come under control a little bit more. Can you just talk a bit about what – what's it going to take to get attrition back to historical levels? What timeframe for that should investors expect?

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

A

Well, your question suggests you believe it will go back to historical levels and I'm not sure, as society, will. I mean when I talk to our major clients or our major partners, we're all seeing very, very different dynamics than that which we've seen before. And there's also this inherent question as to whether life returns to normal, whether

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people go back to an office environment or not and I think a work from home environment inherently fosters greater attrition risk, because people have less engagement with their colleagues, you're in transportation less, you're eating less together in the cafeteria. So the whole notion of what is the future of work and what is the culture is something that is really worth exploring.

My personal supposition is it won't go back to the past and we have to learn to live with that. And that means, having some form of rituals to try to maintain a culture and even if people are working remotely, periodically, you try to get them back in to the office once in a while. Training and development becomes as part of that ritual as well. We, on a voluntary basis – by the way we disclose more in attrition than I think anybody in the industry. We in a voluntary basis had attrition last quarter went down 5 points.

For the second quarter in a row our attrition fell and yet it's still too high and I have said it will go up this quarter. I know it will go up because I look at resignation on a daily basis and I know we're also – because we gave our bonuses in March, there was a seasonality in our attrition as it is in the rest of the industry. Not all services firms give their bonuses at the same time of the year, so attrition spikes for companies differently.

I think, hopefully, sanity will ultimately prevail, but I don't think we go back to historical levels genuinely. Now, what do I mean by some of those comments? I had a discussion earlier this week with somebody in my [ph] Salesforce (35:05) practice who talked about a individual in his team who just being poached for an 85% comp increase, 8-5. Now, I don't know any client who's paying 85% more than they were before. So the firm who poached this exec – or not exec, this delivery executive, do enough of those, your margins collapse.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

Yeah.

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

So hopefully sanity prevails. The second thing is, one of the reasons that we have this is because of massive push towards digital transformation in society. And so in here there's a demand, supply imbalance. But as Indian universities churn out hundreds of thousands of grads each year, I'd like to think that some of these new skills we will ultimately catch up with supply and we won't and clearly have the same dynamic.

And then sometimes I think services companies [indiscernible] (35:58) can bring this on ourselves because, oh, Lisa is going to leave, well, let's retain Lisa and then Lisa tells her colleague, well, listen, if you threaten to leave, you're going to get retained and so everybody's costs can go up. I think what we're trying to do to mitigate this, more importantly, [indiscernible] (36:15) it's not just about compensation. Compensation is really table stakes. And we spent more on comp last year, substantially more than any time in our history in terms of compensation bonuses netted out and what I would say out of cycle and the scary thing Lisa is I know if I proactively retain this [indiscernible] (36:38) for month one, month two, month three and we track this, okay, attrition slows, but once you get to month four, five, six, you're almost back to normal attrition rates again. So you're buying loyalty for four months and thereafter you're back in a problem again.

So we can, as an industry, throw good money after bad money, and then therefore we shouldn't just push this whole notion of compensation. We've been pushing skilling and career path development, so we've introduced something that's fundamentally different that employees as they get skilled in certain technologies, they qualify for the right to be promoted and you can be promoted now dynamically through the course of the year. So if Lisa gets promoted, I can get promoted in turn to take Lisa's spot and somebody can take my spot. So you have this

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notional dynamic promotion process throughout the year versus historically in a services company you can be waiting for once a year for that promotion. And as I said, I talked about scaling earlier. And then there's this notion of just hearts and minds, winning togetherness, celebrating success, whether it's a delivery success, a commercial success or just being a company that's growing double digits again. People like to win and employees think less about margin basis points expansion than they do about logos or celebrating success. So that's what we're up to try to mitigate it. But I fear because of work from home and because of the demand environment we're in, I fear that we're in a world of elevated attrition for the foreseeable future.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

For a period of time. All right. Couple of other kind of topics – hot topics I wanted to touch on. Another one coming out of the quarter was, of course, refocusing and shining another spotlight back on Cognizant's M&A function. You have been targeting over $1 billion in tuck-in acquisitions this year. That was another major pillar to your transformation strategy. And M&A or tuck-in acquisitions have been a pretty important form of R&D for Cognizant as well as other IT services firms. So I know they took a pause in Q1 and maybe that caused some folks to be a little jittery. But recognizing that the pipeline for M&A is always going to be a little bit lumpy, can you just talk a bit about the organizational capability you've built around doing tuck-in acquisitions, and how do you sort of source targets, how do you kind of make decisions about willingness to pay and create that value proposition for founders to join Cognizant, etcetera?

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

A

Yeah. So just for context, we had guided in our guidance about 2 points of inorganic growth. And in our most recent call we said, oh, this year we'll probably get about 1 point of growth not 2. Why was that? Is it a philosophical change, Lisa, around our capital allocation priorities? Absolutely not. It's the mathematical outcome of already being in the month of May, knowing what we've closed and/or what's in our funnel and you can do the math pretty quickly if you're $20 billion in annual revenue, 2 points of growth is X, therefore can you achieve that revenue of what's in the funnel and the answer in our mind was likely not. Therefore, we changed our guidance inorganically.

We actually increased our organic growth rates to offset that fully. So in constant currency, we maintained our guidance. And in fact it's a pure guidance because we didn't have to use capital to get there. So, it's actually a good side to that story as well. But the reason we reduced our guidance on M&A is – from 2 points of growth to 1 is because of what we saw in the funnel, but also what we've been seeing in the market. I've seen some irrational behavior in the M&A market. And while the public markets have been quite red in recent months as everybody knows in the M&A space and we've been classically acquiring digital companies aligned by key geographies and key verticals, so inherently there are hotter prospects. I've seen that be quite frothy and I think it's more competitive now than 18 months ago to be perfectly honest. And I am a custodian of the company and we have to act judiciously. And I view that as a positive attribute for shareholders. We will be financially disciplined.

How are we financially disciplined? We have rigor. Our Head of M&A is ex-Goldman Sachs smart individual. We're always looking at lessons from post-merger integration of what's working and what's not. And I've seen deals close that we walked away from that – valuations that are 15% to 25% higher than I would have paid. We're not buying these companies for cost synergies. We're acquiring these companies for revenue synergies. So we either have much more optimism around their ability to upsell, cross-sell or else a different approach to M&A. And so I stand behind our approach. And look once in a while we get out not just outbid financially but outsmarted in deal tactics, that's the world of M&A. It's bumpy. And somebody gets somebody into exclusivity quicker, they tend

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to win. So it's not all valuations, but valuations have been one of the things that have driven us to stand away from some deals in the course of the last – not just last quarter, but really the last six months to eight months.

With regards to Cognizant, who are we? We're repositioning ourselves as a global leader. I'm not trying to make Cognizant an American company. You are American I'm assuming. I'm certainly not trying to make it an Irish company. I'm Irish and I'm not trying to make it an Indian company. We want to make it a global leader, to be a preeminent IT services firm that the C-suite turn to. That's part of our mission statement. And as part of that, positioning ourself as a global company, I think, does distinguish ourselves versus the Indian pure plays. And sometimes for M&A makes this a more, let's say, a target that certain founders want to join. Let's make no mistake of it, these founders who are very often private individuals who form private companies, they can walk away from deals with tens of millions of dollars, sometimes more. And so convincing them to stay is not always easy because they are at a very different stage of financial wealth than ever before. I had somebody in my office this week from one of the companies we acquired in [ph] Salesforce (42:40) who said to me, Brian, I have never been this motivated and we're really on to something good here. And I love the direction you're taking the company. I'm 100% onboard. And by the way, that individual is not just running his company anymore, we've giving him more capabilities that has made him quite motivated. The head of our Workday practice is still in the company two years later, and that individual made quite a lot of money with that transaction as well.

But in many cases, we actually go into M&A knowing that the CEO is stepping out in a matter of months. And I think you'd be foolish to go into M&A feeling as though you're going to retain the Founder. So it's not about necessarily keeping the Founders engaged, it's about trying to retain the next layer of talent below. And that's what we spend a lot of time thinking about financial elements like earn-outs and retention and also how do we take some of these individuals and give them line of sight to a different career path above and beyond the scope of responsibilities they had already. So our Softvision CEO that we acquired in 2018, he's running a business now that's probably close to 10 times bigger than Softvision when we acquired Softvision, 4 years later. So we have great examples of this, but M&A is not easy.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yeah. All right. I do want to maybe highlight one real success story with Cognizant, which has been the geographic expansion, which you highlighted upfront as one of the things you've been particularly proud of. Last quarter, your ex-US geographies grew 17% year-on-year. Talk a bit about what are you doing differently now to win internationally?

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

A

I would like it to grow faster. And that's what I say to our international teams. I need exponential growth internationally. And then if I can keep the US at this level or beyond, amazing things happen in Cognizant. It started with us, frankly, looking at the leadership team we had in place in many of these countries and determining if they knew the local market, the culture, the language and the C-suite. As I said, we hired a leader for the UK 15 months ago. I would say of the FTSE 100 C-suite he probably knows 80% to 90%. So he has access to the leaders and we are breaking into new logos in the UK. And he participates in society, whether it's clubs, rugby matches, cricket matches that for others may seem a little outlandish, in the UK that's relevant.

We likewise upgraded our leader in Japan. We put a Japanese leader in there, Murakami-san, who has broken us into FSI in Japan for the first time in our history, and he has brought a team around him as well, so a lot of it is really look at the teams we had in place and trying to understand do we have the right leaders in place.

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I was in Australia 3, 4 weeks ago, saw 30-plus customers those 5 days. Jane, who we brought onboard there has been able to attract an incredible team. So, not just do they bring clients, but they bring followership in terms of the team around them and I'm [indiscernible] (45:44) A players attract A players, B players attract C players. And so we've actually increased our compensation levels to attract great talent in those markets. Now once you've got great leaders, not just you get followership from clients and fellow associates, but I actually have more confidence then to deploy M&A against them. So, will you see us do more M&A in the UK? Yes; in Australia? Yes. We did about $0.25 billion deal about 12, 13 months ago in Australia. It's gone really well for us under Jane's leadership. So, that new leadership team brings confidence, brings trust and therefore they get more capital. So, yes, our international business has grown 17%. Within our international business, we have incredible success stories. And then we've got some countries that are not doing as well as they need to do. And I'm putting a lot of pressure on them to up their game. And they have no right to ask for capital until they prove that they can organically do better.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

Right. All right. I'm going to transition. We're getting the yellow light, so transition to our closing questions. From your perspective, you interact a lot with the investor community, maybe what are some aspects of the Cognizant story that you feel like are underappreciated?

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

I prefer not to answer questions like this because I think, Lisa, this is your job, not mine as a company CEO [ph] run-in (47:05). So you can you can talk more at length about that, but honestly this is a company that is a fantastic company. It's a growth company. It's a company, however, that's going through a pivot to a higher growth category. It's frankly a company I think is vis-à-vis our peers at a different valuation. But yet it's a company that we've committed to grow in high-single digits to low-double digits in the years ahead to drive margin expansion of 20 to 40 basis points in the years ahead, to drive $2 billion plus or minus of free cash flow per year in the years ahead. So I think we have the wherewithal to do something potentially iconic in the years ahead. But you can give the investment thesis to your clients.

Lisa D. Ellis Q
Analyst, MoffettNathanson LLC

Well. And so then why don't we end on the brand because you highlighted that earlier in the discussion. You have been focusing a lot on also transforming the Cognizant brand perception both when you're hiring as well as clients, etcetera. So describe what does the Cognizant brand stand for it now?

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

So we had massively underfunded in our brand in prior years. And we really – actually, we recently, only two months ago, we introduced what I would call a different logo, but almost with a tagline Intuition engineered because in some regards Cognizant has always been known for a company that delivers with excellence, but also a company that is extremely client centric. But the portfolio in the digital arena was less understood and frankly less funded. And so what we've tried to do is catch the brand up a little bit with the pivot we've done in the last few years. I was ready to launch the brand last year, but then with humanitarian crisis in India followed by an attrition crisis, we just didn't feel it was the right time to do that launch. We haven't done it in an extravagant manner.

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On the country, we've done it in I think quite a prudent manner against today's market backdrop. But the brand for us, if you think about first of all, why do we exist? I mean that's a pretty important question for us, employees these days, why don't we want to work at Cognizant? Is it a B2B company? Who the hell are they? Are they a global company, an Indian company or a US company? We exist in our purpose statement to engineer modern businesses, to improve everyday life. And I – we chose those words quite deliberately. Engineered, that's our backdrop. We are not a consultancy company. We are a company that's got prowess around technology aligned by industry. Modern businesses speaks to a business that looks around a corner, that anticipates what's coming. And while we're a B2B company and we're really focused more and more on the Global 2000, we improve everyday life because most of the things you use in your smartphone, whether it's maps or otherwise, Cognizant inherently is behind us for some of the largest companies in the world. So we're a B2B company, but the implications of our work in healthcare, financial services, payments companies, digital-native companies improves your life on a daily basis.

And so we wanted a brand to recognize that purpose. And behind that purpose we've a vision statement to be preeminent IT services provider to the Global 2000, and preeminent is again a company that clients turn to. So we wanted brand attributes that speak to an engineering background. This notion of Intuition engineered is important to me because we think about the human mind and the prowess of the human mind and how, in milliseconds, data and historical and muscle memory has just been optimized and we just take it for granted. And I think in businesses that we can help clients navigate their environments, whatever the industry dynamics, the regulatory dynamics and help them put their data to use such that they can make seamless decisions proactively and we can engineer their environments with our digital engineering capabilities, I think that's the attributes we want to be known for.

Lisa D. Ellis

Analyst, MoffettNathanson LLC

All right, excellent. Fantastic. Well, thank you, Brian Humphries,...

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you, Lisa.

Lisa D. Ellis

Analyst, MoffettNathanson LLC

...the CEO of Cognizant. Wonderful, thanks for having me.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Very welcome. Have a great day.

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