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Cognizant Technology Solutions Corp.

(CTSH)

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Surinder Thind
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MANAGEMENT DISCUSSION SECTION

Surinder Thind
Analyst, Jefferies LLC

Good morning, everyone. I'm Surinder Thind, the technology and information services analyst here at Jefferies. So, we're super excited here to have Ravi Kumar, CEO of Cognizant. Ravi has been with Cognizant for about five months now. So, it's a pleasure to have him here in London. For our chat today, I'm going to start with some questions about strategy and the state of the business, and then we'll kind of focus on some of the more popular topics of AI. So, Ravi, welcome.

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you. Thank you for the opportunity.

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QUESTION AND ANSWER SECTION

Surinder Thind
Analyst, Jefferies LLC

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Absolutely. So I'd like to start with, when I think about the last few years, Cognizant's been very focused on aggressively competing for your digital business and so you guys have made some numerous acquisitions and to enhance those capabilities. But it appears that you've now maybe shifted some of the emphasis to go after big projects. So, how did you come to this realization, how important is it and why did you make that shift?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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Yeah. So, Surinder I don't think it's as much a shift. In our business, there are I would say three swim lanes. There's a swim lane around cost takeout, vendor consolidation, efficiencies. At some point of time, it was related to technology; and now it's technology and ops. So, that's one swim lane. It's normally active on, I would say, [ph] over-gear (01:40) in a soft market – in a soft economic market. I think the levers you could press on this is not just on technology, but also an ops.

There's a second swim lane, which is enabling digital platforms for extended reach to consumers of our clients. That's been live and kicking for the last one decade or maybe a little more than that.

There's a third swim lane, which is now about engineering technology into products and services of our clients across industries. At some point of time, it was a few industries; now almost every industry is embedding technology into their products and services.

So, in a soft market, you're going to see leanings of large deals in the first swim lane, and that's the opportunity available, and I'm doubling down on it right now. Cognizant wasn't as active on that swim lane in the last few years, but I'm doubling down because that's the opportunity we have. As the economies pick up, I think the second and the third will start to come back, and we have the capability to play on those swim lanes as well.

For the company of our size, we are a full stack provider, and I don't think we can say we should operate in one against the other. We have to have the ability to operate in any of these swim lanes, depending on where our clients are looking for business. It so happens that the last few months has been a much more unpredictable economy, and so the opportunity for cost takeout have been significantly higher. It also so happens that we are coming out of the post-pandemic era where the abnormality of growth had kind of accrued cost and we have this unique opportunity to re-baseline it to a pre-pandemic era and therefore those opportunities are much more.

Surinder Thind
Analyst, Jefferies LLC

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Got it. So, if I was to think about how you've characterized it, is it the right strategy for the right time? Is that what it is, given that you're a full stack service provider?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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Absolutely. It's the right strategy for the right time. We have the organizational muscle to do those deals. 30% of my bookings of last quarter really came through large deals, which we – we characterize it as $50 million total

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contract value and above. And I'm excited about creating an outreach to that program and building a large deal infrastructure, but also equally building on the organizational strength and muscle needed to build large deals.

Surinder Thind
Analyst, Jefferies LLC

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Got it. And then just a clarification or a follow-up here. If you had to make any meaningful changes or subtle changes to kind of reorient the company to go after these large deals, given that you weren't doing as many before.

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. So two parts to it. I think these deals always existed. We see more of them now, more of them active. More of them with in-year savings right now because of the uncertainty in the market. The infrastructure I have built and I'm continuing to strengthen on is outreach to deal advisories where a large part of our deals actually are routed through to constructing those deals proactively with existing clients, to building deal infrastructure like bid managers and rainmakers and hunters attached to it.

The organizational muscle and the industrialization of [ph] delivery needed (05:32) depends on where in the continuum you want to operate. Large deals come with a heavy lift on offshoring. They come with rebadging of people, they come with taking over assets, they come with risk attached to redeployment of people you take, and a whole bunch of things attached to it. So, depending on where you want to operate, you can either build that capability or you have it with you, but you should be self-aware about what you have so that those deals can actually get executed. So, large deals really have this unique advantage and disadvantage. The disadvantage is they come with an intrinsic risk, I mean, depending on where you want to be in the continuum. The advantages, it actually comes with a lot of leverage points. I mean, I could leverage in productivity. I could leverage on the pyramid. I could leverage on offshoring. So, essentially, you can price them to win and deliver them to margin if your thesis is accurately built.

Surinder Thind
Analyst, Jefferies LLC

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Got it. That's helpful. And then when I think about – so, what is your timeframe for – as you've kind of taken the reins here to kind of evaluate the strategy and the success of that for implementing it for holding yourself accountable?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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I think I'm not a big believer to do big bang change. I've always thought that if you want to change the engine in flight, you should be able to do it without crashing the aircraft. I mean, you just have to keep making the changes you need to stay relevant to what is needed in the market. So, there's a lot of organizational muscles I'm trying to shine the talent from inside and I'm filling in the gaps from outside.

There's also equally change I'm kind of bringing in to simplify operations. So, in the first quarter, I did in my quarterly – in my earnings calls, I have actually mentioned about simplifying operations. It's interesting. Our business has become very heterogeneous. I mean, it used to be a very homogeneous business. So, just by design, you could run it in a very simple way. It's a very heterogeneous business. So you could remain as complex inside to seize the opportunity, but you have to be unified to the client. So, the ability to create that

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dichotomy – I mean, you keep the complexity inside and you simplify the operations. So, that's the thing I'm working on.

The piece, which we have to always be thinking about, is it's a very fast moving, high velocity, the clock speed of change is significant, so you should be self-aware of what you have and self-aware of whether the strategy is working, and be able to tweak it as you go forward. So most of the changes I'm going to make is pretty much in this year. And from thereon, I'm just going to be iterative in nature. So I'm not going to do this on a continual basis. You end up with some kind of fatigue if you keep making change.

Surinder Thind
Analyst, Jefferies LLC

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Got it. And then as I think about the choice – and you've evaluated the tradeoff that you've made in terms of investing and making those changes this year, how did you make that tradeoff versus could you have possibly invested more versus the margin profile?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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The way to see it is you want to be competitive enough in the market to win the business, and then the margin is a derivative of what you do. We did announce a program called NextGen in the first quarter, and this is a program to simplify our operations, take out structural costs. There's a difference between structural and non-structural costs. Non-structural costs are costs you take out which come back over a period of time, which essentially means they're very short term. So, if you're taking bench costs out, it is going to come back over a period of time. Structural costs side, you're structurally taking them out so that they don't come back again if you are disciplined enough.

So the two big shifts I've made is – I've made two structural shifts in our cost structure. One is to take our real estate out in India. So we announced that we're going to take out 80,000 seats in Tier 1 cities in India. Now, if you look at the social fabric of India, the bottom of the pyramid has actually moved to Tier 2 cities in India. So, a large part of the Indian IT workforce, not just Cognizant, is actually Tier 2 cities. So, I'm kind of shrinking 80,000 seats and I'm actually moving a part of it to Tier 2 cities. And I'm also making an assumption that in the near future we're going to remain hybrid, which means you don't need all the seats you have. So that structural shift is going to give me $100 million when I finish executing that program. And then we are taking out non-billable roles and right-shoring them to locations where you could deliver them. So, essentially, these two things are going to give me a kitty of money which I could use it back to build growth, I mean, for the growth infrastructure and to do deals.

Only a small portion of it in the next year, I have kind of actually pushed it back into the margin. I mean, there is a margin expansion I have announced. So, I'm kind of keeping the flexibility of using that kitty for either growth or to contribute it back depending on where the economy ends up. So, I want to keep that flexibility so that we could keep the growth momentum intact. So, that's how I've seen it.

And I've really not reflected on what should be the long-term margin profile, but what was important is to get growth back and to have the money to get growth back. And the belief is that if you can get growth back using the kitty you have and the marginal expansion I have announced, I will then have operating leverage, which will rub off on the margins. Because in our business, the SG&A doesn't move at the same levels when growth goes down or the growth goes up. It's not as linear as you want it to be. I mean, if your growth comes back, your SG&A doesn't go back at the same levels. If your growth goes down, your SG&A doesn't go down at the same level. So, it's important to get growth back. And if you get growth back, in some ways, it will have operating leverage on margin. So, that's the thesis on which I've built on. But I have the flexibility to keep the money, which I'm going to

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get from NextGen to support my growth. And depending on if the economy is kind of turning back, then I can push it back into margins. If the economy is not turning back, I then push it back into cost takeout deals. So, growth will remain the focus. And I actually believe that it's the panacea for every challenge we have.

Surinder Thind
Analyst, Jefferies LLC

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Got it. And then when we think about the current demand environment, from a client's perspective, they've changed from a focus on growth 18 months, two years ago to a much more cost takeout type of a situation. So, investors are always asking me for examples. Like, what does it really mean? What is this switch that's occurred in clients? Can you walk us through maybe one or two examples?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

In the past, most cost takeout was on the technology landscape. I think technology is so deeply embedded into operations that the universe at which you can operate is not just 2% to 7% of the revenues of a company, which is the technology spend for most firms, most Fortune 500, Global 2000 firms. The universe is actually anything below the cost of goods sold. I mean, anything below that, which is operational spend of enterprises, you could not just do labor arbitrage by outsourcing, but you could actually do technology arbitrage by outsourcing. And what I mean by that is you apply technology to build productivity and use that to cover the cost structure.

So, a lot of our clients today are asking us for in-year savings because they're actually swinging from a high growth couple of years in the pandemic to a low growth sustained scenario – a sustained low growth scenario. So that takeout, which will happen, is a combination of things. There are clients who are saying, take my operations and then give it back to me as a service. There are some clients who have come to me and said, take my operations as is, give it back to me as a service, take the savings and underwrite it for a future stack, which is deeply embedded with technology, and then give it back to me and hand over the transformed stack to me, but fund the savings from the – fund the transformation from the savings you've made.

So, you take the [ph] as-is (15:43) stack, underwrite the savings, bring the future stack and give them back as a service. The future stack will allow them to stay agile and emerged on technology. So, there are numerous examples of that kind which clients have actually asked for. But the onus of making that savings work and the onus of actually funding the transformation lies with a provider like us. So, it's an interesting swing. I mean, there are customers who have also – a variety of our customers have actually said, take my operations, build it for me, operate it for me, and transfer it back to me. I mean, build up a transfer model. Just look at the amount of – the change which has happened because technology is so core to their businesses that our clients are no longer saying, do a pure outsourcing deal. They're almost saying, build it for me and allow me to decide when I can transfer.

Just go back to the stats, which India has. India has roughly 1,500 global capability centers. India is going to add another 300 in the next two years, global capability centers. So you could actually almost think they're cannibalizing your business. Counterintuitively, the way I see it is I see this as an opportunity to build it for them and hand it over to them or to co-create along with them. So, these are interesting ways to create leverage on cost, efficiency, productivity. And sometimes, you could even set up joint co-created engineering shops for products of the future and services of the future.

Surinder Thind
Analyst, Jefferies LLC

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Helpful. And then when I think about the digital part of the business. Last week, there was a competitor and they guided down for the second time in six weeks. So within your consulting practice, you actually have a very large digital practice as well. And so, any color that you can provide that what you're seeing within your business, within digital and consulting more broadly?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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Yeah. So, we have a breadth of services. So, in some ways, the risk is – I mean, you derisk it because of the breadth and the exposure across industries. I think the company you're referring to, it's a combination of things. The capacity is not as distributed. I mean, the supply chain is not as distributed. The second is they're catering to only digital-natives. And the third is they're catering to engineering of products and services. All of these three are vulnerable for discretionary spend. And if there is softening of discretionary spend, all three will have an impact.

With companies like Cognizant, because we have a breadth of services, all the way from engineering to enabling the business, to building digital platforms to access consumers, you spread the risk because the cost takeout deals are large deals that happen in a soft economy much more. The discretionary spend attached to building digital platforms and engineering of products happens in a good economy. The ones which are paranoid and investing even in a soft economy are the ones where the industry is significantly disrupted. I'll give you an example – the car industry. The car industry has moved from internal combustion to a connected car. So, irrespective of where the economy is, most car companies are paranoid about the new age connected cars which are coming into picture. So they're all investing on that product. So they would do that in spite of a soft economy.

Now, the Fortune 500 and the Global 2000 have a different impact and have a different rhythm on economic cycles to the native companies. So the company you're referring to is focused on native companies. So, we do have native companies as well, but we equally have Global 2000, Fortune 500. Native companies today have a different level of paranoia because the cost of capital has gone up. So, some which have never outsourced are wanting to outsource, some which have outsourced before are looking for better savings.

So I kind of think depending on where you are, I think because of the breadth of services, the breadth of industries, and the straddling we do between the Global 2000 and the new digital-native companies, digital-native companies were never customers of companies like ours before, but in the last few years they've been as well. So, we have the ability to derisk it, I would say. But certainly, there is – discretionary spending is very soft. I mean, I already see it in Financial Services. Financial Services is the first one where the discretionary spend goes down and I think it is soft, uncertain and sometimes falling off the cliff.

Surinder Thind
Analyst, Jefferies LLC

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Got it. I notice we have about 5 minutes left here, so I have to get in an AI question here. IT services are generally on the leading edge of change, right. You enable all of your clients to kind of see the future. How much of the AI hype should we believe at this point? And how transformational do you think it is for the business and maybe over what timeframe?

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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In the last – you got to it in the last 5 minutes, normally you get it in the first 5 minutes. In the last few months, we have gone from what can AI do to AI is going to save the world, to AI is going to destroy the world. I would say a

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part of it is a hype curve, but a part of it is real. I think there's been an inflection point for sure. The fact that you're going to transition to not just repetitive tasks being done by AI, but cognitive tasks being done by AI is a big shift.

I think what large language models and foundation models are going to do is it's kind of going to humanize technology, as I call it. What I mean by that is the agency of technology is going to move from the developer to the user. There have been so many discontinues in the tech waves over the last 30 years, but there's never been such a big shift of agency from the developer to the user. What I mean by that is you can almost hand over foundation models to – I mean, or large language models or whatever you call them to a group of users who can use the raw technology to unleash the potential of technology. So, it's never happened before. So, to that extent, I think the change is real.

What does it do to our industry? I think the questions to ask is, the smart developers and companies like us always use productivity tools to make themselves productive.

Surinder Thind
Analyst, Jefferies LLC

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Yes.

Ravi Kumar Singisetti
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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Can I actually take an average developer and uplift the productivity to such an extent that it has significant impact on what we deliver to our clients? I think that's an important thing to consider.

The second important thing to consider is, remember, all over the world today, the number of jobs available are higher than the number of humans available. So, it's not as much about whether jobs are going to go away. It's actually about the jobs which will go away, but the significant number of jobs which will get created for the future.

The third is companies like ours have a pyramid where at the bottom of the pyramid, there's a lot of repetitive tasks which go on, which really means what happens to the pyramid and what can we do on productivity and how can we change the role of a developer. In fact, if you're tracking down generative AI, you will notice that most of what AI does is task-oriented. But on the whole, you still need humans in the loop. So I would say as long as you have productivity as the pivot, it's a good thing because it's just going to increase productivity. In the age we are living in where we need more development bandwidth, you're going to see more leverage of AI for high productivity.

Now, if I switch back to customers of mine, customers are going to embrace AI like never before. I would almost say if enterprise software and 30 years ago reengineered corporations, you're going to see a second wave of reengineering using AI. We have a unique opportunity. Most of these foundation models available today are not ready for production grade work for our clients. You have to discover use cases. You have to fine-tune the models to the context of the businesses. The fine-tuning of the models will mean there will be new roles required. I almost call it – our industry employed more of procedural and algorithmic skills. Our industry will now employ algorithmic skills, procedural skills, creative skills and heuristic skills. So, it's a breadth of capability. So, problem-solving, which was the endeavor of workplaces, which was the endeavor of our industry, will move from not just problem-solving, but finding purposeful new problems, which I think is a feeder to AI, if I may. So, that's going to be an endeavor. So, the capability set and the skills we operate is going to be very different.

And then, remember, AI has gone from small datasets, lesser number of errors to large datasets and more number of errors. And because you're generating new content, you have to curate it. So because you have more

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errors and you have a larger dataset to operate on, making it responsible enough so that it could be production grade to be used is also the responsibility of a system integrator. So I actually see that as a unique big opportunity if we can switch our offerings to that space.

So, we actually launched a couple of platforms in the last few months which are related to AI-led offering. So I would say if you can pivot your talent, pivot your operating model and pivot your offerings, it is a unique opportunity. I would rather see this as an opportunity for system integrators and tech companies – I mean, tech services companies to do the heavy lift into the reengineering of enterprise, which is going to be driven by AI.

Surinder Thind

Analyst, Jefferies LLC

Absolutely. So, unfortunately, we are out of time here. But it sounds like it's a big opportunity and I think perhaps we're going to have to have a whole session on AI at some point. But thank you for your time.

Ravi Kumar Singisetti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you so much.

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