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Cognizant Technology Solutions Corp.

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Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Cognizant Technology Solutions First Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background voice. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. I would now like to turn the conference over to Mr. Tyler Scott, Vice President of Investor Relations. Please go ahead, sir.

Tyler J. Scott

Vice President-Investor Relations, Cognizant Technology Solutions Corp.

Thank you, operator, and good afternoon, everyone. By now, you should have received a copy of the earnings release and the investor supplement for the company's first quarter 2025 results. If you have not, copies are available on our website, cognizant.com. The speakers we have on today's call are Ravi Kumar, Chief Executive Officer; and Jatin Dalal, Chief Financial Officer.

Before we begin, I would like to remind you that some of the comments made on today's call and some of the responses to your questions may contain forward-looking statements. These statements are subject to the risks and uncertainties as described in the company's earnings release and other filings with the SEC. Additionally, during the call today, we will reference certain non-GAAP financial measures that we believe provide useful information for our investors.

Reconciliation of non-GAAP financial measures where appropriate to the corresponding GAAP measures can be found on the company's earnings release and other filings with the SEC. With that, I'd now like to turn the call over to Ravi. Please go ahead.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you, Tyler, and good afternoon, everyone. Thank you for joining the quarter one 2025 earnings call. We started the year strong, delivering revenue growth and adjusted operating margin ahead of our expectations. Our performance reflects the breadth and the strength of the portfolio we have built in recent years.

Along with continued sharp focus on our strategy and disciplined operational rigor. We are building a resilient and a durable company, one that thrives in both slow and high-velocity markets, as we can pursue the right opportunities to our clients as they navigate complex and uncertain times. Let me provide a brief summary of the key drivers of quarter one results. Then I'll update you on the current operating environment and our strategic progress.

First quarter revenue grew by 8.2% year-over-year in constant currency to \$5.1 billion. Growth was driven by our Belcan acquisition and organic growth in Health Sciences and Financial Services. Organically, constant currency revenue growth accelerated to 4% year-over-year compared to 2% in the fourth quarter. Importantly, I'm pleased to say our quarter one results puts us squarely in the winner circle an ambition we articulated last month at our Investor Day. While we are encouraged by our progress, it's consistency and sustained momentum that will define winning performance.

Looking more closely at our revenue. Health Sciences led the way up over 11% year-over-year in constant currency. Growth was again broad-based across payer, provider and life sciences as recently won large deals more than offset discretionary spending pressures. Our Financial Services segment grew for the third quarter, third straight quarter, up 6.5% year-over-year in constant currency, an acceleration from the fourth quarter.

We saw healthy discretionary spending as clients continued to invest in cloud and data modernization and then building foundations for AI-led innovation. On a trailing 12-month basis, bookings grew 3% over the prior year, providing a healthy backlog to support our outlook for this year. We had 4 large deals in the first quarter, including a mega deal valued at more than \$500 million TCV from large deals was up mid-single digits year-over-year.

Adjusted operating margin of 15.5% improved by 40 basis points year-over-year putting us on track to achieve our full year guidance of 20 to 40 basis points of expansion. Voluntary attrition ticked down 10 basis points and head count remained nearly flat from last quarter.

Adjusted EPS grew 10% year-over-year, our sixth consecutive quarter of year-over-year growth. We are pleased with our strong first quarter performance. But as you know, the macro environment changed sharply in early April and continues to evolve in real time. As our clients navigate this period of elevated uncertainty, they're partnering with us to re-baseline the cost of technology deployment and we continue to see opportunities related to productivity, efficiency and cost takeout.

The capabilities we have built around productivity, including our AI platform investments puts us in a strong position to win in this environment. In fact, several recent large deals were driven by clients' desires for efficiency and savings and the pipeline for these opportunities remain strong.

Additionally, the steps we have taken in recent years aimed at developing leadership and talent, strengthening our operational discipline, rebooting our innovation engine, have reinvigorated the company, positioning us ahead of the curve while building resilience and durability. As we highlighted at our Investor Day, we're investing heavily in AI-powered software-led engineering at the intersection of digital and physical wells, making products intelligent, connected and autonomous.

We are now integrating all our existing expertise in embedded software and IoT with recently acquired capabilities from our M&A and autonomous technologies, chip to cloud engineering, and Belcan in the aerospace industry into a world-class engineering capability for our clients.

The future of IT services will be powered by the double-engine transformation of AI technologies, both for hyper productivity and innovation-led opportunities. Consistent with our heritage, we sense these opportunities early, and we've been investing in building these capabilities, training partnerships and platforms at a pace we believe has been ahead of our peers since 2023.

The scaling laws of AI continue to accelerate computing efficiency, cost reductions and accessibility, unlocking use cases at a rapid pace and making the outputs more accurate and cheaper. Looking across Cognizant, we now have approximately 1,400 early GenAI engagements compared to 1,200 at the end of the fourth quarter. As I've noted in prior discussions, we see the development of AI playing out in three distinct vectors.

In the near term, we see Vector 1, which is focused on AI-led productivity as an opportunity for enterprises to address the estimated \$2 trillion of technical debt on their balance sheets. In quarter one, AI written code increased to more than 20% for us and is a pioneering opportunity for our developer communities. Sharing this AI-led hyper productivity has been among the key differentiators for us in originating large deals led by productivity and lowering technology deployment costs.

Vector 2 involves industrializing AI. We believe every company needs unique plumbing to successfully adopt AI by localizing, customizing and integrating AI into enterprise technology landscapes. In addition to our efforts with hyperscaler partners like Microsoft, AWS and Google and enterprise software providers like ServiceNow and Salesforce, among others. In the first quarter, we deepened our partnership with NVIDIA. Our work together will be aimed at accelerating the cross industry adoption of AI technology in 5 key areas: Enterprise AI agents, industry-specific large language models, digital twins for smart manufacturing, foundational infrastructure for AI and Cognizant's Neuro AI platform for integration of NVIDIA AI technology and orchestration across the enterprise technology stack.

And thirdly, we expect the evolving Vector 3 opportunity of identification will be the largest as it has the potential to unlock many new labor pools and to create a significant multiplier effect on total addressable spend. We're seeing early identification experiments from our clients in financial services, retail and health care. To illustrate an example, working with Google LLM models, our teams have developed more than 20 Agentic solutions, addressing many of healthcare's most pressing challenges. Our work touches efficiency, customer experience, clinical decisioning and regulation. It spans across prior authorization, appeals and grievances, member portals, fraud and auto adjudication among other areas. In this space, we have secured pilot engagements and are focusing on transitioning them to scaled deployments.

With the help of our AI Labs, we are significantly strengthening our Neuro suite of platforms, which allows our clients to embrace AI on an accelerated path. As an example, just recently, we achieved a groundbreaking milestone in LLM uncertainty estimation. This patent-pending technology allows us to set uncertainty thresholds on LLM outputs to manage hallucinations. And on a case-by-case basis, fall back to rules-based code for human intervention, making multi-agent systems safer and more consistent. This work adds to our 50-plus existing patents in AI. Stepping back to look at GenAI over the long term, we see the market opportunities simultaneously powering both productivity and innovation and the three AI vectors reinforcing one another.

As I mentioned at the start of my comments, winning requires consistency. Our consistent execution on our strategic priorities over the past two years has driven our pivot from stabilization to growth with our first quarter performance serving as a strong proof point. As we look ahead, we believe winning also demands industry depth, execution, excellence and an evolution of how we operate. As we discussed at our Investor Day, we have evolved our three strategic imperatives to the following: amplifying talent, scaling innovation and accelerating growth.

Let me share some recent client wins and business developments within the context of our strategic imperatives. First, with amplifying talent, we are strengthening our talent pipeline with skills needed for the AI era. As you heard us talk about during the Investor Day, we are upskilling our workforce at scale, leveraging AI to meet demand faster and identifying talent pools to address new areas unlocked by AI. Last month, we announced plans to establish a 14-acre immersive learning center in Chennai, India, where we aim to train 100,000 individuals annually in advanced AI technologies. In India, we continue to expand into smaller cities. We expect to inaugurate the latest one, Gift City Ahmedabad shortly. And over the last 18 months, our Synapse initiative has trained over 400,000 people across the world, putting us well on our way to a goal of training 1 million individuals.

Second, we are scaling our innovation engine and expanding our domain expertise to drive transformation in key industries. For example, Bluebolt our flagship grassroots innovation initiative is celebrating its two year mark with 385,000 plus ideas generated to-date. Over 69,000 have been implemented with our clients. During the quarter with ServiceNow we introduced an AI powered solution tailored for mid-market banks that uses GenAI and smart automation to cut manual work, speed up resolutions and boost customer satisfaction. Earlier this month, we were honored to receive several awards at Google Cloud Next 2025 including Data and Analytics Global Partner of the Year for our work helping clients modernize their data ecosystems and Retail Industry Solutions Partner of the Year for our work developing a custom auto management system leveraging AI for a top North American retailer. And during the quarter, we were named to the Fortune's 2025 list of America's Most Innovative Companies for the third straight year.

Finally, to accelerate growth, we are unlocking new opportunities by pairing our talent initiatives with bold innovation with a sharp focus on AI and embedded engineering. Let me share a few examples of our innovation in action. With pharmaceutical company, Boehringer Ingelheim, we launched a cloud-based system called One Medicine Platform aimed at streamlining drug development and accelerating the delivery of innovative therapies by replacing over twenty legacy systems. In embedded engineering we teamed with OMRON, a Japanese electrical equipment manufacturer to engineer new products that integrate information technology and operations technology in manufacturing. We plan to take these solutions jointly to industrial and automotive clients with the goal of helping clients boost productivity, reduce operational losses and infuse AI lead insights.

We also expanded our relationship with Manulife, John Hancock Retirement. Our collaboration includes helping establish a new record-keeping system and enhancing the digital ecosystem, leveraging AI capabilities to simplify the retirement planning experience.

Next, we continue to strengthen our Global Capability Center, or GCC strategy. We are undertaking more engagements to support clients on the GCC journey, establishing new centers and equipping them with strategic AI tooling and platforms needed to drive operational strength. Just two weeks ago, we announced a new GCC with Citizens Financial that will be located on our Hyderabad campus. The GCC will serve as an innovation hub enhancing Citizens enterprise technology, data and analytical capabilities. We will support the center with our Neuro and Flowsource AI platforms, delivering advanced services in cloud computing, data management and cybersecurity. As we discussed at our Investor Day, we view GCC as a growth opportunity for both clients and ourselves. Our differentiators in the GCC space include deep domain expertise in the industries we serve, our

technology prowess and our capability strength in India and the United States. These partnerships reinforce our position as a trusted transformation partner and mark new growth opportunities.

Finally, Belcan opened an aerospace and defense hub in Toulouse to better support global demand and local OEMs. I am also thrilled that Belcan was recently named GE Aerospace Supplier of the Year.

In closing, amidst near-term uncertainty, we are proud of our strong all-around performance and momentum. We believe our early bets on AI combined with investments in practical tooling and distinctive strengths at the crossroads of design, technology led engineering and operations positions us to lead in today's dynamic market. Employee and client metrics remain at a historic high and our operational rigor, cost discipline, and a productivity first mindset are helping expand our profitability when fueling continued investments into our future.

We are confident the portfolio we have built will drive sustained progress towards the growth targets we outlined at the Investor Day, including top-tier revenue growth, consistent margin expansion and EPS growth outpacing revenue growth.

And now I would like to turn the call over to Jatin.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

Thank you, Ravi, and thank you all for joining us. We are pleased with our first quarter results which demonstrate continued progress on our path to industry-leading growth. Despite an increasingly complex economic environment, we exited the high end of our revenue guidance range and expanded adjusted operating margins by 40 basis points year-over-year, driving adjusted EPS growth of 10%.

Let's turn to the details of the quarter. First quarter revenue of \$5.1 billion grew 8.2% year-over-year in constant currency, led by strong organic growth in Health Sciences and Financial Services.

Revenue growth included approximately 400 basis points of inorganic contribution primarily from Belcan. We did not see a significant impact on our business from the recent macroeconomic uncertainty during the first quarter. And we have not had any material customer cancellation during the quarter and through today.

In April, we did begin to see some slowdown in client decision-making and discretionary spending. This has been more pronounced with select clients in certain segments, including health sciences, and products and resources. We believe the impact has been isolated so far in the second quarter, and we are closely monitoring development for implications across our broader portfolio.

On the positive side, demand in our Financial Services segment remains healthy. Despite the uncertainty, this environment is presenting opportunities as clients prioritize cost optimization vendor consolidation and productivity to drive resiliency in their own business.

We believe we are well positioned to capture this demand as clients seek end-to-end partners like Cognizant with capabilities that can help drive near-term cost savings while supporting their longer-term innovation and modernization agenda. Now let me provide some color by segment.

As Ravi mentioned, Health Sciences year-over-year growth was again broad-based. Our clients are carefully watching the potential impact from changes to government health care programs and are navigating rising costs. That said, our backlog remains healthy, and we believe we are well positioned long term as a strategic partner to

our clients as they navigate the near-term uncertainty. Financial Services has demonstrated resilience across capital markets, cards and payments, fintech and commercial banking clients, primarily in North America.

Revenue accelerated from the fourth quarter, and we saw healthy discretionary spending. In Products and Resources, Q1 growth was driven by Belcan. Organically, the demand environment for this segment has been weak due to discretionary spending pressure. We see clients slowing their spending decisions and preparing for more direct impact from changes in tariff policies. We are building a pipeline of cost takeout and productivity-led deals to support our clients in moving forward in this environment.

Communications, Media and Technology revenue was roughly flat sequentially as the discretionary demand here has been stable but is not yet improving. That said, our pipeline for GenAI -led productivity and cost takeout deals remains healthy, and we are laser-focused on converting the pipeline to bookings.

By geography, we saw year-over-year revenue growth in all regions, led by North America, which grew 10% year-over-year in constant currency, driven by Belcan and the ramp of large deals. We believe we are outperforming many of our peers on an organic basis and achieved top-tier revenue growth in the region in Q1. Europe grew 3% year-over-year in constant currency driven by growth among Life Sciences and Financial Services clients, including U.K. public sector, which helped drive strong constant currency sequential growth of about 4% in the U.K.

We are encouraged by our momentum in Europe, which has been driven by new logos and a more focused sales strategy. The rest of the world increased about 7% year-over-year in constant currency. Growth was driven by recent large deals, particularly within comms, media and technology and financial services.

Turning to bookings. First quarter bookings declined 7% year-over-year, driven by a decline in Rest of the World region, which had \$200 million plus deals in the prior year period. The mix of new and expansion bookings grew significantly year-over-year and represented more than 50% of our quarterly bookings. On a trailing 12-month basis, bookings grew 3% year-over-year to \$26.7 billion and represented a 1.3x book-to-bill. Our pipeline continues to grow, particularly for large deals, and we have seen healthy demand in applications, AI and cybersecurity.

Turning to margins. During the quarter, we sold an office complex in India for proceeds of \$70 million and recorded a gain on transaction of \$62 million. Excluding the positive impact of this transaction, adjusted operating margin was 15.5%. Year-over-year, margin improved by 40 basis points, primarily reflecting the net savings generated from our next-gen program and the benefit from the depreciation of the Indian rupee. This was partially offset by increased compensation costs. Utilization also increased to approximately 85%, driven by operational discipline.

Now moving to cash flow and capital allocation. DSO of 81 days increased by 3 days from both the end of 2024 and the year ago quarter, driven by business mix. This remains in line with the assumptions in our 2025 cash flow guidance. First quarter free cash flow was \$393 million. This includes the \$70 million from the sale of an office complex in India, which we plan to redeploy in India over the next several years, including for the development of a new 14-acre learning campus in Chennai that we announced earlier this month.

During the quarter, we returned \$364 million of capital to shareholders through share repurchases and dividends. In March, we repaid the \$300 million outstanding under the credit facility, and we ended the quarter with cash and short-term investments of \$2 billion or net cash of \$1.4 billion.

Now turning to our forward outlook. For the second quarter of 2025, we expect revenue to grow 5% to 6.5% year-over-year in constant currency. The remaining guidance items I will discuss are for the full year 2025.

In 2025, we expect revenue to grow 3.5% to 6% in constant currency. Since we last gave guidance, we have seen certain foreign currencies strengthen considerably versus the U.S. dollar. While our constant currency guidance is unchanged, our reported range has increased by approximately \$200 million. As a reminder, our guidance is based on current foreign currency exchange rates.

We continue to expect full year inorganic contribution of a little more than 250 basis points. The low end of the revenue guidance assumes further deterioration in the demand environment. And the midpoint incorporates the deterioration we have seen to date with offsets from pipeline conversion and the large deal TCV growth we saw in the first quarter. The high end assumes an improvement in the demand environment further supported by our large deal pipeline. As Ravi discussed, the dynamics are shifting in real time, and this guidance reflects the visibility we have today.

Our adjusted operating margin guidance remains in the range of 15.5% to 15.7%, representing 20 to 40 basis points of expansion. Given the new realities of the macro environment, we expect growth opportunities will continue to be led by larger cost takeout and productivity led bookings.

Based on this dynamic, we now expect margin expansion will be driven primarily by cost discipline and SG&A operating leverage. That said, we remain focused on strengthening our operational rigor through AI-led efficiencies, pyramid optimization and automation to improve gross margin over the medium term.

Our adjusted tax rate guidance is unchanged at 24% to 25%. Our EPS guidance of \$4.98 to \$5.14 compares to our prior range of \$4.90 to \$5.06, primarily reflecting the currency tailwind to revenue and a lower share count.

This represents 5% to 8% growth. And we continue to expect free cash flow to represent more than 90% of net income. As we discussed at our Investor Day, we expect to return approximately \$1.7 billion to shareholders in 2025, including \$1.1 billion in share repurchases and \$600 million in dividends. This reflects the incremental \$500 million of share repurchases planned for this year that we announced on our Investor Day. We believe this strategy also gives us flexibility to pursue opportunistic M&A.

Therefore, we now expect a weighted average diluted share count of about \$491 million compared to \$493 million previously. We expect to be active in the market repurchasing shares when our trading window opens. And we remain very confident in our long-term growth opportunities and our leadership team to consistently deliver on our strategy.

With that, we will open the call for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] And our first question comes from Tien-Tsin Huang with JPMorgan. Please proceed with your question.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Thanks so much. Congrats on getting to the winner circle this quarter here so quickly. I wanted to ask on the, if you don't mind, on the bookings and pipeline. All the commentary was really helpful. I'm just curious if there's any shift in the quality of bookings or growth projects being replaced by cost-cutting projects? Sounds like that's the case. Just not sure about the pacing of that and if maybe you'll see more awards come faster, for example, because of it. And, any interesting trends on pricing and margins to win these larger deals?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Thank you, Tien-Tsin, I'm going to, this is Ravi here, I'm going to start and ask Jatin to chip in. Clearly, the productivity gain of leveraging AI and sharing the benefits of lower cost of deployment I think we seem to be leading that swim lane. We are not only winning in the marketplace, but we are also originating new deals. And when we originate, we have the opportunity to sole-source it. These are deals where you could consolidate if you have the wallet share and the trusted, the trust of our clients. So that is going well. That's what is making our large deals stand out.

Now in specific industries like financial services, there is also discretionary growth work coming back. I mean there is – it was expected that financial services will go through a level of deregulation, it will pull back discretionary, I mean it will rather accelerate discretionary. So that is coming back. I mean, look at where we are at financial services, Quarter one of last year, 2024, we were minus 6.5% Y-on-Y. Quarter one this year, all organic, we have 6.5% Y-on-Y positive. So I would say the growth vector is already starting to apply in financial services, and it is slowly inching back, more innovation-led projects.

The 1,400 AI projects I spoke about, those are starting to see – especially in financial services, we're starting to see more innovation-led, growth-led. Health care, in commercial health care, I would say, commercial health care, large enterprises, we are seeing a lot of innovation-led work.

And finally, this quarter, we announced a mega deal, and we are very happy about the mega deal we announced. In fact, the TCV of all our large deals is higher than the TCV we had last year. And we have a couple of mega deals in the pipeline in quarter two. I'm very hopeful if we happen to cross the finishing line on that, it will help us on our growth journey. And these are mega deals. I mean, I'm not talking about large deals, \$500 million and above. So we're kind of starting to feel excited about a nice pipeline of mega deals lining up.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yes. Tien-Tsin, I'll just add on your – add to Ravi's answer related with the pricing and the margin expectations from the large deals or mega deals. Very clearly, your ability to win these deals is a factor of three things: the strength of your solution, your demonstrated execution in past on similar deals, and third is your ability to provide the productivity which is commensurate with today's environment and what the potential of GenAI can offer.

And we have scored well on all three and then consistently, therefore, pricing is a question, but it is not a question of rate card, but it's really the quality of solutioning that you are able to do and how much of AI-led productivity, the vector 1 sort of dynamics you are able to bring in to the answer has been the key driver. It does have margin implications in the initial year but now we have a portfolio, we have been in large deals for three years now and the ones that we won in end of 2020 to beginning of 2023, are at a place where we are now executing at a better margin than what we had initially. So you manage it as a portfolio because the initial margins you will have to work with in the context of the larger business and larger portfolio.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

And if I may just add one other difference here. The AI productivity, we are the only one, I mean, in my peer group, which has actually called it out, and we are continuing to monitor it inside, and we are bold enough to tell our clients that this is productivity we can benefit with our client work. So I mean, that's an evolving flywheel, which we believe we are fiercely competitive in the market.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Thank you both. That's interesting. Just as a quick follow-up, I think it's relevant. Just with the utilization moving up a little bit, just testing the productivity as well as the head count question. Is there more room for that to improve given that anything to consider as we're thinking about utilization and margin here in the coming quarters? Thank you for the opportunity.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. So Tien-Tsin Huang, it's an interesting question. Look, we went from 82% utilization last year same quarter to 85% utilization. So it's a huge lift. Now when you do good fulfillment, you also need to build capacity for the future. This year, we're going to hire freshers a lot more because we want to size a pyramid. And when you get managed services work, our fixed price work over the last two years has gone up. Managed services work has gone up. So we can actually staff pyramid.

But it also comes equally with a overhead of carrying higher bench at a lower cost and actually offshore. So I'm a big fan of intertwining this with AI productivity, utilization and rightsizing the pyramid. So that's the next big step we are going to take. AI productivity utilization. I mean, utilization of experienced talent, there is a little bit of room. But once you feed freshers in, you need some room for utilization to tick up. So we're kind of playing on all three, and we're going to add freshers into the mix this year. So that's broadly how we are approaching our cost of human capital.

Operator: Thank you. And our next question comes from the line of Ramsey El-Assal with Barclays. Please proceed with your question.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Hi. Thanks so much for taking my questions this evening. I wanted to ask about the April slowdown in decision-making that you're seeing. And I guess, in particular, the comment that Jatin made about seeing the impact is isolated in the second quarter. I'm just trying to understand the degree to which maybe you see it as particularly

ring-fenced by a particular client or geography or some way to kind of make it feel like it's more temporarily bounded rather than something that could get worse.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. Sure, Ramsey. So clearly, it is, let me start with the positive news is that, as I mentioned, that financial services continues to present a lot of opportunity, and there is a lot of strength there. Communication, media and technology is stable demand. It is certainly remains unaffected. We do see pockets of caution in health business because there is a little bit of wait and watch and assessment of what is the implication of the final policies on the spend by some of our customers. The one where we see an impact is Products and Resources business, which has more direct impact and implication from tariff, be it a manufacturing sector or our consumer and retail sector. So these are, this is how we see the spectrum of segments and how they're impacted within the US.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Okay. And acknowledging your exposure to US government work is really small, and I know you also called out that you haven't seen any contract terminations. Will Belcan kind of completely DOGE acts just given the critical nature of the offerings there? Or is there still any risk that you're seeing, again, acknowledging that it's a very small part of your business that you could see some contracts terminated on the government side? Thanks.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yes. So Belcan, mostly works on engineering and not on enabling technology. So engineering is building things for the future. And in some ways, engineering has always been on the revenue side of the equation or building side of the equation versus enabling side. So that is one part.

The second is the exposure to government is very little for them and some of it is a little bit through the primes and contractors. It is primarily a lot of commercial aerospace work they do, which has no impact on us. So far, we have not seen any impact. And the exposure they have is pretty small.

Operator: Thank you. And our next question comes from the line of Darrin Peller with Wolfe Research. Please proceed with your question.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks. So your organic constant currency growth did look like, it did continue to notably accelerate this quarter. So maybe just revisit that for a minute. If we, other than the financial services discretionary tailwind you're starting to see, which is good to hear, is this associated with just large deals from the prior year transitioning into revenue now? And where are we on the conversion from existing bookings into revenue? And how could we expect the cadence from an organic standpoint to shake out for the rest of the year from your perspective?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

So a large part of, if you have seen the industry vertical split, a large part of our organic growth has actually come from healthcare and healthcare has been comprehensive, all the way from provider to Life Sciences. And

Financial Services, which has gone through, I mean, both these sectors have gone through significant upside for us.

And we've been – look at our deals in the last two years. We did 29, \$100 million deals last year. We did 17, \$100 million deals the year before. And the third year, the end of the second year and the start of the third year are the ones where you start to see the ramp in a big way. So certainly, that's where we are seeing traction. This is also a quarter where all three geographies have fired cylinders. I mean, we've had some great traction in Europe. We've had if you remember the deal we did with Telstra in Australia, that has had traction that is already to the second year.

So large deals and discretionary small deals coming back in Financial Services, I would say, I would put these two as the mix. In fact, this quarter, one of things we don't tell the Street, but we kind of monitor internally is ACV. Our ACV on a year-on-year basis has gone up as well. The size of the large deals have gone up and the ACV has gone up year-over-year. So that is, I mean that's an important metric.

I mean book-to-bill is at 1.3 trailing 12 months. But our ACV has gone up. And our net new proportion on our large deals has also gone up this quarter, which kind of gives us incremental push. So that's how we are seeing it. So it's a, the two big industries for us are actually firing cylinders, which is helping us in the process. And these two sectors in some ways, also don't have an indirect impact related to the geopolitical, related to the larger economic situation around tariffs and everything else.

Darrin Peller

Analyst, Wolfe Research LLC

Q

All right. That's really helpful. Just maybe touch on the labor market conditions also and what you're seeing there. Obviously, we saw attrition was pretty, I think it was pretty flat quarter-over-quarter. So just help us understand where you stand there as well as any elements of wage inflation or any changes in the environment? Thanks again guys. Nice job.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. We see stability on attrition. As you can see, it's been, it's actually down slightly. And we don't see any undue pressure of attrition and therefore, either impact on wage, which can rise up or any impact on our ability to deliver our projects to our customers. I think we are in a good spot and a healthy spot. And between quarter four and quarter one, there is a continued stability on that.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Just to add to that, there's one other aspect which helps on our growth is fulfillment. We've had an extraordinary period of fulfillment. The number of people we can hire as an attractive employer, and the percentage of offers which get accepted and the percentage of people who are coming back, I've actually mentioned about it in my previous public earnings that we have a huge number of returners coming back, and we have a big pipe of it. That is helping us on fulfillment, which in turn is going to help in discretionary because discretionary is smaller projects with more experienced people. So in addition to a lower attrition flattish curve, we're also seeing good fulfillment.

Operator: Thank you. And our next question comes from the line of Jim Schneider with Goldman Sachs. Please proceed with your question.

James Edward Schneider*Analyst, Goldman Sachs & Co. LLC*

Q

Good afternoon. Thanks for taking my question. I was wondering if you could maybe just give us a bit of a perspective on sort of your level of comfort. It seems like the current emphasis on cost takeout by your company is really kind of playing to your strengths right now. Maybe give us a sense about relative to your outlook for the year, how much backlog coverage do you have in the current revenue outlook for the year?

And then maybe secondly, can you maybe talk a little bit about the gross margin trends. I think you talked about maybe not expecting so much of the margin improvement to come from gross margin, but rather from operating expenses. Maybe give us a little bit of color on if anything has changed with respect to the gross margin composition, whether that's due to the wage increases or something else? Thank you.

Jatin Pravinchandra Dalal*Chief Financial Officer, Cognizant Technology Solutions Corp.*

A

Sure, Jim. So on the commentary on the way we look at the guidance for the year is really at the lower end that the environment has to further worsen for that to come through at the lower end. The midpoint of the guidance really factors the impact that we have seen so far, which is offset by the pipeline that we see and which is offset by the deal wins that we have had in quarter one.

And at the higher end of the guidance, we are assuming that the environment has to become better from where we are in quarter three and quarter four. So that's the sort of spectrum of possibilities that we see for the rest of the year. We do feel good for what we have as our backlog, as Ravi also spoke about it, couple of points there is that for, on a trailing 12-month basis, our book-to-bill ratio is 1.3x, which is quite healthy.

We have seen higher net new or expansion deals, more than 50% of total bookings that we have seen in quarter one, which is another healthy aspect of the bookings. So that provides the coverage that we see for the rest of the year as we anchor ourselves around the midpoint of the guidance. Your question around, if I cover the gross margin question, I think our context of that comment was more around the fact that the pricing ability to get a superior pricing in an environment like this, as you can imagine, is low.

And therefore, it's really the cost discipline that will drive the outcomes on the operating margin for the rest of the year. Ravi spoke about earlier, on gross margin, there are clearly three levers. One is the utilization. Second is the productivity that we can drive through GenAI. And third is the pyramid correction through infusion of recent college graduates into the workforce. And this will continue to be the driver for us to improve the gross margin.

Of course, environment like this also offers opportunity for you to correct your – look at all the cost aspects, which go in your G&A line and continue to find opportunities there. So that also remains as an option that we'll continue to pursue. So that's the context of what we have baked in for our operating margin guidance for 2025.

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

A

Just a quick color on the, I mean a different lens on the pipeline to what Jatin just mentioned, we spoke about ACV going up, mega deals in the pipe, in quarter two and hopefully it continues. And net new business higher than the renewal in our mix. There are two other aspects which are starting to make me feel very optimistic. One is our new logo hunting has really improved. Since the time I have come, I've not seen such an extraordinary run on new logos. We are starting to feel very confident about not just winning large deals, but winning large deals in new logos.

And there is one other aspect. The 1,400 AI projects we are doing, a lot of them are innovation-led. They are small prototypes, proof of concepts and rapid prototypes. But as the discretionary starts to trigger and more importantly, when we do these cost takeouts, we underwrite some of that money, that downstream opportunities are huge. And we think we are in a pole position on that. So as I mentioned in my remarks, we want to build this company for slow and fast velocity. Right now, it is cost takeout and vendor consolidation and productivity. But when the innovation engine fires, like it is doing today in financial services, it will in other sectors. We think we are in pole position to seize those opportunities.

James Edward Schneider

Analyst, Goldman Sachs & Co. LLC

Thank you.

Q

Operator: Thank you. And our next question comes from the line of Bryan Keane with Deutsche Bank. Please proceed with your question.

Bryan Keane

Analyst, Deutsche Bank Securities, Inc.

Yeah. Thanks for taking my questions. Congrats on entering the Winner Circle. I guess, Ravi, my question is how sustainable is it? Can you stay in the Winner Circle, and why would that be?

Q

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Yeah. So I want to be humble here to say that one quarter is not enough. We have to consistently do this every quarter. And our belief is being in the Winner Circle is about consistency and durability of who we are. What we did this quarter, we're very proud of it, but I would feel like I would say, I am in the Winner Circle with a sense of pride only when I do this consistently for a couple of quarters. We feel excited about where we are relative to our peer group, how we are winning. And if we get some tailwinds from the external market, as the high velocity market kicks in, we get to much bigger growth numbers.

A

But what we are comparing ourselves now is relative growth, relative organic growth. And we feel like it's a good starting point. It is, to answer your question, I think it can be sustained. I mean we just have to keep doing this again and again. And it's a treadmill. We just have to keep running on it again and again. And we have the gas in the tank to sustain it. And I'll tell you why this is – why I feel so, we've also built a portfolio which is broad-based. We are an all-weather company. It's broad-based.

We are now operating on four pillars of services, tech services, BPO services, infra-led cloud transformation and engineering services. We were not operating before on four pillars. Now we're operating on four pillars. We are now expansive beyond health care and financial services. I have a new leader for manufacturing now who has come on board. We're going to fire cylinders there. We have had traction in comms, comms and technology, retail and CPG. So we have a breadth of industries and not dependent on just two.

And as you have seen this quarter, we now have growth beyond North America. North America, we are leading. I think we are leading, we are probably the number one player in North America today, but we are now wanting to do this globally. So if we broad base this, it gives us the opportunity to make it consistent and resilient because if one falls, the other picks up, and it gives us the opportunity to keep our numbers intact. So that's how we have

built this portfolio. And therefore, I feel confident to hopefully sustain this and hopefully do it for at least a couple of quarters and then say, well, I truly think we are in the Winner's Circle.

Bryan Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Got it. And then, Jatin, just a two-part question. I guess, first, I know we talked about 4% organic growth in the first quarter. If I do another 400 basis points of M&A or so, we're talking about a 1% to 2.5% organic in the second quarter. So it's a little bit of a decel. Is that just a reflection of what you're seeing in April and pushing it through the model? That's question one. And then question two, is just that gap between organic revenue growth and head count growth widened again. Is that just utilization? Or is that some GenAI benefits as well? Thanks.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Sure. So the answer to your first question is yes. The environmental uncertainty that we saw in April has been factored in our quarter two guidance. And therefore, the numbers that you've described are directionally where they are. And we'll continue to see how we execute during the course of the quarter.

To your second question, yes, absolutely. I think we have driven significant utilization improvement, which is from 82% to 85%. But let me just share a simple math. If you see compared to last year, our head count, and now we are down 8,000 employees. And if I add back another 6,000 odd that came through Belcan, which is there in the numbers now, but were not present in the numbers for Q1 of 2024, we are talking about approximately 14,000 employees lower now than what we had before, and we have delivered 4% organic growth with that many lower number of employees.

And utilization is a part of it, 3%, but the total number is somewhere around 7% to 8%. So remaining number has really come through a superior utilization of our resources in delivering the outcome, which has been growing.

Operator: Thank you. And our next and final question comes from Maggie Nolan from William Blair. Please proceed with your question.

Maggie Nolan

Analyst, William Blair & Co. LLC

Q

Thank you. My question is about the pace of conversion. If the mix of business shifts more toward larger-scale cost takeout deals, do you feel confident that those can be signed and start contributing to revenue before the end of the calendar year? Or is there a possible pushout in revenue to next year?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Great question. In fact, this is an interesting one. Every time a client has come to me saying the environment is uncertain, I actually felt there will be more paranoia to close cost takeout deals. So there has been in some pockets. I mean, the mega deals that I mentioned I'm chasing, they were in this quarter. They rolled over to the next quarter. But the paranoia about cost and productivity, the timing can never be better than now. I mean when you're in a slowdown, there is one way to look at cost takeout deals. When there is a high velocity market, there is another way to look at it. This is not a slow or a high market. This is an uncertain market. So in an uncertain market, you really want to get the best value.

In a slow market, you might still not take a risk. But in an uncertain market, you want to get the best value. So I think there could be some movement lumpiness of these deals. But when can be a better time than an uncertain complex environment to do cost takeout and cost takeout not through labor, cost takeout through technology. I mean the labor cycles have gone through multiple times. There's very little left on the runway. It's actually a technology-led arbitrage.

And therefore, I do believe this swim lane will be active till, I mean, this is a double engine transformation, the AI piece. The moment the markets take a little high velocity, we can swing to innovation. I mean that's what's happening in financial services today. Financial services is a little, it's a little running on its own because they've had a lull for two years of spend. And now that spend is coming back and that spend is also getting the sentiment about deregulation, which is helping us.

So I would say in a very optimistic way that, I mean, this is, there cannot be a better time to win in terms. And cost takeout deals is, I mean, the time for them is now when the market is uncertain. Will there be some lumpiness and deals moving between quarters? I think it would be. But it is going to be a rebaselining of the cost of technology deployment, and we want to lead the way.

Maggie Nolan

Analyst, William Blair & Co. LLC

Q

Thank you. And then what are you seeing in the pricing environment from clients and conversations with clients as well as any competitive behaviors from peers? Thanks for taking my questions.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

It's intense, intensity is certainly there on the pricing for large deals. But it is more led by your ability to reduce the total cost of ownership of owning a project or owning a technology for a customer as against negotiations around outright rate cards. So it's, the better you are at the vector 1 capabilities of deploying GenAI into your solution and overall architecture of the deal, the superior your pricing would be. And that's what is playing out in the marketplace. And as you can imagine, there are different scales of technologies, of capabilities out there. And we believe that we do have an early mover advantage there, as Ravi summarized in the beginning of the call.

Operator: Okay. With that, I would now like to turn the call back to management for any closing remarks.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you. Thank you so much for listening to us, and I look forward to more dialogue, and we're looking forward to the rest of the year. Thank you again. Thanks for joining today.

Operator: And with that, this does conclude today's Cognizant Technology Solutions First Quarter 2025 Earnings Conference Call. You may now disconnect.

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