30-May-2024

Cognizant Technology Solutions Corp.

(CTSH)

TD Cowen Technology Media Telecom Conference

Copyright © 2001-2024 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

... [indiscernible] (00:00:03) here. Day 2 of TD Cowen TMT Conference. Thanks all for joining us. My name is Bryan Bergin. I cover IT services, fintech, and payments at TD Cowen. I am very pleased to have Cognizant CFO, Jatin Dalal, with us. Jatin, thank you for your time today.

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

Thank you very much for having me here. Thank you.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

We're going to go through fireside chat. We'll open up the questions for the audience at the end.

Copyright © 2001-2024 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

But to start, Jatin, I think it would be helpful [ph] kind of (00:00:25) the intro, the background question, first, just given you formerly became Cognizant's CFO earlier this year after more than 21 years at Wipro. And certainly, that decision you made here to jump from Wipro to Cognizant, I wanted to start there. And what did you see in the opportunity that led to the change?

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

A

Sure. So I've been around in the industry for more than two decades. And I have always had a very positive view of Cognizant outside in. We always knew that they were a competitor who you deeply respect, who were – I mean, the company was growing much faster than everybody else for nearly 15 of those 20 years. They really set and took some bold calls like TriZetto 10 years back. So that really was the company, which was [indiscernible] (00:01:23) company from outside. And when I saw this opportunity to be part of the story, to be part of what happens at the company and how we perform in the market for next decade or so, I thought it was a fabulous opportunity for me to be part of it.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. And you did see a couple – from your seat at Wipro before, you did see a couple of management teams come through Cognizant over the last several years. What was – did your perspective change as you kind of competed day-to-day with them?

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

A

Yeah. I think in – for every company, what matters really is how you are competing and what you're bringing to the table for competing on that. And, I thought, we – at least I could have a voice in that as I joined as part of the management team, because this was a fabulous engine which could run at a particular speed. That was my outside in perspective. And, of course, there are certain changes which happened at the company, but I don't think that changed anything about the company. It was a particular strategy adopted at that point in time, which was probably appropriate at that point in time.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. And now you've been in the seat as CFO of Cognizant for going on two to three quarters now, what's the initial impressions? Any – what are the early learnings from the inside?

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

A

So, it's a fabulous feeling to be here after first six months or so. There are two or three things I do believe are the core strengths of Cognizant, which even through last few years of change and strategies has not changed. And

Copyright © 2001-2024 FactSet CallStreet, LLC

one is that the whole organization is build on a thesis of growth. Everybody wants to grow. And I think that's a really strong positive DNA that Ravi and I can build on.

Second is, there is a whole strength of employees who have been around for longest amount of period of time. I call them citizen employees. Who is the citizen? Citizen is somebody who will take bullets for the country without thinking much about it, right? So we have core of employees who will want Cognizant to perform well, win in the market, and be the best in the industry. And I think these are the two core strengths. We can build everything else around it. But the will to win in the market and then eagerness to do everything around that will is something that we think our – that I think is our crore strength.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. [ph] Here key (00:03:49) foundation for sure?

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

A

Yes.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. So let's talk about where you've been spending the most time here and the early priority. So we understand, obviously, Ravi first prioritized stabilizing the workforce, got attrition down and under control, as well as developed that large deal and that commercial muscle that wasn't there before. But in your seat as CFO, what are your – talk about your top priorities here?

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

A

So, I'll say, there are – they're predominantly in two areas. One is just making sure that the market momentum gets converted into revenue momentum. And the market momentum conversion to revenue momentum is often stated simply, but it's very difficult to achieve in an IT services company because we have huge number of SKUs, the skillset, experience, locations, et cetera, and the demand. And quality in our business is not high quality engineer, but a high quality engineer when customer needs him or her at that point in time.

So how do you operationalize the customer and employees connect in a way? If we can get these two equations – I mean, if we can get this two running in rhythm, everything else falls in place in an IT services company. So I think the first part that I have been really focused on is to just really work around how do we internally mobilize ourselves around the wins that we have in the market and how quickly we go behind it and execute it. And I'm very happy the way we have progressed in last six months, just being very, very diligent and agile around everything that we are seeing in the market and how we respond to it. So that's part one.

Part two is really making sure that we are doing all of this while keeping two things in mind. That, one, we remain very competitive. You can do all of this by putting more stock or more inventory of skillsets and be more agile. But that's not what would be eventually be beneficial for shareholders. You have to remain very, very agile also on the cost side, saying, how do I remain agile on response, but I don't create a huge inventory of capacity to solve that customer need. So cost is another big angle. And that within the cost, cost of revenue is one big thing. Second is NextGen, which is our big – getting fit on non-billable cost side standpoint initiative. So these are the two things that we have been [ph] resting (00:06:14) on the cost side and the part two.

Copyright © 2001-2024 FactSet CallStreet, LLC

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. Let's dig into the NexGen then on the restructuring efforts. Can you give us a sense on what's the latest progress there? Where are you in the scope of that program? And certainly, there's always operational tweaks in the business, so you [ph] can't say, however, (00:06:30) it's ever done. But are the biggest changes largely complete?

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

A

I think we have made a substantive progress in 2023. I wasn't here, but I must compliment the team which was here, which executed it very well. We have our priorities set for 2024. And we – as you know, we took – of the $300 million of total charge, we took approximately $230 million in 2023, we will take another $70 million in this year. And we are progressing well. I wouldn't say we are largely done. I think the execution continues to remain for another few months before we can say it's largely done, and that's how it was planned. So there is no change on that. So I'm quite happy with the way we are progressing and we are executing on NextGen.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. As far as the $230 million that was done and then the balance here in this year, can you just remind us what areas of the organization is that hitting? What initiatives are you leaning into on that $300 million total?

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

A

So that is essentially non-delivery costs. Those are the costs associated with corporate functions. Those are the costs associated with facilities. Those are the costs associated with anything that is non-critical for service delivery to our customer.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. So from [ph] an aspect of (00:07:53) getting lean, the operational flexibility and just becoming more nimble...

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

A

Absolutely – nimble, absolutely.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Right. Okay. [ph] Let's pivot to (00:07:59) demand. So certainly it's been a volatile backdrop in services over the last – it feels like 18-plus months now. But talk about what you've seen in recent months and how it's progressing, maybe speak to any demand indicators or just pipeline replenishment bookings, the pace of revenue conversion, things like that?

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

A

Copyright © 2001-2024 FactSet CallStreet, LLC

Sure. So demand is what it is. Demand is not – demand environment has not changed. It remains tough. Discretionary demand is certainly down, continues to remain in a negative growth zone. So it's shrinking year-on-year. Good part about the equation is that there are more large deals in [indiscernible] (00:08:39). We are executing on those large deals. We are winning, I think, little more than our fair share on large deals. Customers want to bet again on Cognizant. And we are executing the ones that we have won quite well so that it becomes a sort of point of reference for our new deals. So, overall, demand environment remains tough. The shrinkage on smaller size deal is in some form replaced by the large size deals that we are doing. But essentially that means that the book of business is far longer term now than what it was in, let's say, 2022, where predominant portion of demand was more short-term demand.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. Okay. As – you did affirm the outlook for fiscal 2024 in the most recent print. Talk about what you've built into the assumptions underlying that forecast?

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

A

So, I think, what we have assumed is that there is a certain amount of variables that could play out, one or more of those. As you know, our guidance is minus 2% to plus 2%, so the midpoint is still flat year-on-year outlook. And to get there, we will have to have – we'll have some support from the rest of M&A that we have spoken about. We have spoken about 100 basis point and we are executed on 60 basis points, 70 basis points. So we have some runway there. There would be some large deal which will fructify. There would be some amount of spend somewhere that on discretionary side that we hope will come back. Now, not all of this would add up to the number, but some of this converting would help us reach to our midpoint of the guidance is what our sort of hypothesis is.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. A common question we get is this downturn in the broader industry as far as the demand drop does feel more elongated than it has historically. I mean, you've been in the industry two decades plus, so you've seen different cycles here. So I appreciate your perspective on kind of what factors you think are contributing to this slower recovery?

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

A

I mean, it's a fascinating question because this industry as such is a new industry. I mean, if you take away the likes of EDS before, let's say, early 2000, this is a new industry. And the new industry has only seen in last 25 years only one type of slowdown, which is a big ramp down crisis, two bad quarters, and then a sharp recovery as a [indiscernible] (00:11:17). Almost always the interest rates have yielded the recovery by a sharp cut at that point in time. And the cause of the crisis was never interest rates. Now, in a relatively new learning zone for the industry, where the cause of this slow non-crisis but very difficult period is interest rates. And we don't know how long this will go on and at what point in time the sort of the tide will turn. My own understanding of the industry is that there is only so much discretionary you can hold back for a point in time. At some point in time, some regulatory changes which you thought were needed only in beginning of 2025 is now here in beginning of 2025. So you will have to now make those changes. Or some amount of change, some amount of upgrades would be necessary. So I think we are stretching that tolerance zones for slowdown. And at some point in time, it has to

Copyright © 2001-2024 FactSet CallStreet, LLC

give into some amount of demand. But, I mean, all of us are in that learning zone, how this slowdown turns out to be.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Okay. We've heard that too as far as – whether it's forced by regulatory change or disruptors in your industry, right, competitors coming in at a certain point. You can't hold [ph] the per strengths (00:12:43).

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

Absolutely.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Yeah. [ph] Let's talk (00:12:44) just about that discretionary market. So it certainly has been blamed for a lot of – or the predominant amount of the [ph] spend (00:12:50) pressure in the group. And it would seem like discretionary makes up the majority of some tech services budget. So how do you quantify or categorize discretionary, and does it vary as you go across industries?

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

So, yes, I mean, its – every industry has its own way of looking at discretionary. But what we look at internally and this is probably a more financial way of looking it is the velocity and volume of smaller orders, less than $5 million, less than $10 million, because they come with the propensity of getting consumed very quickly [ph] in the in-year (00:13:31) and converting into in-year revenues. And that is for us – I mean, internally, that's what we measure on a daily basis, how the discretionary smaller orders are coming through. And they have been quite muted in terms of their outlook off late as I described before.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Okay. Okay. When discretionary does loosen, what areas of the service portfolio do you anticipate will pick up first?

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

So, I mean, it's a difficult view to make. However, I can tell you, we will know before it happens. I mean, every morning we get on a call and we see where do we see the demand, little bit up, a little bit better. As of this morning, I can tell you is SAP S/4HANA, it is some skills in cloud. It is some skills in digital engineering. But that is still a very small stream. I mean, it's nowhere close to a river. And – but we'll watch it closely every morning and we see that portfolio expands. I mean, the really slow ones are application, develop maintenance, quality engineering, and other things. So, where we are really struggling to find any life. So I think as – we continue to watch the streams and then we'll know where we are big seeing the momentum.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Copyright © 2001-2024 FactSet CallStreet, LLC

Okay. Is there an aspect of this around gen AI as far as that causing confusion or causing some level of delayed decision-making or any other pressure within services pockets as a result of just all the focus in that area?

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

I would say, no. I think gen AI would – I mean, every time there is – I mean, the industry needs a new momentum leader to ride through next four or five years. If you see between 2008 and 2011, it was infrastructure services, then it was digital, then it was cloud. I do believe that gen AI is that momentum leader for the industry for next four or five years. So, if at all, I think gen AI could be the sort of a trigger at some point to get the discretionary going.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Okay. And as we move past the proof of concepts, the [indiscernible] (00:15:49) projects, so to speak...

[indiscernible] (00:15:49)

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

...enterprise scale.

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

Yeah.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Okay. As far as structural demand and as you think about the industry from a growth rate standpoint, what do you believe normalized growth for the group ultimately looks like?

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

It's a great question that – quite frankly, I don't know where the answer is. I mean, before COVID, we used to give some number and COVID created the disruption. And I don't think we are out of that phase where we could say that there's a stable growth environment looks like this. And even internally [ph] therefore (00:16:20), Bryan, what we are thinking is that, let's not too much worry about that and let us worry about – we operate every day in the market and can we win in that market. So even if the growth is slow, can we have a disproportionate market share gain in a slow growth environment? And that's where we are working towards that.

Bryan C. Bergin Q
Analyst, TD Securities (USA) LLC

Okay. That's fair. [ph] And you got (00:16:36) obviously a lot of company-specific factors going on. So one of those large deal commercial muscle that you've been building.

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

Absolutely.

Copyright © 2001-2024 FactSet CallStreet, LLC

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Let's talk about kind of the perspective there and how that is progressing. And is there a way – you certainly picked up pace there. Is there a way to parse the success you've had because of the initiatives you've laid in versus the industry in general that seems like it has had a shift toward more large deals?

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

A

I think it's both, because post-COVID industry was trying to get a lot of – our customers are trying to get a lot done in a very short amount of time. And they didn't have time or wherewithal to construct large deal and hand out to vendors. So that changed in 2023 when – so 2022 was very different. 2021 was very different. 2023 you started seeing the packaging of large deals because it was inefficient for customers to hand out large pieces of work in small [ph] quantums (00:17:32). But, I think, for Cognizant, what changed really was that there was a clear tone at the top that we want to participate in large deals. We have always been leaders in large deals. If you go back 2008 to 2017, I think we were winning a disproportionate share of large deals. So company always had that muscle. So it was a reorientation of sales mindset saying we have to participate and we have to participate our fair share and maybe a little bit higher than fair share. And therefore, we created large deals team. We created a delivery capability behind it. We created sort of ongoing monitoring mechanisms around it and so on and so forth. We got people who're executed on large deals because winning larger deals is 40% or 30% of challenge, 60%, 70% of challenge is executing on large deals and how do we execute on those.

So I think it's also company-specific where we have created a resolve and resources, both tied up around large deals.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. As you think about the deals you've won over the last 12 months plus, are there particular areas you've had good success like service type?

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

A

I would say, we are operating at a good rhythm of execution across the deals that we have won over last five or six quarters. I wouldn't say there is any specific area which where we are more successful or we are less successful conversely. There is a ratio of good execution in the industry about large deals because it's never 100%. And I think we are operating around that good execution number. And where there are changes, typically what happens is sometimes you construct a large deal with certain assumptions around business priorities, and those business priorities change, and you have to then refit the large deal assumptions around the new business priorities of the customer. In those cases, you go slower than what you originally anticipated. And that is still part of our portfolio as it would be part of anybody else's portfolio.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. What are kind of the important considerations that investors need to be mindful of when they look at the bookings trends and the things like that as the large deals that you have been landing? Just talk about the bookings, the large deal dynamics as we think about revenue conversion over time?

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

Yeah. So I think this is the most difficult to explain externally mathematical equation in my mind for the industry, not just for Cognizant, because there is one factor of variables which is not visible externally, which is the non-continuation of existing business for the supplier – for the companies. So almost, always the assumption is that there is a stable base and the large deals are adding on top of it so that there is a certain amount of revenue growth which must be expected. However, in current times, there is a ramp down in existing business which is not sudden, which is not like by Monday I want to ramp down 300 people kind of ramp down. But it is a lack of discretionary spend that we are talking about, which means that there is a volume which is reducing, which is only getting replenished by the large deals that we are winning. So large deals right now is really not nice to have. It is the existential requirement of a large company to make sure that the revenue line remains stable because it's only replacing the ramp downs. So to that extent, it's a difficult equation where you see a big bookings growth, but you don't reflect that immediately on the revenue growth because the revenue has another negative factor, which is not factored in the booking growth number.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Yeah. We kind of call that the leaky bucket.

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

A

Yeah. Absolutely. And in times like the – I mean, again, there is a threshold with which industry operates on a leaky bucket. That leaky bucket was almost non-existent in 20 – second half of 2021 and 2022.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Yeah.

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

A

Therefore, you saw 15%, 17%, 18%, 20% growth of the industry of larger players. Right now, that number is – I think it's much larger than what [ph] we have seen (00:21:53) over the last five years.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. And at the same time too naturally with that much less shorter duration deals, your average duration in your...

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

A

Yeah. Absolutely.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

... [indiscernible] (00:21:59) extended. Yeah.

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

Absolutely.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. Let's talk about margins now. So where do you see the greatest opportunity for expansion?

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

A

So, for us, the greatest opportunity lies in executing well on cost of revenue side, on gross margin side. NextGen is more being competitive and fit to an agile and nimble enough to respond to the market requirements. But clearly, the opportunity is greater on gross margin side. Utilization is one big lever, automation, an another big lever. Onsite offshore mix is a very traditional lever, but it is very important lever that if you are not vigilant on that you will lose some cost around it. So for me, both are critical, but gross margin is the heart of margin management. And NextGen is a program that we must execute to and get to end state on non-delivery cost, but gross margin is every morning you got to get out and burn some calories, otherwise you will accumulate some additional weight. That's how we see it.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. So naturally, utilization, managing attrition very well and tightly is important to that. What about the delivery footprint of the company? Is there changes there that you aim to make in that?

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

A

Yeah. Absolutely. So we are largely from a delivery footprint standpoint is – we are concentrated in India. We are concentrated in Philippines. And we are concentrated on Eastern Europe. These are the three big places. Within India also there are hotspots on hot pockets, on attrition, which we structurally want to sort of avoid. Right now, it's not a problem. But when the industry goes back to a good demand situation, you would see that there are pockets which are far more driven by attrition and some pockets which are not. So we are trying to purposely go into Tier 2 cities to manage that better. So that's about the delivery footprint. Both geographically, globally, we balance it. But even within that, we manage it within the country footprint, how do we manage the cost a little bit.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. When we look at the industry gross margin over the last 5-plus – almost 10 years, there has been a degradation of gross margin in the industry, Cognizant included in as well?

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

A

Yes.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

What do you attribute that to?

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

I would say, it's a factor of couple of things. One is that the price pressure has been significantly more in last few years. I think the industry had a real opportunity in [ph] 2021-2022 (00:24:59) to retain some of the price premium it was receiving from customer. But at that point in time, none of us were prepared really for the growth that we saw. So we were all hiring from each other. And effectively, what we got at price premium from customers, we passed it on to employees in terms of making sure we have – we are just fueling enough supply for the demand that we are seeing. So I think there were point where we could have done something better, but we lost that window. I think there's an opportunity right now. I don't think there is a structural uptick possible that we should make it in, because if there is a dollar, which people can invest for growth versus passing on as gross margin, right now the environment is that people – I mean, the industry will invest for growth is my sense.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. And then we think about near-term operating margins go through the balance of this year. You've guided to 20 bps or 40 bps of expansion. Any puts and takes as you go through the year that are important for investors to consider? And how do we think about the attribution of that between gross margin and SG&A?

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

A

So you would see benefit coming from both sides. For the first quarter, we did slightly better than that 20 to 40 basis point if you just see year-on-year numbers. Second quarter, we think we will be – we'll be in a narrow range of performance of quarter one. We – quarter three would have salary increase. And quarter four is typically our best quarter for the margin management because we have some benefits around vacation days and stuff like that. So – but if you see the margin movement from here, you would see that it's coming both from gross margin and on SG&A for the rest of the year.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. And now, assuming demand starts to recover at some point here, you're executing on upon a lot of operating and cost initiatives. How do you think about the margin – the operating margin framework of the business over time?

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

A

So I think we are right now responding to the situation that we are seeing. And I think there is a certain context of today's situation to that. And as the context changes, I think we would be conscious enough to respond to that and figure out what is the right operating model for the cost. On SG&A side, I think it would be irrespective of – I don't think we are going to take [ph] SG&A or G&A (00:27:16) cost for sure in future no matter what operating model is. But on gross margin side, we will have to remain responsive to the market. And therefore, I wouldn't comment it today. We will see what unfolds and then find the right response to that.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Copyright © 2001-2024 FactSet CallStreet, LLC

Okay. Understood. Pricing, naturally, we know it's pressured right now. Sometimes to be more flexible around that, there might be changes of contract structures. Can you talk about what you're seeing in conversations as it relates to fixed and non-FTE-based pricing relative to the historical time materials that the industry will be on?

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

A

So, certainly more – I mean, almost all these large deals are constructed on economic objective of reducing aggregate cost for the customer. Now, if you're starting with that objective, which is very different than I want to launch a new digital bank in this region, it's a very different construct. And therefore, the price pressure is there from day one on the structure. So to that extent, I think price pressure is fine and typically that leads to more fixed price or more element-based deal outcomes. I don't think there are one or two specific trends there. Some deals are a little bit higher subcontracting. Some deals are little bit more complex delivery given the geographical footprint. Some deals have an element of management of certain amount of licenses, et cetera. So there are not so attractive elements around every services deal, but largely 70%, 80% of the deal is around service delivery. And I would call the difficult elements around 20%. So that's what it is. I don't see a scenario where there is a quality of deal has deteriorated so bad and we are still hungry as an industry or company to go after it because we [ph] are still (00:29:22) out of growth. So I don't think the deal quality has deteriorated significantly in terms of either the construct or the conditions or the contract.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. We have time for one more question here. So I'll pick two industries. So BFSI and health care, health sciences, certainly key industries for Cognizant. High level view on those two industries as you go through the next – the balance of the year and your expectations there?

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

A

Sure. So BFS – within BFSI, BFS, we are certainly seeing some amount of stability. It's not a bounce back yet, but if you see for quarter one, our year-on-year growth was minus 6%. But sequentially, it was flattish or slightly negative. So there is a stability there. Health, we still had some growth sequentially in quarter one, but there are many moving parts within health. I think life sciences is doing better, but there are certain sectors around pharma, health which is not so well. So I think it's going to be more a mixed picture on health side as we go forward.

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Q

Okay. [indiscernible] (00:30:20).

Bryan C. Bergin
Analyst, TD Securities (USA) LLC

Jatin, I appreciate all the detail and thank you for a great conversation.

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

Thank you very much. Thank you for having me.

Copyright © 2001-2024 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

Copyright © 2001-2024 FactSet CallStreet, LLC