11-Sep-2024

Cognizant Technology Solutions Corp.

(CTSH)

Goldman Sachs Communacopia Technology Conference

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James Edward Schneider
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MANAGEMENT DISCUSSION SECTION

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Perfect. Good morning, everybody. Welcome to the Goldman Sachs Communacopia Technology Conference. My name is Jim Schneider. I'm the IT services analyst here at Goldman Sachs. And it's my pleasure to welcome Cognizant, as well as Head of Americas, Surya Gummadi; and Head of Investor Relations, Tyler Scott. Welcome, guys.

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.

Thank you.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

Thank you, Jim. Thank you for having us today.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Thanks for being here. Sorry for those in the audience or listening who've not had the opportunity to meet you, can you maybe give us an introduction of yourself, your history with Cognizant? I actually think it's very interesting history and your responsibilities as Head of the Americas.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

Sure. Good morning, everyone. I have been with Cognizant for a long time. This is my 25th year with Cognizant. And in many ways I joined Cognizant when Cognizant was a startup, a very small firm. And I grew with Cognizant. And I saw the evolution of Cognizant. I saw the stabilization of Cognizant. I saw the hyper growth of Cognizant

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and the next phase of Cognizant and now the selection of Cognizant. So I have worked across the firm. I have worked across different functions of the firm. I joined as a business analyst back then. And since then I have worked in sales, presales. I worked in client management. I was a client partner, BU Head.

I ran a few of our businesses before I took on my current role as the President of Americas. Americas constitute roughly 75% of Cognizant today. So I run the entire P&L for Americas and from soups to nuts, which includes winning the client relationships, accountable for delivery to the client, and managing the P&L for the Americas. That's my current role.

QUESTION AND ANSWER SECTION

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Now, I think it's been 18 months or so since or after since your CEO, Ravi Kumar, was appointed. He's been pretty explicitly focused on sort of rejuvenating revenue growth. We've seen early traction with large deals. Give us a sense of how the major turnaround has gone so far? Specifically what's worked, what hasn't?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Yeah. I think – yes, you're right. It's been 18 months since Ravi took over as CEO. Since his first day, the focus has been on growth, the growth. I think there are three or four key dimensions that have changed in the firm in the last 18 months. One is obviously, as you said, the focus on growth. There is unprecedented focus on growth. We have invested in large deal infrastructure for the firm. We have invested. We have overhauled our sales engine, the front-end teams. We have done a talent refresh across the firm to rejuvenate our sales engine. That is one part.

The second most critical part is establishing or re-establishing the channel of trust with our clients. There was a little bit of – we were dealing with a little bit of a trust issue at that point in time. In the last 18 months, we have focused on re-establishing that trust. How did we do that? By showing up well, by winning the mindshare, by delivering high-quality worth products, and being more agile and responsive to our clients, so we have focused on that.

And Ravi also has focused on the culture and employee morale. So, here we got the culture of innovation, the grassroots innovation. We have launched a program called Bluebolt, which was his brainchild, and that hit off really well both internally and externally. So the culture and the morale is the other aspect. So there are three or four dimensions that he has focused on, but everything channeled towards growth and making sure that we have healthy morale across our workforce. As you know, we have 345,000 strong workforce. We just got to make sure that they are highly motivated.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

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Yeah.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I mean, you're in a great feat to assess this question, which is, basically from where you sit, how is Cognizant positioned against your competitors today, especially in the Americas? And what improvements [ph] could we sort of (00:09:54) expect out of the company over the next 12 to 18 months?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

So, I mean, going back to your previous question, over the last 18 months, our competitive positioning in the market have significantly improved, and just the proof point of that is in the last year, we won a total of $1,700 million plus deals. In the first half of this year, we have won $1,300 million plus deals already.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

So our competitive positioning has improved. We are participating in a lot of – much more large deals, in both proactive and reactive. So that way I think – and we have invested in capability building across, led with GenAI. I think we are one of the very first IT services firms to pledge $1 billion investment into GenAI, and we have doubled down on that. We have followed through on that and we've built capabilities around that. So we have focused on underpenetrated markets for Cognizant, and we started expanding into those markets. The combination of all of this has improved our competitive positioning significantly over the last 18 months.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Now, with the global economy still a little bit...

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Yeah.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

...uneven, we've got inflationary pressures, potential slowdowns in some verticals. How do you view the state of the market? How are you positioning to kind of adapt to those shifts? And what are you really doing to drive resilient growth in this challenging environment?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

I think you're right. I mean, the global economy is still volatile. We are dealing with four variables, the impending the US elections, obviously the interest rates, inflation and the geopolitical tensions. These four variables will have to level out over the next few quarters to see where you all end up the economy when it starts rebooting. While

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that is happening, we are focused on a few things. We are focused – as I said earlier, we are focused on expanding into underpenetrated industries for Cognizant, such as communications and media, aerospace and defense. That is a completely new segment for Cognizant.

We have invested in our new asset recently to expand into that market. And then we also started expanding into adjacencies by building our capabilities. We have recently launched our [ph] experienced staff moment (00:12:16). And we have – we are incubating service – security offering. So these are the adjacencies that we have – we are focused on. So we are trying to build the capabilities to expand into markets that we are not present today and revamping our sales engine at the same time, so that we are ready. When the markets open, we are fully geared up and gassed, so that we can participate in the right [indiscernible] (00:12:42).

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Yeah, yeah. And then, despite the weak discretionary environment, it seems like clients are still spending, maybe different projects, different priorities and scopes, but they're still spending. So, I mean, what has shifted in the way clients are prioritizing their spending?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Over the last 12 to 18 months, the spending pattern has changed from our clients. The clients are more focused on cost optimization. And so they are more – they have called a vendor consolidation play to a great extent. As a result, we have seen many large deals, ton of large deal activity in market around vendor consolidation and cost optimization. So, we have done well. We have done well in that segment. We have won our fair share or rather unfair share of some of those deals across the businesses. So I expect this to continue. I expect this pattern to continue for the next few quarters until the discretionary spend comes back.

We have seen trickles of that coming back in some of the industries, but many of the other industries continue to remain soft. And there is no significant departure in the discretionary spending pattern. So, the clients will continue to – probably we'll continue to focus on these cost optimization deals for the next two or three quarters.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. And how are you sort of adapting your service offerings to kind of align with those shifts? And where – in what areas do you see the most potential for growth?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

See, for example, for us to participate in these large deals, we have to make sure that we have to – make sure – in fact, we made sure that our frontend, which is our sales engine, is strong. And then we have supported that with our investments and some of the benchmarking or pricing and some of the other elements that are absolutely essential to position ourselves well in the large deals that is on the frontend. And then once we win the deal, we have to focus on executing the deal.

So we are focused on strengthening our delivery muscle, and we are focused on the governance for executing these large deals. So that is one area of focus for us to do well in this market. Along with that, we are focused on expanding into adjacencies to address some of the capability gaps that we have. To your question, I think we expect ton of activity in AI and GenAI-related areas as the market opens up.

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James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

We'll get there.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Yeah, we'll get there. That's a good segue to that. But, there is a lot of activity on the security space. I mean, the other day, we hear or read something in the market. So clients are focused on wall-to-wall security. So we are focused – we are partnering with some of these [ph] platform (00:15:32) providers and coming up with service offerings for security. And that is one of the focus area for us right now, along with experience and few other areas that I mentioned.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Now, this market is obviously highly competitive. You're still very well positioned in your major markets like Financial Services, Healthcare. You talked about those a little bit. How are you sort of defending and potentially expanding your share each of those two verticals?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Yes, you're right. I mean, Financial Services and Healthcare segments have been very large market for us for a very long time. In fact, the health is a very big segment for us. In Healthcare, we have unique differentiation in the market. We have platforms. We have our TriZetto branded platforms. And roughly two-thirds of United States insured population is processed on our TriZetto platforms. There is no other platform like TriZetto on the planet, so that provides a very unique differentiation for us to offer bundled solutions or end-to-end solutions to our clients. That's a very unique differentiator that is helping us and that will continue to help us in the Healthcare market.

Similarly in the Financial Services, we have deep domain expertise. Over the years, we have built deep domain expertise in Financial Services, and we are coming up with tailored industry-specific solution offerings in Financial Services. That is going to help us. And in fact, that is starting to show results for us to strengthen and further expand in the Financial Services.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. And are there any kind of idiosyncratic opportunities that you're seeing to take share while sort of the overall discretionary environment is still depressed?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Still – again, in Healthcare, we are leveraging our platforms to proactively construct end-to-end solutions to our clients, to help them optimize their costs, and also help them with the faster time to market and gain the competitive advantage. Those are such opportunities that we are crafting ourselves and taking to the clients and that we will continue to do those. In Healthcare, it really helps because we have platforms. Whereas in the other business segments where we do not have platforms, we are leveraging our domain expertise and our

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partnerships with hyperscalers to build end-to-end solutions and create those opportunities to take that fair share of a – from our competition.

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

Yeah. Now – two, three months ago, you announced the acquisition of Belcan and that represents kind of an interesting diversification into new markets for you, aerospace and defense. It's been area where – it's been a while actually since we've seen an acquisition...

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Yeah.

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

...of this kind of scale. So, how does that fit into your broader M&A strategy?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

So, Belcan addresses two aspects of our strategy. One is the vertical part, which is the aerospace and defense. These are the two industry segments that Cognizant does not operate today, or we do not have any presence in those. So this fills in that wider gap for Cognizant, which is the vertical part. Horizontally, it strengthens our ER&D muscle, engineering muscle. We do have that capability in Cognizant today. With Belcan acquisition, we have enhanced that capability so that we can serve it across the industry. For example, there is engineering related – we do engineering-related work in life sciences manufacturing and utilities and in other segments. So it helps – it kind of fits into our strategy of expanding into markets that we're not present today and strengthening our capabilities to serve. And we are very optimistic and positive about that acquisition, and we look forward to delivering that.

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.
A

Jim, maybe just on the broader M&A question and sort of capital allocation question.

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

Yeah.

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.
A

I think as we've kind of executed on this framework for a number of years, this balanced approach on sort of return of capital to shareholders and investing for the future through M&A using our balance sheet and cash flow is going to continue. So we've talked about roughly 50% of our annual free cash flow going towards M&A, roughly 50%...

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

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Yeah.

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.
A

...going back to shareholders. In years past where M&A has been a little slower, we've kind of reallocated and done a little more share repurchase. I think this year we're probably going to be on the opposite side where we're doing a little bit more M&A than we typically have the last several years and therefore a little more aligned on the share repurchase to the roughly 25% of free cash flow. On the earnings call we mentioned, I think phase 1 is sort of integration of Belcan. And so in the near term, not expecting any material acquisitions for the remainder of this year. But I don't think this prohibits us from kind of remaining active in the M&A market and sort of evaluating opportunities as they come across.

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

Yeah. [ph] And you rebuilt (00:20:27) Belcan into your operations, sort of what are the areas of focus for innovation in the first 100 days? I'm not sure [ph] why is the 100 days. I got politics in the brain (00:20:34)...

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Yeah.

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

...maybe but first several months.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Actually, I mean, Belcan is probably the one of the large acquisitions that Cognizant has made after TriZetto. We acquired TriZetto in 2015. That was a large acquisition then. So the focus for the first 100 days is going to be again stabilize and grow, stabilize and grow. Growth is the focus with the controlled and calibrated integration. So we're going to focus on growth and synergies. So in the first 100 days, we're going to look at the opportunities to upsell and cross-sell Cognizant services into Belcan clients and vice versa. So we have a dedicated team from Cognizant assigned for Belcan. And again, the focus is on growth with calibrated and controlled integration. And we have announced that we're going to – we're looking for at least $100 million synergies over the next three years by upselling and cross-selling Cognizant capabilities into Belcan clients and the reverse.

Good news is we do not have too many common set of clients today, so that gives us a greenfield opportunity for us. And we are retaining the Belcan brand so that there's absolutely no client disruption in the market, in whichever way. And so that way I think we can solely be focused on growth and make sure that we supplement Belcan with Cognizant's strength of global delivery model and the other aspects of the very robust hiring engine and things like that.

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

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Very good. And maybe I just want to pivot a little bit and talk about AI because you raised it earlier. Given the market focused on generative AI, we've seen some early traction. I think you've talked about [ph] 750 early client (00:22:20) projects. It sounds to me like most of those are sort of the early prototype...

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Yeah.

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

...phase at this point. Maybe talk about the kinds of projects that are included in these early engagements first of all.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

We are seeing GenAI projects in four vectors. You're right. I mean, the projects are still small and prototypes kind of nature, but we are seeing them in four vectors. The first is customer experience. So many of our – this is in fact, this is the vector which is very predominant. Most of our clients across industries are doing projects and pilots, and many of them are in production in the customer experience sector. This includes call centers or anything related to customer experience.

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

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

The second vector is more around content. Content generation, content creation, content [ph] discussion (00:23:07), and things like that. So there are ton of projects in that segment. The third vector is more on the efficiency and productivity, which is it could be tech for tech or the other aspects to drive efficiency across the value chain. There are projects in that. And the fourth vector is [ph] far and few (00:23:26). Some of our clients who have deep pockets and who want to [indiscernible] (00:23:32) with this technology are looking at leveraging this technology to create new revenue streams and new business models and things like – for geographic expansion or taking products faster to market and things like that.

So these are the four broad vectors where we are seeing projects on GenAI today. And most of the customer experience-related projects are getting into production, not at – I mean, relatively that is the faster and the broader – we see the faster and broader adoption of GenAI in that segment.

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

Interesting. And in the rest of it, maybe just talk about or even in the first one customer experience, what is it taking to kind of get to the next level in terms of scale of projects? Do they have to see, hey, there is real cost savings here? Is it something the new capabilities? Is it remediation of DataStax? What is it kind of get them over the hump to a bigger project?

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Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

I think in the customer experience sector, clients are adapting or consuming this in an incremental way rather than an exponential way. I think most of our clients have deployed this technology to some extent in customer experience sector. To your question on why use it not at scale in the other [ph] tech (00:24:52) sectors or other dimensions, I think probably three or four reasons. Many of the clients are still waiting for the maturity and the technology to a great extent. And then there is this regulatory aspect of the technology. The clients are not very clear on the boundaries of the regulation.

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

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

And third, this is – we still see ton of activity when it comes to GenAI spending at the chip and infrastructure level.

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

Sure.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

At the chip and infrastructure. So that's why you see a lot of activity with the hyperscalers and the chip manufacturers like NVIDIA. It still has not creeped up to the applications layer and the business transformation layer. We expect that to happen over a period of time, and it still has not triggered CapEx cycles, probably because clients have overspent on cloud and they are still waiting for benefits from cloud. But once this – the technology [ph] jumps, this go (00:25:45) from chip and the infra layer to apps and business transformation layer. We expect more broader and widespread adoption.

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

And what's your own outlook for the sort of the timeframe for broader enterprise-wide AI adoption?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

I mean, it's hard to call, but seeing what we're seeing, knowing what we know, it also depends on the economy.

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

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

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Assuming economy comes back sometime in 2025, if I were to pick a timeframe, I would pick somewhere from 18 to 24 months for a widespread broader adoption for CapEx cycles to trigger on this.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

I guess, what kinds of projects do you think are going to be most impactful for clients once we sort of get past this proof-of-concept phase and cost take-out deals? And how meaningful do you think there could be to growth over time?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

I would look at it with a different lens. I mean, I wouldn't look at it from a project lens, but I would look at it from a value chain lens.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

So this technology has to be like digital for example.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

You can't digitize components of your value chain. You have to digitize the entire value chain to reap the benefits. In a similar way, you'll have to infuse this AI across your value chain, across your value chain. For example, if you take a healthcare payer value chain, insurance company value chain, the value chain has multiple components such as sales and marketing, member onboarding, claims administration, claims payment, and all the way up to the provider touch point.

So once you infuse GenAI across, then you'll start reducing the cost of care and improving the quality of care. If you infuse technology in parts of it, then the benefits will be incremental. So that's what happened in digital. They started in an incremental way, but then clients started digitizing their entire value chain. They started redoing their entire plumb line across infra business and operations layer. That will trigger large scale projects. So we'll have to take – we'll have to look at it from a value chain centric model or approach, and that will trigger larger projects.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. And so if you think about this internally, how is Cognizant sort of used AI to sort of enhance productivity...

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Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Yeah.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

...differentiate yourself from the market so far?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

So we have deployed the GenAI within Cognizant. [ph] I guess, we (00:28:23) have to eat our own dog food too. So, we have deployed it in two or three areas, so obviously for the employee experience part. So we have deployed that. We have deployed that in some of our HR segments such as employee onboarding or for any training or Q&A aspects for the employee. And then we have deployed this technology for other internal tech support, tech support. So we have deployed that. And we have also – we have deployed it for the content-related elements for creating training materials and things like that. And now we are beginning to deploy that on the sales side, for the RFP response or case study creation and things like that. So we have deployed it in three or four different areas within Cognizant, and we are seeing results, good results for that – through that. This is within Cognizant, but obviously...

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

...we are deploying this technology to serve our clients. That's a completely different element to it. Yeah.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

And I think it's fair to say that emerging technologies like GenAI sort of always present significant opportunities, but also kind of there's this debate, and we've had debates like the whole conference long about whether AI [ph] reviews (00:29:39) are eventually going to live up to hype or not [indiscernible] (00:29:42) justify the initial investment. I mean, for Cognizant, what milestones do you think we should be watching as we get to 2025 and beyond that will give us greater confidence in the trajectory of those turning into revenues?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

I mean, it's very hard to define or it is very hard to say that this is going to be the yardstick for AI success at this juncture. To me, I mean, the biggest proof point would be that when AI – actually, let me take it back, this AI is expected to push growth by 3 to 4 percentage points beyond the traditional market growth. When you start seeing those growth rates from the services firms, that's when you begin to realize that AI is doing its magic or AI is delivering its expected hype. Otherwise, beyond that, I mean, you can talk about the number of projects or revenues generated from projects or AI in projects, it's very hard. Today I can't. Almost all the large deals that we spoke about earlier has a component of AI or a GenAI.

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

Sure. So revenue acceleration, just like that...

[indiscernible] (00:30:59)

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

...cloud, we saw an acceleration and...

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Correct.

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

...that's how you know it was real.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Yes.

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

Yeah.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

When the growth rate starts pushing beyond the expected market growth rates that's when you know that AI CapEx cycles have triggered.

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

Maybe some more kind of operational financial-related questions.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Yeah.

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

You've instituted the NextGen program to drive significant M&A cost takeout across the business. What inning do you think we are in or maybe why is it cricket analogy? I don't know. To serve that kind of respect to like those overall cost reductions and how much room for sort of absolute dollar reduction in SG&A do we have from the current levels?

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Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

I'll let Tyler also chime in on this question. To answer your innings question probably, we have just concluded the first innings, or we are getting into the second part of it. Our NextGen, the savings from our NextGen are kind of channeled into two or three buckets within Cognizant. One is investment in large deals. As I said, we have focused on enlisting or bulking our sales engine or revamping our sales engine. So some of the NextGen benefits have been channeled towards that. And the other element is, for our training and infrastructure-related elements and a portion of that flows into our bottom line too. I think we have seen 70 basis points improvement in our bottom line in the first half. So these are the three dimensions through which the NextGen is helping us. And on the broader...

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.
A

Yeah. I would say...

[indiscernible] (00:32:32)

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.
A

...over the next two quarters, we still have kind of incremental NextGen actions that are coming online. When we had introduced the program last year, we had talked about achieving approximately $100 million of savings simply from the real estate. Now, you've seen the charges for real estate [ph] exits or lease exits (00:32:50) and things like that. But the savings are really kind of starting to roll online in the middle of this year and through the end of this year. So we expect to achieve that $100 million of annualized savings in 2025. We have incremental sort of head count and more traditional overhead actions that are happening over the next two quarters. And so we're going to be kind of exiting this year concluding the program, right.

I think that we would expect to at least be through NextGen by the end of this year. A lot of these investments, Surya spoke about where they're going into, it's also helping us. We just went through a merit cycle, where we had talked about in Q3 absorbing a merit cycle. So, some of it goes there, right. Of course, it's – we haven't talked about pricing, but it's been a tough pricing environment. So it's helping fund some of the investments that we're making on the large deals, go-to-market, and other things while trying to kind of accelerate revenue growth. And so I think the end of this year kind of the conclusion. We've been given the SG&A dollar piece, but I do think it's fair to assume we do have some incremental actions kind of exiting this year and then next year trying to drive some operating leverage with better revenue performance and [ph] slow SG&A growth (00:33:56).

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

Actually on that note, I would like to expand on...

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

Sure.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.
A

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...if you're okay. We have defined our strategy in three pillars. One is accelerate growth, become the employer of choice, and modernize our operations. So we are executing our strategy flawlessly across. And the NextGen is kind of helping us to a great extent. On the accelerated growth, we spoke about our focus on the large deals, having the channel or winning the channel of trust with the clients, expanding into adjacencies, expanding into the markets that we're not present today, focusing on underpenetrated markets. Those are the four or five elements of accelerating growth element of our strategy.

And when it comes to becoming an employer of choice, we are focused on multiple employee engagement initiatives. Part of it was the hikes when not many people have awarded hikes, we kind of went ahead with that. And then we are focused on learning and development infrastructure for our employees to improve the morale of the employees. We have said that we are going to invest in training campus in India and also in US. And so things like that. I mean, just to make sure that we retain and attract the right talent that is to become the employer of choice.

The third element is modernizing the operations, which includes, some of the platforms that we have built for enhancing our delivery effectiveness and delivery industrialization. And, some of the investments that we made towards our large deal infrastructure, and we are doing a lot of other things to be more agile, more nimble, and to improve our competitive positioning in the market. So I think these three elements of our strategy, the NextGen dovetails well into all the three pillars of our strategy. Yeah.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Yeah. Your revenue trajectory has already started to improve, what is your outlook for kind of sustaining improved revenue growth this year and more importantly into next year? And sort of what are the key levers you're pulling and focusing on to kind of achieve that?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

Listen, I mean a lot of it depends on the economy to like we spoke, but coming to Cognizant, what are we doing to be fully ready when the race begins is, we just want to make sure that we have unfair share of client of the mind share of our clients. So through our AI and GenAI and through our domain expertise across the market segments that we operate in, we're constantly monitoring where the puck is moving in each industry. We are making sure that our capabilities are aligned to the market. If there are any gaps, we are focused on building those capabilities and plugging those capability gaps. That is first part.

Second, we are leveraging our large deal engine and our competitive leverage in some of the industries and the industries that we are growing, to make sure that we stay highly competitive and reasonably aggressive to win some of those large deals. That's the second element. And then we have called an M&A play. For example, Belcan is one part of it. So we are focused on executing to make sure that we have a strong foothold in aerospace and defense, and we expand our engineering muscle across. That is the third element.

And fourth, we are making sure while we are trying to win the market, we want to make sure that our delivery engine is primed to the right levels.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

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Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

So we are focused on delivery industrialization, automation, and agility within the delivery infrastructure to make sure that delivery engine [ph] caters to the sale (00:37:32). These are the three or four things that we are doing to keep ourselves fit and fully ready to jump in when the market opens.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. On the margin side of things, large deal wins, those are good. You talked about them. They also involve upfront costs, especially the larger outsourcing deals. So, how are you thinking about balancing sort of the short-term margin impact with the long-term revenue growth?

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

A

You're right. I mean, these large deals are long-tenured deals. Okay? In the first year, we will have a bit of a margin issue, but we have planned through that. We have balanced through that with a bunch of two or three things. One is the NextGen. So we spoke about a portion of NextGen returns are being used to balance that. The second element is, usually when the discretionary spend is high, we tend to carry a larger bench. And now that discretionary spend cycles are compressed, we don't need to have the bench that we used to. And historically Cognizant also is a little on the higher side when it comes to the bench costs. So we have optimized our bench and use that benefit that we got from that to balance some of this issue.

So NextGen balancing the bench costs and we are focused on driving the automation across our delivery framework. We are – either through GenAI or otherwise. We are dialing up the automation lever to make sure we get benefits of that. A combination of three of these vectors is helping us balance that short-term margin issue while we are focused on buttressing the long-term revenue backlog through these large deals and at the same time [indiscernible] (00:39:20). And as the years pass, as when we get to year two, year three, the automation levers will kick in, in these large deals on the GenAI [indiscernible] (00:39:27) advantage will come in and that should help us [indiscernible] (00:39:33). Yeah. Yeah.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Great. Got more, but unfortunately we're out of time. That was greater overview of the business. So, Surya, Tyler, thank you very much for being here. We appreciate it.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

Thank you, Jim.

Tyler J. Scott
Vice President-Investor Relations, Cognizant Technology Solutions Corp.

Thank you, Jim.

Surya Gummadi
Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

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Thank you. It was pleasure [indiscernible] (00:39:46) today. Thank you.

James Edward Schneider

Analyst, Goldman Sachs & Co. LLC

Pleasure is ours.

Tyler J. Scott

Vice President-Investor Relations, Cognizant Technology Solutions Corp.

Thank you.

Surya Gummadi

Executive Vice President & President-Cognizant Americas, Cognizant Technology Solutions Corp.

Thank you.

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