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Cognizant Technology Solutions Corp.

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Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Cognizant Technology Solutions Fourth Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Now, I would like to turn the conference over to Mr. Tyler Scott, Vice President, 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 Investor supplement for the company's fourth quarter and full-year 2024 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 our call today, we will reference certain non-GAAP financial measures that we believe provide useful information for our investors. Reconciliations of non-GAAP financial measures where appropriate to the corresponding GAAP measures, can be found in 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 our fourth quarter and full year 2024 earnings call. I joined Cognizant two years ago, drawn by its heritage and unique DNA, along with its extraordinary ability to sense, incubate and scale new technologies for global enterprises, often ahead of peers and clients.

We set out to harness the strengths and reclaim our place in the winners' circle. I'm pleased to report solid progress in 2024. We successfully pivoted from stabilization to growth, building momentum throughout the year.

Q4 marked a high point for year-over-year revenue growth, large deal signings and bookings. Operationally, we completed our NextGen program, delivering savings reflected in our adjusted operating margin and strengthening our ability to make strategic investments and drive profitable growth.

Our 2024 results reflect the strong execution of our strategic priorities, accelerating growth, becoming an Employer of Choice and modernizing operations. Our North Star remains returning to the winner's circle with top quartile revenue growth while steadily expanding our margins over time.

Let's take a moment to reflect on 2024, starting with our growth initiatives, which gained momentum through large deals, platform enhancements, new and strengthened partnerships and strategic acquisitions.

With respect to platforms, our AI Labs made significant advancements with our AI capabilities and offerings in 2024. We introduced Flowsource for full-stack engineering, Neuro Edge for real-time AI, Neuro Cybersecurity for AI-enabled proactive defense and Neuro AI Multi-Agent Accelerator for AI agent development.

We also added multi-agent orchestration capabilities to our Neuro AI platform, and we debuted our AI-powered Cognizant Moment to help clients reimagine client experiences.

In 2024, we expanded our breadth and depth of our global alliance's ecosystem, and we added two strategic acquisitions to our portfolio, Thirdera and Belcan. Thirdera made us one of ServiceNow's largest partners. And in the first quarter of 2025, ServiceNow elevated us to Global Elite status, the highest level of partnership recognition within their ecosystem.

Belcan significantly strengthens our opportunity in the \$190 billion ER&D market. We believe our integration is on track. We recently completed Phase 1 of the integration, focused on commercial integration for clients outside of aerospace and defense.

And in the fourth quarter, we signed a multiyear deal valued at several hundred million dollars within aerospace client. Finally, one last note about our efforts to accelerate revenue, our NPS client satisfaction scores improved to a historic high in 2024.

Turning to our second strategic priority of becoming, an Employer of Choice, developing and strengthening our associates is, key to our future. We drove AI reskilling at scale, sustained high employee engagement scores and maintained low-voluntary attrition. I'm also pleased to share we have 13,000 current employees who have returned to Cognizant.

These metrics, combined with our rising NPS scores are evidence of the high correlation between happy employees and happy clients. Our grassroots innovation initiative Bluebolt continues to generate tangible ideas for clients. Our associates doubled the number of ideas in 2024, submitting nearly 240,000, of which 47,000 were implemented by clients.

Our Synapse program equipped more than 400,000 people with skills for future work opportunities well on our way to our goal of 1 million workers. Our work in 2024, earned prestigious recognition, including Forbes World's Best Employers, Newsweek's America's Most Reliable Companies and ranking number seven on Fortune's Change the World list.

Turning to our third strategic priority, we took several steps during the year to simplify and modernize our operations. For example, completing our NextGen cost program helped drive sequential adjusted operating margin performance throughout the year, while supporting our growth investments.

We optimized and diversified our infrastructure in part by directing our India expansion into smaller cities in India. You have heard me call AI a double engine of transformation because it offers Cognizant the opportunity to accelerate our own progress as much as it does for clients.

We are rapidly applying AI across the organization to strengthen our operating agility, while at the same time, quickly sharing our learnings with clients. We have identified more than 200 internal AI use cases applying AI across three major dimensions: associate experience and productivity, enabling business operations and to improve our technology and security landscape. These will remain important priorities in 2025.

Now, let me turn to some highlights from the quarter. We finished the year on a strong note with accelerating momentum as we delivered another quarter of improved year-over-year organic revenue growth and expanded our adjusted operating margin sequentially ahead of our expectations.

Revenue was \$5.1 billion, up 6.7% year-over-year in constant currency. Performance included the contribution of Belcan and improved organic growth, driven again by our two largest segments: Health Sciences and Financial Services.

Organic revenue growth was fueled by recently won deals and improved discretionary spending primarily in financial services. We signed 10 large deals in Q4, up from seven a year ago, reflecting strong momentum across service lines and industries, including digital engineering, financial services and cloud services.

This brought our large deal total to 29 in 2024, compared to 17 in 2023. Health Sciences led with over 10% revenue growth. This included continued strength in TriZetto, our differentiated software platform that is used to process about two-thirds of US healthcare claims.

As a recent example, we entered an agreement in 2024 to enhance healthcare operations for Blue Shield of California with our TriZetto Facets platform as a service solution. And our Financial Services segment delivered another quarter of year-over-year growth, supported by increased demand for cloud, data and modernization services.

Adjusted operating margin improved sequentially to 15.7%, driving full year performance that exceeded our expectations while we continue to make investments in AI and M&A.

Taking a step back, we believe our expanding GenAI capabilities are gaining momentum in the marketplace. For example, we now have over 1,200 early GenAI engagements compared to 1,000 at the end of third quarter.

We see demand for AI services expanding across industries as use cases proliferate. This includes predictive analytics for patient outcomes, drug discovery and virtual health assistance in healthcare; credit scoring and analysis, customer service automation and fraud detection in financial services; predictive maintenance, quality control and supply chain optimization in manufacturing; content personalization and targeted advertising in media, just to name a few.

Another great application of our AI capabilities in Stores 360 recently launched for the retail industry with our strategic partner ServiceNow. Stores 360 aims to help retailers streamline store operations, enhance employee productivity and improve their customer experience, with integrated automated and predictive GenAI capabilities. We are already seeing early interest and excitement.

We also signed a five-year agreement with Toyota during the quarter to infuse GenAI across its software development cycles by leveraging hyperautomation AI and process reengineering. It is a great example of proactive solutioning, allowing us to deliver significant productivity for the customer that can be redeployed to cover new services under an extended contract tenure.

And we renewed our strategic partnership with McDonald's to streamline operations and support its delivery of exceptional customer experiences. Our multiyear agreement aims to transform McDonald's legacy infrastructure into modern cloud-based systems using our Neuro IT operations and Skygrade platforms to improve system observability, reliability and agility.

Lastly, we expanded our partnership with Gilead Sciences, our collaboration will engage our expertise in machine learning and GenAI with an agentic framework to improve productivity and generate cost savings. Our new agreement accelerates Gilead's digital transformation, allowing Gilead to focus on its core mission of discovering and delivering critical medicines.

And we are also seeing traction with Global Capability Centers, or GCCs. Earlier this year, we were notified that we won a new strategic partnership with a leading insurance provider to establish the GCC in India.

We will work to enhance their operational efficiency, accelerate digital transformation and expand their global talent footprint, leveraging our deep expertise in building and scaling GCCs. This partnership reinforces our position as a trusted transformation partner and marks a significant milestone in our continued growth in the GCC space.

These are just a few recent examples illustrating how our innovative solutions and strategic partnerships powered by cutting-edge technologies are delivering significant value to our clients in addition to helping accelerate our commercial momentum.

As we think about AI-enabled enterprise landscapes, I'm very excited about the role Cognizant can play in reimagining businesses, reshaping operating models, co-creating new products and services and redefining work, workforces and the workplaces of our clients.

The recent advances in democratizing foundation models are efficiently diffusing value to the front-end of the AI value chain. We can play a big role for our clients in unlocking newer efficiency and innovation value levers. And we think it will be a force multiplier.

We believe our industry domain strength at the intersection of design, deep engineering and operations will allow us to stay differentiated and be a front runner as we see a proliferation of AI-led services.

We see the AI-enabled opportunity playing out in three distinct vectors with the first already here. First, the most mainstream use case of AI is tech for tech or its application in software development cycles with the help of code assist platforms.

We have our own developer work bench on the Flowsource platform. In the fourth quarter, we estimated that 20% of our code accepted by our developers was generated by AI, allowing us to do more for less and unleash a wave of hyper productivity.

Our belief is with this level of hyper-productivity, there will be an opportunity for partners like us to help clients unlock the estimated trillions of dollars of technical debt, find viable ways to modernize legacy systems and applications, automate infrastructure and operations and eliminate the backlog of workloads.

The vector two opportunity will be about modernizing the data and cloud foundation for integrating AI, into enterprise landscapes. We believe this opportunity will require building last-mile infrastructure related to domain-specific cognitive and reasoning frameworks, explainability and traceability, agentification and multi-agent orchestration and platforms.

It also involves ensuring that AI's use is ethical and responsible, and the output is optimized for accuracy and costs. Our belief is that this process of agentification will drive significant innovation cycles, leading to new AI-enabled products and services work that is being advanced by our AI Labs.

And finally, vector three is about untapped and newer service pools that we believe will be unlocked by agentification. Our view is that software may no longer be merely a tool for organizing work, but can become the worker itself capable of understanding, executing and improving services traditionally delivered by humans.

We expect the most transformative applications of AI will be those that collaborate with human teams with the potential to unlock new and previously unimaginable categories of work.

We see a future where a system of agents can inject autonomous intelligence into workflows by grasping context, applying reasoning and building a team of experts that each contribute unique knowledge and abilities.

This evolution of services-as-a-software, as we call it, is expected to dramatically expand our addressable spend through new access to our clients' expansive business operations budgets, rather than their technology budgets alone.

Early use case opportunities for many of our clients are to agentify horizontal business functions like sales and marketing, human resources functions and customer service, as well as vertical functions like clinical operations, retail operations and connected care to name a few.

I will close by saying that 2024 accomplishments have strengthened Cognizant operationally and strategically by broadening our portfolio while increasing our agility. We believe we are now transitioning from a phase of stabilization to a phase of growth.

Our early investments in AI, practical tooling, thought leadership and unique capabilities at the intersection of design, tech-led engineering and operations gives us confidence that we have the right to win in this dynamically changing IT services market.

We believe we are well positioned to capitalize on the growth opportunities ahead and confident that our strategic focus will help us deliver improved revenue growth to get us back to the winner's circle and gradual margin expansion over time.

Before I turn to Jatin to review our financials in greater depth, I would like to thank our clients and partners for their trust and our associates worldwide for their steadfast dedication and daily drive to deliver. We look forward to updating you in more detail at our March 25 Investor Day in New York.

With that, I'll 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. Our fourth quarter results underscore the progress we have made against our strategic priorities to improve commercial momentum and enhance operational excellence.

Fourth quarter revenue of \$5.1 billion grew 6.7% year-over-year in constant currency, at the high-end of our guidance range. Organic revenue growth was driven by Health Sciences, which grew more than 10% year-over-year; and Financial Services, which grew approximately 3%.

Our acquisitions of Thirdera and Belcan have supported our entry into new end markets with attractive long-term growth profiles. Fourth quarter revenue included approximately 450 basis points of year-over-year growth from these acquisitions.

For the full year, revenue of \$19.7 billion increased 1.9% year-over-year in constant currency and included approximately 200 basis points of growth from Thirdera and Belcan.

We were very pleased with our fourth quarter adjusted operating margin of 15.7%. This performance driven by completion of our NextGen program and our rigorous actions to strengthen operations drove full year adjusted operating margin of 15.3%.

This was 20 basis points ahead of our guidance. This also represents 20 basis points of margin expansion year-over-year net of significant investments we have made to accelerate growth, such as Belcan and our AI platforms.

Now let's turn to the details of the quarter. By segment, Health Sciences saw broad-based strength across payer, provider and life sciences end markets. Clients continue to prioritize cost optimization, cloud migration, and legacy modernization projects, which are helping to more than offset the muted discretionary spending environment.

Within Financial Services, growth was balanced with positive trends across capital markets, cards and payments, fintech and commercial banking clients. We saw a further albeit gradual pickup in discretionary spending.

In North America, we are seeing an improved pipeline of opportunities for transformation and modernization projects across both insurance and select ADRs of banking and financial services clients. In addition, we have continued to see healthy growth in Canada, driven by the recent new bookings.

Products and Resources, or P&R, growth was driven by Belcan. As we noted last quarter, the segment has been pressured by cautious discretionary environment across end markets. This includes automotive, aerospace, manufacturing and logistics, among others.

We signed three large deals in this segment in the fourth quarter. Despite the near-term pressure, we are excited about the opportunities we see across P&R where the convergence of information technology and operational technology is rapidly accelerating.

Communication, Media and Technology performance was consistent with last quarter, as clients remain focused on cost optimization and discretionary spending budgets have been pressured.

From geographic perspective, growth was led by North America, which increased more than 8% year-over-year. Health Sciences, Belcan and Banking and Financial Services all supported the growth. Europe grew, by about 1% year-over-year.

By segment, strength in Health Sciences and Financial Services were offset by softness in Products and Resources. And finally, Rest of the World increased about 4% year-over-year, this reflected solid growth across most segments.

Now turning to Bookings, fourth quarter bookings increased 11% year-over-year driven by large deals. On a trailing 12-month basis, bookings grew 3% year-over-year and represented a 1.4x book-to-bill.

Trends in smaller deals improved, which supported a low to mid-single-digit increase in our trailing 12-month annual contract value, both sequentially and year-over-year.

Turning to expenses, quarter 4 marked the end of the NextGen program, and we incurred about \$49 million of costs related to the program in the quarter. Excluding the impact of these costs, adjusted operating margin was 15.7%, significantly above our expectations.

Year-over-year, margin declined by 40 basis points, primarily reflecting the impact of Belcan and increased compensation costs. This was partially offset by savings from NextGen, high utilization and a favorable currency exchange rate. We are pleased to be exiting the year with an improved cost base and more resilient operating model.

Now moving to cash flow and capital allocation, fourth quarter free cash flow was \$837 million. This brought full year free cash flow to \$1.8 billion or 82% of our net income. This is in line with our guidance.

As a reminder, free cash flow was negatively impacted by the previously disclosed impact from a \$360 million payment made to Indian tax authorities in relation, to our ongoing dispute of our 2016 tax matter.

We ended the year with cash and short-term investments of \$2.2 billion or net cash of \$1.3 billion. DSO of 78 days decreased by three days from third quarter and increased by one day versus the prior year.

For the full year, we returned \$1.2 billion of capital to shareholders through share repurchases and dividends, including \$300 million in the fourth quarter, and we invested \$1.6 billion in two strategic acquisitions.

Turning to our forward outlook now. Before I start, I would like to reiterate that our strategy is built around driving long-term EPS growth through revenue growth and modest operating margin expansion, which we believe will support enduring shareholder value creation.

For the first quarter of 2025, we expect revenue to grow 5.6% to 7.1% year-over-year or 6.5% to 8% in constant currency. Sequentially, this represents a range of negative 0.5% to positive 1% growth in constant currency basis. For the full year 2025, we expect revenue to increase 2.6% to 5.1% or 3.5% to 6% in constant currency. Details of revenue in dollars are available in our press release and supplement.

We expect Belcan will contribute a little more than 250 basis points of growth in 2025, with a greater contribution in the first half of the year compared with the second half. As a reminder, we closed the acquisition of Belcan at the end of August 2024 and it contributed approximately \$300 million to our 2024 revenue.

For the full year, we expect adjusted operating margins will be 15.5% to 15.7%. This represents a 20 basis points to 40 basis points of expansion of our strong performance in 2024.

Over time, we expect our growing adoption of automation and AI to drive better productivity and higher margins. We remind you that in the first quarter, seasonality typically drives a modest sequential margin decline. We expect our full year adjusted tax rate to be between 24% and 25%.

Some of you may have noticed that we are no longer providing net interest income guidance. We made this change to align our guidance metrics more closely with the industry. For the full year, we expect our net interest income will decline modestly given lower cash balances exiting the year.

This leads to full year 2025 earnings per share guidance of \$4.90 to \$5.06. This represents 3% to 7% growth compared to our 2024 adjusted EPS. This growth includes more than 2 percentage points of expected headwind from unfavorable foreign currency exchange rates impacting reported revenue and other below the line items, including slightly higher tax rate.

For the full year, we expect free cash flow will represent more than 90% of the net income. In 2025, we do not expect material changes to our capital allocation strategy. We plan to balance the return of capital to shareholders with inorganic growth investments that strengthen our capabilities and support our growth ambition.

For the full year, we expect to return approximately \$1.2 billion to shareholders, including about \$600 million in share repurchases and remainder towards our regular quarterly dividend. We expect a weighted average dilutive share count of about 493 million for 2025. And during the year, we plan to repay, the \$300 million outstanding under our credit facility.

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] Our first question is from Bryan Bergin with TD Cowen. Please proceed with your question.

Bryan C. Bergin

Analyst, TD Cowen

Q

Hi, all. Good afternoon. Thank you. I wanted to start with bookings here. So, you exited with building momentum on the larger deal front. Do you feel like you're reaching a rhythm now where you'll have more consistent quarterly bookings performance? Ravi, maybe talk about go-to-market and just the large deal engine now versus where you've been as you've gone through 2024?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. Thank you for that question. Yes, I mean, we've got some phenomenal momentum on large deals. We did 29 of them \$100 million plus in 2024, it was 17 in 2023. So, there are multiple things which I believe are going to help us in 2025.

First, we have tail velocity of deal making. Second, we have a book-to-bill now of 1.4. The third, I would say, is the small deals are starting to come back. So, we are excited about it because it has monetization in the same year.

In fact, our ACV numbers, we track that internally, are higher than before, which gives me, again, great confidence that it's a combination of ACV and TCV. We also do a bid versus did inside the company.

And we are looking pretty good on the deals we signed in 2024, the deals we signed in 2023. We are executing to pretty good track. So, I would say we are now in a rhythm. We are accessing the deals well.

Our win rates are significantly higher. It's a spread. In fact, over the two years, we have moved from application services to infrastructure services to now engineering services, which is a combination of the organic engineering strength we had and the stuff we got from Belcan.

We also got a breadth of the industries from healthcare to financial services to products and resources to now progressively moving from Americas to other parts of the world. So, this is a great rhythm for us, good tail velocity to getting into 2025, and it is a very good spread. So, it is resilient and sustainable for the future.

Bryan C. Bergin

Analyst, TD Cowen

Q

Okay. That's good to hear. And then a follow-up on just the growth outlook as you built the plan here, the organic growth plan for 2025. Can you comment on potentially how some of these industries unfold relative to what you saw in 2024, as it relates to healthcare versus financial solutions versus P&R and comm, media, tech?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. So, because we have the breadth and the resilience now, I mean our growth is going to be very broad-based and all-round. You've seen healthcare, we have done 10% Y-on-Y, which is pretty healthy on a good, big base. We are having pretty all-round growth all the way from payer provider to Life Sciences.

On Financial Services, where I started last year to where I am today, we have now created a rhythm of Y-on-Y growth for subsequent quarters. And we're very, very excited about the fact that Financial Services, we are seeing discretionary coming back and we are actually capturing a lot of that.

Now we are starting to – with the muscle we have created on a broader capability, we are starting to see communications, which – and the technology, which is a muscle we created in the last two years, is doing well. Products and Resources, with retail and consumer goods, was otherwise doing well. And now we have strengthened manufacturing with the power of the Belcan capability we built.

So, it's an all-round comprehensive organic growth we are looking at. And I'm also excited about the fact that while Americas is actually a principal market and it is leading the way, the international markets are starting to contribute to this process.

Our first quarter guidance is pretty strong. I mean, this is one of those quarters, which is normally seasonally weak. But if you see the midpoint of that guidance range, we are positive. So, it is tail velocity from quarter 4 cutting into quarter 1, plus all the momentum we have.

Bryan C. Bergin

Analyst, TD Cowen

All right. Thank you.

Q

Operator: Our next question is from Jason Kupferberg with Bank of America. Please proceed with your questions.

Jason Kupferberg

Analyst, BofA Securities, Inc.

Good morning, guys or good afternoon, I should say. Thanks for taking the question. I wanted to just start on the organic growth for the year. It looks like we're targeting 1% to 3.5% organic constant currency. The midpoint of that, I guess, would be pretty consistent with how you exited 2024 on the same basis.

So just wondering, in terms of acceleration, it sounds like there's more discretionary spending going on and you have some bookings momentum exiting the year. So, it doesn't seem like we've built much acceleration into the guide on an underlying basis, but is that just conservatism or are there other considerations there?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Yeah. So, it's a start of the year. The visibility into the second half, you kind of build it in the next few weeks. We are hoping there is continued buoyancy into the second half so that the upper end of the range is doable.

So, the way I constructed it is there is a tail velocity into the first half of the year and that is constructed into the middle of the guidance range. And then we are hoping we continue to execute well. We continue to see the same buoyancy we're seeing now. I mean, discretionary is starting to come back. And as the visibility builds in, we do our best to outperform.

Q

A

If you look at the last four quarters, we got to the upper end of the guidance range in the last four quarters, including the one we just concluded. So, I would say – I mean, that's how I'm seeing it. I mean there is – when I spoke to all of you one quarter ago to where we are today, I'm more optimistic about the future.

Jason Kupferberg

Analyst, BofA Securities, Inc.

Q

Okay. That's very helpful. And I know you touched on agentic AI earlier, wondering if clients are starting to talk more about it? And what's Cognizant doing to invest to prepare for that opportunity? And then just any views on how DeepSeek could ultimately impact the IT services industry? Thank you.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. So, I spoke in detail in the – just a few minutes ago. Yes, I think, I'd put them in three vectors. The first vector is writing code. I'm a strong believer that writing code with machines, amplifying humans is only going to get us to write more. We will unlock billions of dollars of legacy debt, legacy technology that's sitting on corporate landscapes, backlogs. And we are seeing that in our deals now.

I mean one of the reasons why we are winning large deals is, productivity is baked into it, and the early investments we made is helping us to win because the productivity assumptions, between providers is very different. I mean, we have done now 29 plus 17 deals in the last two years. A lot of that productivity we have baked in is AI-led. So, we're excited about the efficiency part of this process.

The second lever is how does it help on innovation and growth. I mean, our clients are starting to invest on us. We have 1,200 projects running now. And a lot of heavy lift, cloud migration, data modernization, the last mile infrastructure, we have platforms to help our clients that helps us to create a stickiness and helps us to accelerate that journey and it helps us to make that journey of agentification predictable.

In fact, we have our own agentification platform, which is an orchestration layer. If you have existing software, which has agents, this can orchestrate between the software pools. If you do not have an agentification layer, this can actually act as an agentification layer. So, we think we are way ahead of most of our peers, and this is probably an opportunity of a lifetime.

It is also unlocking new pools of addressable spend, which we didn't earlier address, which is things I spoke about, which is say connected care or retail operations or drug discovery. So, the service pools, which we didn't capture before are now available to us.

So, we are now seeing opportunities which are not just at the CIO, it's actually across the business operations of the company. So, I think, the addressable pool of work is going to be multifold to where we were before. And that gives me confidence that this is a force multiplier for companies like ours.

In context to DeepSeek, it's a simple quick summary. DeepSeek is uniquely democratized a layer at the back end, which is the foundation models, and it has commoditized that layer. So, a lot of the money will now flow into the front-end and it will accelerate the adoption of AI into enterprise landscapes.

And as it does so, we will be in the middle of it, heavy lifting and helping our clients. So, the DeepSeek opportunity uniquely is a moment – is an inflection point on transferring that value from the back end to the front end.

Jason Kupferberg*Analyst, BofA Securities, Inc.*

Thank you, Ravi.

Q

Operator: Thank you. Our next question is from Surinder Thind with Jefferies. Please proceed with your question.

Surinder Thind*Analyst, Jefferies LLC*

Thank you. Ravi, just kind of building up on the last part. As you think about the proprietary solutions that you're building within the AI landscape and all of the changing demand, can you provide a bit more color there in terms of the sustainability of those types of solutions that you're building? Or is this one of those things where, as you go to a client you build a solution, and then somebody follows you really quickly?

Q

I just wanted to better understand the shifting model of – before it was all about services, but now we're injecting what sounds like a bit more of a software layer into the solution itself and if that's sustainable?

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

Thank you, Surinder. If you remember in the London conference, I started talking about this, and we've come a long way from there. The layer of software you build, I call it fast software, is tactical tooling needed by our clients to either accelerate the journey or to bridge a gap or potentially to build micro industry vertical templates, which the existing software doesn't contain them, and very similar to how enterprise software was built many years ago.

A

How the cloudification of technology, in some ways, changed the role of system integrators. Now I would say all of this is helping our clients. I'll give you one example. We have a platform called Flowsource, which is an orchestration layer on top of code assist platforms like GitHub.

Now that orchestration layer is something we built practically because we figured out that as you bring code written by machines and you bring code written by humans and you bring it together, you need a worker – a developer workbench, which will synchronize the effort and improve productivity.

And will some of the existing platforms replicate that functionality over a period of time? Maybe, yes. But by then, we will start to look at advanced problems to solve. Some of the problems we have today, some of the gaps we have today will remain gaps, and it's the job of the system integrator to fix them. And some of them will productize. And as they get productized, we move to the next endeavor, the next problem-solving endeavor.

There is work between efficiency of the output and cost efficiencies needed for making AI enterprise grade. Some of that optimization will automatically happen with software and some of it will not. So, I would say, it's an evolving role of a system integrator. The heavy lift will remain.

I am now venturing not just into agentifying landscapes. I'm venturing one step further, which is identifying new service pools, which we did not capture. I'll give you one example. If you take sales and marketing function, all the data sitting in software is structured data.

If I actually tap into unstructured data in a sales cycle, I mean, there is data sitting in chat messages, data sitting in e-mails, data sitting in minutes of meetings, of salespeople who are actually working on it.

And if you want to find the momentum of a company, well, the sales momentum of a company, you could agentify that pool and then transfer that into value, which means that was a labor pool we didn't touch, either people were doing it and we didn't capture it, or new sets of work, which people were not doing, which is unstructured data. I mean, it was not getting tapped.

So, I see this as an opportunity for not just technology spend of enterprises, I see this as an opportunity to go into the operations of companies and agentify it. And create service pools, which we can address.

And we do believe we are – our strength at that intersection of deep engineering, operations and industry domain will help us. And this is no longer theoretical. This is real life projects we are now implementing for our clients and some of those examples I've already stated in my remarks.

Surinder Thind

Analyst, Jefferies LLC

Q

That's helpful. And then, when I think about – as I look ahead and I think about all of the large deals you signed, the ramp, the managed services wins. Is that where most of the growth should come from in 2025, as we wait discretionary spend to improve on the consulting side?

Or how should we think about the two segments? And maybe how much integration is there when we think about the large deals in terms of the sharing of work between consulting and managed services with the large deals?

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. So, I'll take that, Surinder. This is – the texture of the work is changing a little bit between 2024 and 2025. In 2024, we saw that it was essentially the large deals and the volumes led by large deals were driving the growth.

But 2025, as we exit particularly quarter 4, we have seen some improvement, as I described in my opening comments, in annual contract value terms, which means we are getting some discretionary spend back, and therefore, the volume or the texture of growth will be slightly different for 2025, where you will see both the short-end work as well as the volumes which are being added by the large contracts or large deals.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Especially in Financial Services, where there is more discretionary. In fact, Surinder, I just mentioned earlier that our ACV numbers have significantly jumped in quarter 4, which is an indication of not just large deals, but also smaller deals coming back.

Surinder Thind

Analyst, Jefferies LLC

Q

That is very helpful. That's helpful. Thank you.

Operator: Thank you. Our next question is from Jonathan Lee with Guggenheim Securities. Please proceed with your question.

Jonathan Lee

Analyst, Guggenheim Partners

Q

Great. Thanks for taking our questions. Tremendous to see the margin outperformance here, can you unpack what drove that, especially with software utilization and perhaps some would be benefit? And what incremental levers could you see into calendar 2025?

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Sure. So, while using numerically, the utilization looks softer in quarter 4, but we continue to execute very well on the ground. So, this is a – this sort of under represents the operational improvement on that we have been able to achieve over last 12 months the way we run the organization. So, I think that is one big driver that is also reflected in the performance on the gross margin side.

We have definitely seen a benefit on the profitability coming through our NextGen program. That is another key contributor to the performance for 2024 in general and specifically for quarter 4.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

So overall, our operational rigor has improved significantly in the last two years. And we have some runway. I mean, we have the pyramid, continuing to sharpen the pyramid, AI-led productivity sharing with our clients and part of it accruing to us.

Our NextGen program, which we started in 2023, flew into – it had a flow-through into 2024. And it will have a flow-through into 2025. So, we are very excited about it. And the large deals for which we were always budgeting if something goes wrong. But the reality is the bid versus did on large deals also contributed to the margin growth. I mean, we have really executed our large deals very well.

So, we are very pleased with where we have landed on the margin and the runway we have for 2025. So – and interestingly, we've also done M&A, and we have absorbed the margin dilution plus we are investing heavily into AI. We're absorbing that as well.

So, I mean, the ability to contribute to margins, create an expansion, and that's going to be my desire. We want to keep an expansive desire to improve our margins, but continue our investments and stay ahead of our peers.

Jonathan Lee

Analyst, Guggenheim Partners

Q

Thanks for that detail there. And to support your growth in 2025, can you talk through how you're thinking about pace of hiring and perhaps geographic mix of talent base given Belcan as a new dynamic there?

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Sure. So, we continue to hire as we need for our growth. And certainly, it's a cycle that you will see panning out in 2025 also. Probably from Q1 and onwards, you should start seeing the addition of head count versus what you've seen in previous few quarters.

Overall, we are well placed in every geography from availability of talent from a bench standpoint as well as our capacity to hire as we need in each of the geographies. So, we feel quite good as we enter 2025 from a supply equation standpoint.

Jonathan Lee

Analyst, Guggenheim Partners

Appreciate the color, guys.

Q

Operator: Our next question is from James Faucette with Morgan Stanley. Please proceed with your question.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Thanks. I appreciate all the detail and color here today. I just wanted to ask a quick follow-up question. On Belcan, I think if I heard you correctly, that you expected it'll contribute roughly 200 basis points in 2025. Does that include, both inorganic and the organic period after August?

Q

And I guess as part of that, in your growth assumptions are you building in any other inorganic contribution from maybe deals that haven't been announced or closed yet?

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

Yes, sure. So, essentially, this provides for – the 250-basis point is the number that I've mentioned in my opening comments. And that 250 basis points is essentially for the additional 8 months, approximately eight months of revenue that we will get from Belcan in 2025, we have not factored in any additional inorganic in that 250 basis points.

A

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Oh, that's great. Okay. So, that's very clear. Thank you for that. And then, I'm wondering, as you're – like I think your messaging, Ravi, has been really clear, and we've seen kind of this consistent improvement where we're now to this point where it seems like discretionary is improving. And that's great to hear. And on top of that, the large deals, et cetera.

Q

As we went into the end of this year, and I know, it's a little early still on budgeting processes to have a conclusive view. But did you see any budget flush-type engagements or bookings maybe like what you've seen in past years? And what's your early temperature in terms of growth for most people's budgets. It sounds like it's pretty positive, but is that universal? Thanks guys.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Yeah. So, I mean, this is sectoral in a way, but I also want to tell you that the mood is very business favoring, right? I mean, people are expecting regulation to be coming down. And it's a pro-business environment.

A

The uncertainty around us is starting to settle down. There is lesser uncertainty in general across the world, which means all those dollars will actually trickle down to innovation and discretionary work.

I would say Financial Services – we're – I'm very pleased with where we are at Financial Services, which is where all the discretionary conversations are. We're very pleased with the progress we made. The obvious seizing the opportunities which are coming our way.

You would have noticed one other area I spoke about, which is, global capability centers. A lot of our clients are actually saying, "Oh no, can you help us setup global capability centers?" which is, interestingly, one of our biggest trends, setting up the IT shop for one of our clients, but doing it in a build, operate, transfer.

So a lot of all-round opportunities to play with, as the AI wave is hitting the enterprises, the reality check on their data and their cloud migration is reopening that journey. I mean, the heavy lift on data modernization and cloud migration is a unique opportunity for us.

We are a very different company now in two years. I mean, I would say we have heterogeneity in our landscape on services, all the way from experience, application services, BPO, Ops to engineering. And we now have more vertical play.

I mean, we aren't just a financial services healthcare company. We now have multiple verticals to play with. So, I would say the – I'm optimistic. I don't know if things will change in the second half, but I'm optimistic about the fact that where we were a year ago, to where we were a quarter ago to where we are now, I feel very optimistic.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

That's great color. Appreciate that, Ravi.

Operator: Thank you. Our next question is from Tien-Tsin Huang with JPMorgan. Please proceed with your question.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hi. Thanks so much. Just to build on James' question. You mentioned the GCCs here, Ravi. Can you expand on what that means for Cognizant in general, if that is a new theme that you see emerging? And does this change the balance of trade between in-sourcing and outsourcing. Just trying to understand how to read into that and how Cognizant is going to see it? Thank you.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

So, multiple things for Cognizant to be a part of that chain. One-third of the GCC – one-third of the worker – one-third of the tech services in offshoring destinations like India is GCCs. So, we have a big role to play. They are themselves directly buyers of services. So, that's one.

Second, a number of them, who do not have access to that market because that's a different labor market. We are a sizable formidable player in India. So, it gives us an opportunity to help these companies build, operate and transfer. In fact, last year, I signed a deal. It's in the public domain, where I did build, operate, transform and transfer.

Essentially, we are building it for them. We are operating it to them. We are applying AI tooling and then we are transferring it to them. And then we underwrote all the AI tooling for the next couple of years, which means we are just going to give them they can draw from us.

There is a third set of offering, which is the micro services around GCC, which is you focus on the core and offload the non-core to us, and we will set it up for you. I mean, there are a variety of templates on this and companies are reorganizing, I call them 2.0, and they're reorganizing their technology ops and BPO together.

I mean my universe is not technology anymore. Operations of companies are actually getting offloaded to near-shoring and off-shoring destinations. And that's a new addressable spend.

And finally, engineering of companies. I mean, if you are a car company, you would probably outsource your HR applications and CRM applications. Writing software to drive – to run the car, you're probably not going to outsource. You want to build it yourself. Building it is not easy. So, we can actually give you a deep engineering capacity to build your own core.

So, we have a number of opportunities, which we have won and which we have in the pipe, and I've actually mentioned about one in my earnings, which is primarily an insurer who just signed up with us. So, we are kind of excited about this opportunity.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. That's really interesting and thoughtful. I always appreciate your comments. Just have to ask you, Ravi, as you're talking to clients and you've talked about a lot of themes here. How would you characterize just overall budget and client decision-making with all this news flow that's happening, you got tariffs and immigration and tax, all this stuff? How would you characterize that?

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. Technology is a very interesting space when everybody is growing, you use technology to grow, and if there is uncertainty, you use technology to improve efficiency. So, you can win in the terms with technology.

So, I've seen it in both sides. And I think as a company, we are agile to anchor on both sides. When the market is soft, you want to anchor on efficiency. When the market is taking off, you want to anchor on innovation and I think in some ways, AI can do both.

So I'm anchoring on both sides. And that's why I place this opportunity in those three vectors because I do see this as a play on both sides, which is why it is exciting. Budgets are – I mean, the visibility of budgets are much better than last year. Is it completely up and running? I don't think so. As we move into the year, we will see more, but we're in a much better spot than last year.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Thank you so much. Always appreciate it.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Thank you.

Operator: Thank you. Our next question is from James Schneider with Goldman Sachs. Please proceed with your question.

Q

Hi. Thanks for taking my question. This is actually [ph] Lin Yen-yu (01:00:33) on for James Schneider. My question is, how do you see the divergence in consumer behavior right now between the UK and Continental Europe? Is this being driven by geopolitical considerations? Or do you think it's being driven by the composition of industries of these clients such as like banking versus industrial? Thank you.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Is this specific to Europe or otherwise?

Q

Oh yes, Europe, so between the UK and Continental Europe.

Ravi Kumar Singiseti

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah. So, again, Continental Europe still has uniquely first-time outsourcing opportunities, which can manifest itself into not just offshoring, but outsourcing and offshoring.

And sometimes, in fact, Continental Europe has one of the most numbers of GCCs going back to the old topic. So, I see that opportunity in some ways a very different – it's in a very different stage of evolution in comparison to the US and UK.

And some industries are very mature and some industries are really opening it up for the first time. UK is a much more mature market. We have a big role in the UK. I mean, we are strong in financial services. We also do public sector in the UK. We are pretty strong in consumer and comms.

So, UK is a very different market. I think, it's much more ahead in terms of outsourcing, offshoring and actually efficiency cycles. But I would say in Continental Europe, if we make the right investments, which we are doing over the last two years, we are unlocking much more than before.

Our presence is much – our – the proportion of business we do out of Europe and Asia Pacific is much lower than the US in comparison to our peers. So, that's an area for us to capture more and be a challenger in some of these geographies.

Jatin Pravinchandra Dalal

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Yeah. I just want to add a point on UK versus Europe. I think UK has really started to show a lot of momentum in the second half of 2024, than what we saw before.

In the current quarter, there is a delta between UK and Europe, and that's more led by a fact that one of our CMT customers renewed a contract in US versus UK, so there is some movement of revenue between geographies. But otherwise, we continue to see good momentum in UK.

Q

Great. Thank you.

Operator: Thank you. This concludes our question-and-answer session. I would now like to hand the floor back over to management for any closing comments.

Tyler J. Scott

Vice President-Investor Relations, Cognizant Technology Solutions Corp.

All right. Great. Well, thank you all for joining us tonight, and we look forward to talking to you next quarter. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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