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Cognizant Technology Solutions Corp.

(CTSH)

Investor Meeting - COVID-19 Business Update

CORPORATE PARTICIPANTS

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Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the Cognizant COVID-19 Business Update. At this time, all participants are in a listen-only mode. [Operator Instructions] Please note that this conference is being recorded. At this time, I'll turn the conference over to Katie Royce.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

Thank you and good morning, everyone. Thank you for joining today's call to review Cognizant's COVID-19 business update. A few housekeeping items before we begin. First, I would like to remind you that some of the comments made on today's call may contain forward-looking statements. These statements are subject to the risks and uncertainties as described in the company's 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 filings with the SEC.

Lastly, the format of today's call will be a moderated Q&A session with Brian Humphries, Chief Executive Officer and Karen McLoughlin, Chief Financial Officer. However, we will not be opening your lines for questions.

With that let's jump in.

QUESTION AND ANSWER SECTION

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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Brian, maybe starting with you. Will you talk about our response to the current situation, and how we've been managing through it?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Good morning, Katie. Thank you everybody for joining us this morning. Katie, as you know, we enabled our business continuity plans in early March, and since then our crisis management and business continuity teams have been working around the clock to really assess and respond on a daily and indeed sometimes hourly basis to the developments that have been happening.

Our response to COVID-19 has really been primarily around ensuring the safety and well-being of our employees, but at the same time, of course, we're focused on maintaining business continuity for our clients and indeed supporting the efforts of governments around the world to contain the spread of the virus.

We've always been a virtual company, but over the last several weeks, we certainly have to accelerate our work from home capabilities, and enable continuity of service to our clients from different locations. I must admit, I'm really, really pleased with how our teams have performed. They've gone the extra mile, and for that I'm grateful, and truly proud of our associates around the world, who've risen to the challenge to serve clients through what is truly an unprecedented challenge. Of course, we will come out from this, and I'm confident Cognizant will successfully navigate the challenge, and indeed hopefully come out to this other side stronger, with even greater goodwill from both our associates as well as our clients, given the work we have been doing through this crisis.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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Thanks, Brian. Maybe you can talk a little bit about the decision to provide this update today? The impact we saw in quarter one and the decision to withdraw our full year 2020 guidance?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Yeah, happy to do so and as you know, of course we got multiple audiences that we try to communicate with on an ongoing basis, including not just investors but also associates and clients. Now there's obviously massive uncertainty and disruption in the wider marketplace, and for that reason we thought it was important to speak up and give a more timely lens into a number of things, including first of all how we executed in the quarter, including the early momentum that we saw in January, February, and how we had to navigate the COVID-19 impact in the month of March.

We also wanted to touch upon the strength of our financial position, and indeed the incremental actions we're taking, including drawing down the revolver. We wanted to touch upon our business continuity efforts, and how we've worked around the clock to maximize our ability to serve clients. And of course, our commitment is not just to our clients but also to our associates and the communities in which we live. And so we wanted to give an

update on some of the targeted compensation and policy changes we made for our associates and our recent philanthropic investments.

It's clear as I speak with clients across the globe that we're all dealing with significant financial challenges. Over the last few weeks, we have seen everything from incremental opportunities that were unexpected to the other extreme of projects deferrals, request for furloughs, temporary rate concessions, or indeed deferred payment terms. And to be honest, I don't think anybody can reliably predict how long this macroeconomic environment will persist, or what it may mean and for that reason, we ultimately felt it was the responsible thing to do to withdraw 2020 financial guidance.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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Karen, maybe you can double click a little bit on the employee and supply side of the equation? Will you talk through what we've done to enable such a rapid shift in the delivery model and have we seen any impact on productivity or utilization to-date?

Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Thanks, Katie, and good morning, everyone. Over the last few weeks, our crisis management and business continuity teams have executed a coordinated and significant cross-functional effort to quickly enable more associates to work from home in a safe environment. These efforts included things like provisioning laptops for employees who might typically work on desktops, encrypting desktops and transporting them to associates' homes, enhancing security protocols to enable BYOD or use of personal computers, providing increased Internet bandwidth and Internet cards, obtaining approvals from clients where necessary to enable work from home. So it's just been a really tremendous effort on the part of our teams.

At the same time, our associates have responded really in stride and gone to extraordinary efforts to support our clients. This has included some associates working a lot of overtime or in certain cases shifting workloads to other parts of the world to minimize disruption while we enabled more associates to work from home in geographies where that's typically been less common.

As Brian mentioned, after a strong start to the quarter, there has been some impact on our ability to fulfill demand during March, and the beginnings of a slowing macro demand. While some of the fulfillment issues may continue into early Q2, we really believe that much of the fulfillment concerns will be alleviated in the coming weeks.

To address the challenges being placed on our associates during this time, we've also taken a number of actions. This include providing a 25% bump in salary for our employees at the designation of Associate and below in both India and the Philippines for the month of April. We've amended our sick leave policies around the world to provide 14 days of coverage for employees who may be impacted by the virus. We're providing coverage for all of our associates to use our video conferencing platform for personal use as well as business use. And we've also created a number of opportunities for things like virtual volunteering, networks and portals to help associates with the nuances of working from home. We've provided access to free online entertainment and education to help with the kids et cetera, and lots of different ideas that we're using to try and really help alleviate the stress on our associates during this time.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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Thanks Karen. You touched on some of the things we've done to enable work from home, but why you think this fulfillment improves over the coming weeks?

Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

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Sure. In reality, for many of our associates and our clients, this has been a fairly seamless transition. But there have been some cases where the transition has been complicated either by security or other business concerns within our clients, or access to appropriate technology and infrastructure for associates. We believe that the disruptions related to COVID impacted revenue in the latter part of the first quarter by approximately \$30 million to \$35 million. Additionally, we did incur some cost in the quarter to really enable work from home as well as cost at our facilities where we had associates on site and we had medical staff, we had to enable strict social distancing, cleanliness guidelines et cetera, it certainly will impact the first quarter to some extent.

But as we move through the month of April and May, we really do anticipate that many of the fulfillment challenges will be alleviated, as the pathway to working from home becomes more established. It is possible, however, that there may continue to be certain client projects where work from home scenario may not be possible, either for logistical, security or other client requirements, and we'll provide additional updates with our Q1 earnings release.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

A

And Brian, maybe you can touch a little bit on the demand side of the equation? What are you hearing from clients that you are speaking with and is there anything across the industries that we serve that you may be able to provide some clarity on?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

A

Okay. Let me start by saying how pleased we were with the momentum we saw in early parts of the quarter. January and February were strong, we were well ahead of our guidance externally, but then of course COVID struck in March. Now, as I speak with clients around the world, we're seeing broad-based slowdown. The most significant impact is of course to clients' businesses in retail, consumer goods, travel and hospitality as well as media and entertainment. But of course we're also seeing disruptions in other industries that serve those such as financial services. As the lockdowns and economic disruptions continue around the world, we anticipate there will be a meaningful economic slowdown in 2020. And therefore, against this backdrop, we felt it was appropriate to withdraw our 2020 guidance, as Karen mentioned.

Of course, against an uncertain backdrop, we will prepare for the worst and hope for the best. We remain committed to optimizing our cost structure, and connecting that tightly to our revenue curves. But of course we also want to protect key skills and embrace a high performance culture. As a company, I genuinely feel we're well positioned to weather the storm. Amongst other things, we have an excellent balance sheet, strong liquidity, and of course customer segmentation, which exposes us more to the Global 2000 customer set.

I also think, as a society, we will get through this. And of course we're here to help our clients get through it, not just here and now but also the differentiated solutions that they will need in a post COVID-19 world. It will also require different methodologies and behaviors both for Cognizant and indeed for our clients. But we want to come out the other side stronger than ever, and gain goodwill at this moment in time through close engagement and partnership with our associates, clients, and indeed our partners.

I actually believe the implications of this pandemic will lead to clients accelerating their shift to digital. Digital channels in every industry, including retail, education, and healthcare will of course increase in relevance. Remote access to work will need to be stronger and more secure, and indeed IT trends like core modernization, data modernization and indeed cloud adoption will accelerate. We're here to help our clients through this and all of this of course tightly correlates to the strategy that we unveiled in 2019. I'm confident we actually have the right strategy and the wherewithal to weather this storm.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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So Karen, how are you thinking about the financial model? This year was expected to be an important year for us, both for continued cost optimization, partially offset by investment in sales, reskilling and other areas. What is your current thinking, specifically as it relates to the Fit for Growth plan and the margin tradeoffs that we face in this environment?

Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Thanks Katie. The Fit for Growth plan that we outlined late last year does remain on track, and the execution thereof was not meaningfully impacted by the current environment. The decisions around that plan were obviously made in late 2019 and early 2020, so before the extent of the COVID crisis is fully known. And recent events have only actually made these actions and other initiatives to enable a more competitive cost structure more important not less.

Even in this challenging environment, we do expect, however, to continue to invest in the business, particularly across our four digital battlegrounds, which we believe remain critical for clients and ensuring that we also have a robust sales force around the globe.

While there no doubt will be some savings from certain expense items such as T&E, relocations et cetera. We've also had the favorable recent movement in the INR. None of these are expected to materially benefit our Q1 results. And in fact, as I mentioned earlier, on the contrary, the abrupt slowdown in late March due to fulfillment and demand issues will actually likely hurt our Q1 margins.

Going forward, as clients work through significant financial challenges, we may also have to provide temporary rate concessions and deferred payment terms. And while we believe that these may build goodwill with clients and help us maintain strong relationships, it is likely to have a negative impact on operating margins for the full year 2020.

At the same time, we're also however reviewing the need to further address our cost structure given the new demand and revenue trajectory. However, the timing and magnitude of those decisions continues to evolve and we expect to hopefully provide some additional updates in May when we report our Q1 earnings.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

A

Thanks, Karen. Maybe you can touch a little bit on capital deployment, which is clearly very important topic in this environment? Can you talk through the capital allocation priorities in quarter one, and also the plans for the remainder of the year? Also kind of touch on the decision to draw down the revolver and how we may be thinking about share repurchases going forward?

Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

Sure. First of all, we continue to feel we are in a very strong position from a balance sheet perspective, including the net drawdown of about \$1.74 billion from our \$1.75 billion revolver. As of March 31, we'll have approximately \$4.7 billion of cash and investments on the balance sheet.

Our decision to draw down the revolver was really a precautionary action given the location of our cash with most of it being in India, and the relatively low cost to access cash locally. Additionally, we wanted to ensure we had the flexibility to continue to work with clients as needed and also to continue to invest in the business, both organically and inorganically.

Our M&A pipeline remains active, evidenced by the three deals we've announced year-to-date, and we want to ensure that we have the optionality as we pursue more deals that are aligned to our strategy.

During the first quarter, we did repurchase approximately 8 million shares but I also want to take this chance to confirm that since March 31 we have not initiated any new share repurchase programs. Our team, along with the board of directors, will continue to assess the various opportunities to ensure we are deploying capital efficiently and in the areas that we believe will best position the company for long-term success.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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Thanks, Karen. And actually maybe given the uncertainty what would you think about considering suspending the dividend?

Karen Anne McLoughlin

Chief Financial Officer, Cognizant Technology Solutions Corp.

A

The short answer about dividends is, no. We believe we have strong liquidity and a very strong balance sheet, and I'm absolutely confident in our ability to weather this storm. In fact, I actually believe we have the opportunity not just to recover but to come out of this stronger through our close partnerships with associates, clients and the communities in which we operate. As Brian mentioned, we believe this pandemic will actually lead clients to accelerate their shift to digital business models and will provide greater opportunities for us moving forward.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

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So, Brian, as we look to wrap up the call, I just wanted to see if you have any closing remarks or thoughts you'd like to leave with our investors?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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Well, first of all, thank you for joining us today. We look forward to speaking to you in more detail of course in our regularly scheduled earnings in the first week of May. Maybe just Katie, four things to close. First of all, a big shout out to our associates around the world, I'm really, really grateful and proud of the work you've done to get us off to a great start in the quarter, and obviously then in the month of March to help us navigate through an unprecedented challenge. And so, thank you again and we need your help of course in the weeks and months ahead.

Second thing, our momentum grew in the quarter, and certainly in the first half of the quarter or beyond, suggesting the actions we've taken in 2019 are on track, and indeed our refined strategy, the urgency we're bringing to execute that strategy and indeed the client centricity is working and paying dividends.

Thirdly, as Karen suggested, while we're in a great period of uncertainty, we absolutely have confidence in our balance sheet and indeed on our liquidity. While we don't control macro demands, we do control our own destiny when it comes to our cost structure. So we will stay disciplined while protecting key skills in the months ahead.

And last but not least, as a society, I do believe we will get through this, and at Cognizant, we're hard at work ensuring that we will not just recover but actually come out of this stronger. And we want to make sure that our clients come out of this stronger too. We've built offerings for the clients to mitigate the pandemic, and ultimately help them position their businesses for recovery. And, as I said earlier, many of the trends, I think, fully aligned to our strategy, will only accelerate in the months and quarters ahead. And therefore, I firmly believe Cognizant stands well positioned to benefit from the trends and ultimately to accelerate out of the corner once this crisis passes.

So with that, I'd like to thank everybody for joining.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

Thank you, Brian and Karen, and thank you all for joining today. On behalf of the Cognizant management team, we hope that you all stay safe and healthy in the weeks ahead and we look forward to speaking with you on May 7 for our Q1 earnings call.

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

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