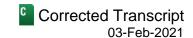


03-Feb-2021

Cognizant Technology Solutions Corp.

(CTSH) Q4 2020 Earnings Call





CORPORATE PARTICIPANTS

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Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Jan Siegmund

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to Cognizant Technology Solutions Q4 2020 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.

I would now like to turn this conference over to Ms. Katie Royce, Global Head of Investor Relations at Cognizant. Please go ahead.

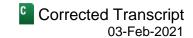
Katie Royce

Global Head-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 2020 results. If you have not, copies are available on our website, cognizant.com. The speakers we have on today's call are Brian Humphries, Chief Executive Officer; and Jan Siegmund, 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.

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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 Brian Humphries. Please go ahead, Brian.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Thank you, Katie. Good afternoon, everybody. Today, I'd like to address three topics with you; namely, a brief summary of the fourth quarter, our continuing progress executing our strategy, and our confidence about the future.

Let me start with Q4. Fourth quarter revenue was \$4.2 billion, a decline of 3% year-over-year in constant currency. This included a negative 120 basis point impact from the exit of content moderation services and a negative 250 basis points impact related to the anticipated exit from a large financial services engagement. This relates to a complex ambitious project that was scoped in late 2018. Over time, both parties realized that the transformation aspect of the project, as initially conceived, was unlikely to achieve our shared expectations. I'm confident that it is in everyone's interest to manage to an exit.

Jan will provide more details on the financial implications of this exit in his remarks. However, I want to underscore that I am confident in both our client portfolio and our deal review and solutioning processes, many aspects of which we've overhauled in the last year.

Excluding the impact from the anticipated exits from this engagement, we executed well in the quarter, and delivered against our expectations and our guidance. Gross margins increased, cash flow is strong, and we continue to invest significantly to fuel our growth priorities. We maintained our momentum in the quarter with full year 2020 bookings growth in the mid-teens.

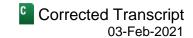
With over one year of data, assumption tweaks and refinements behind us, our analytics have been improved on [ph] points of (00:03:41) bookings, bookings growth, including renewals and new business, and bookings to revenue. We entered 2021 with growing confidence in our strategic, operational and commercial progress and a strengthening demand environment.

In fact, we're on track to bring in more new hires in Q1 than ever before as we ramp our hiring capacity to accommodate our growth plans for 2021 and beyond. That said, the market for skilled digital talent is intensely competitive, creating demand-supply imbalances for certain skills. This, coupled with other factors, including our more rigorous approach to merit-based promotions and salary adjustments, has led to meaningful sequential increases in voluntary attrition. We will continue to closely monitor and action this, including reviewing remuneration, underscoring our employee value proposition, and reinforcing the career path opportunities created by our growing momentum.

From an industry point of view, we believe Financial Services will see a gradual recovery in 2021, returning to growth over the course of the year, notwithstanding the anticipated exit of the engagement referenced earlier.

During 2020, we took a series of actions in Financial Services, including refreshing more than a-quarter of our commercial teams, adding more commercial coverage, and strengthening our partnership ecosystem and industry solutions. We closed the year with a healthy book-to-bill ratio in both insurance and banking. With these actions

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and our enhanced portfolio at the intersection of cloud and digital, we are now better positioned to help financial services clients with their transformation and innovation agendas.

Healthcare growth slowed modestly in Q4 as we lapped the Zenith Technologies acquisition in life sciences. However, the fundamentals of our payer healthcare business have been improving in recent quarters. We anticipate further growth acceleration in the first half of 2021, driven by a reinvigorated US healthcare business, including our strategic product portfolio, and a strong outlook in life sciences.

Products and Resources continues to be impacted by COVID-19-related weakness in travel and hospitality and retail and consumer goods. Meanwhile, we see continued momentum in manufacturing, logistics, energy and utilities.

Communications, Media and Technology continues to grow double digits year-over-year when adjusted for the effects of the exit of the non-strategic content services business. Jan will provide more insights on the quarter in his prepared remarks.

Macro trends are largely unchanged from those I discussed in our third quarter call. Clients are making investment decisions. They know they must be agile, innovative, software-driven enterprises. We see continued focus on customer and employee experience initiatives, Customer 360, Cloud Acceleration, packaged applications, platform capabilities, and automation.

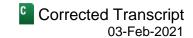
Hyper-personalization and the need for intelligent decision-making are fueling significant demand in analytics, Al and ML. Clients are embracing new ways of working, including distributed Agile, following their successful COVID-induced experience in 2020. Our strategy to focus on industry-specific and horizontal digital workflows is resonating with clients. The next phase of digital is about transforming processes to become agile, data-driven, and automated, and always with an eye on customer experience. This moves digital beyond technology and into the heart of business operating models and processes.

Finally, we continue to see clients determine their strategic partners. Cognizant stands to benefit from this trend, given our high levels of customer satisfaction or enhanced portfolio and our growing reputation in digital. I'm particularly pleased by our growing client momentum. We see meaningful opportunity for cross-selling in our existing accounts, given our refreshed client-facing teams, stronger portfolio, and enhanced account planning. A recent example is a Fortune 500 resources company that sought to digitally transform its workplace experience for employees while eliminating the operational inefficiencies caused by an over-reliance on multiple in-country outsourcers and contractors.

Cognizant's WorkNEXT digital workplace solutions suite matched the client's requirement for transformation through self-service and automation. This led to a 45% reduction in operating costs, and higher levels of customer satisfaction, given 70%-plus first call resolution. While we see a huge opportunity to cross-sell in our existing accounts and are naturally focused on that, we're also focused on extending our market coverage by leveraging the commercial investments made in 2020.

In the past year, we broke into more than 40 new Global 2000 accounts, providing meaningful cross-sell opportunities for our delivery and commercial teams. One such client is a leading credit ratings agency that aims to transform into an agile DevOps engineering-led operating model whilst consolidating its vendors and eliminating legacy systems and technologies. We led with digital engineering to build innovative solutions using modern cloud-native and digital technologies by full stack product teams. We are applying a lean, agile approach to drive a product development mindset and the adoption of an agile software development framework.

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Moving now to strategy. To realize our revenue growth, we are now several quarters into executing a strategy focused on four priorities: Repositioning the Cognizant brand, globalizing Cognizant, accelerating digital, and increasing our client relevance. There's a quick update on each priority, starting with our brand.

In the coming months, we will launch a breakthrough global brand campaign that will increase the stature of our brands. With a focus on scaling Cognizant's brand globally, we will execute a series of experiential marketing initiatives and sponsorships. For example, we recently announced that we're the title partner of Aston Martin Cognizant Formula One team. Aston Martin, an iconic brand, is returning to the Formula One grid after more than 60 years away from the sport. This is much more than a sponsorship. It's a broader strategic partnership aligned with our automotive industry focus, and one that's at the intersection of cloud and digital.

For the Aston Martin Cognizant Formula One team, we'll be heavily focused trackside, applying 5G, IoT and data analytics to support critical decision-making. For Aston Martin Lagonda, the road car company, we'll help execute their digital transformation agenda, focusing on outcomes like hyper-personalized experiences for their customers, and building a direct-to-consumer value proposition. We'll also partner with Aston Martin to evolve its facilities into smart factories, leveraging 5G and IoT to achieve optimal performance and output.

Given the race circuit across 22 countries and the global following of Formula One in Europe, Middle East and Asia, this sponsorship also aligns with our second priority, that of globalizing our company. We see a huge opportunity internationally, having hired a diverse group of senior country managing directors in the UK, Ireland, Germany, the Nordics, Australia, New Zealand, and Japan, and a new president of our international business. We are in a stronger position than ever to drive towards this goal.

These senior leaders bring both client networks and talent followership. They will also lead the business transformation we are undergoing at a local level, as we pivot to helping clients realize their digital ambitions. I'm extremely excited about our ability to drive exponential growth in our international business once this team settles in.

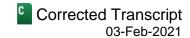
We are committed to invest behind this ambition, both organically and inorganically. In January, we agreed to acquire Servian, an Australia-based enterprise transformation consultancy that specializes in data analytics, Al, digital services, experience design, and cloud. Servian expands our integrated end-to-end digital transformation capabilities in both Australia and New Zealand.

This brings me to our third strategic priority, accelerating digital. Over the last 18 months, we've sharpened our ability to support clients as they transform into software-driven enterprises. Since January 2020, we've announced approximately \$1.6 billion in acquisitions, all focused on our strategic priorities of digital engineering, data and AI, cloud and IoT, which together enable clients to compete as modern digital businesses.

Earlier this week, we closed the acquisition of Magenic, a 25-year-old custom software development services company, which will broaden our global software product engineering network, adding hundreds of engineers in the US and the Philippines. Magenic is our second digital engineering acquisition in recent months, making us one of the world's largest digital engineering firms.

We also closed the acquisition of Linium this week, which broadens our enterprise service management capabilities and complements our ServiceNow practice. I'm pleased with the growing intimacy we share with our key partners, including the leading hyperscale and SaaS companies. Long-established relationships with Oracle and SAP have been complemented with growing commitments to next-generation companies like Workday,

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Salesforce, Snowflake, and ServiceNow. In fact, we just committed to deploy Workday internally as our HCM partner.

In digital business operations, we are committed to infusing intelligent automation across our operations to deliver end-to-end, adaptable and responsive processes. Our deep and longstanding global partnerships with leading companies such as UiPath, Automation Anywhere, Indico and Appian enables us to enhance the automation spectrum from robotic to cognitive process.

Our fourth strategic priority is about increasing our relevance to clients. To support this, in 2020 we've been investing in our industry and sub-industry knowledge, strengthening our partnership ecosystem, and refreshing our client-facing teams to ensure deeper industry expertise and technology consulting skills. We aim to be even more proactive with our clients, leading with a point of view on technology strategy, architecture, and agile digital workflows. We aim to build upon our excellent reputation in build-operate and further strengthen our growing reputation in transformation and innovation. This is a multi-year journey, but one that our clients are happy to see us embrace as they look for alternative strategic partners.

In closing, we are now almost two years into our project to ensure Cognizant returns to its rightful place as an industry bellwether. We accomplished a great deal in 2020 despite being faced with the complexities of COVID and a ransomware attack. This progress scorecard includes rallying the company behind a clear purpose and vision; improving employee engagement levels to multi-year highs; refreshing our leadership team and talent; executing against our refined corporate strategy, including adjusting our portfolio via targeted mergers and acquisitions and the exit of non-strategic businesses; improving our backlog, win rates and bookings trajectory; completing our restructuring program; investing in strategic ESG and D&I initiatives; and accelerating investments in our future growth.

A new reinvigorated Cognizant is emerging, having successfully completed a good deal of our transformation work. I'm pleased with the progress we've made and our ability to start demonstrating this in 2021. There is, of course, more work to do, but we are on track executing well, united as a leadership team, and doing what it takes to become a preeminent technology services partner to the Global 2000 C-suite.

With that, I'll turn the call over to Jan, who will take you through the details of the quarter and our fiscal year outlook before we take your questions. Jan, over to you.

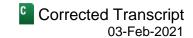
Jan Siegmund

Chief Financial Officer, Cognizant Technology Solutions Corp.

Thank you, Brian, and good afternoon, everyone. I'm delighted to be with you on my second earnings call and to be reporting another good quarter, excluding the one-time impact I'll discuss more later. The business performed well, modestly exceeding our expectations earlier in the quarter, driven by solid performance across the board, excluding Financial Services and the industries most directly impacted by COVID, notably retail, consumer goods, and travel and hospitality.

For the full year, revenue was \$16.7 billion, representing a decline of 0.8% compared to 2019 and a decline of 0.7% in constant currency. Compared with the prior year, this includes a negative 110 basis point impact from the exit of certain content services, a negative 70 basis point impact of the anticipated exit from a large engagement in our Financial Services segment and a positive approximately 210 basis points of contribution from our acquired businesses.

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For the full year, digital grew over 13%, represented approximately 42% of total revenue, an increase of 5 points as a percentage of total revenue from 2019. Our Q4 revenue was \$4.2 billion, representing a decline of 2.3% year-over-year or 3% in constant currency.

Compared with the prior-year period, this includes a negative 250 basis points impact of the anticipated exit from a large engagement in our Financial Services segment, a negative 120 basis points impact from the exit of certain content services and a positive 270 basis points of contribution from our acquisitions.

Before moving on, I will provide some additional details relating to the anticipated exit from the previously mentioned large engagement. In discussions, the parties agreed that a clean separation would be to our mutual benefit.

As a result of those discussions, in the fourth quarter, we made an offer that includes, among other terms, a proposed payment and the forgiveness of certain receivables. As a result of this offer, we recorded a \$140 million charge in the fourth quarter, which included a reduction to Q4 revenue of \$107 million and additional expenses of \$33 million, which impacted SG&A primarily related to the impairment of long lived assets. The charge exclusively impacts our Financial Services segment. We are in active discussions and hope to have a finalized agreement in the near future.

Now, moving on to segment results, where all growth rates provided will be year-over-year in constant currency. Financial Services declined 11.4%, including a negative 730 basis points impact from the anticipated contract exit. Excluding this impact, banking and insurance both declined mid-single digits. In banking, growth in regional and retail banking in North America was more than offset by weakness in cards and payments clients.

Insurance also performed below our expectations, driven primarily by weakness in North America. Healthcare grew 3.3%, which included similar performance in both in the US payer business and life sciences.

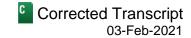
Life sciences revenue was strong among our pharmaceutical clients, further enhanced by the expansion of our portfolio of services as a result of our acquisitions of Zenith Technologies. Growth was partially offset by the continued weakness in medical device clients, which have been impacted by reduced elective procedures volumes. Our Healthcare payer business had the best performance in seven quarters, with strength in software license sales from the addition of several new logos.

Products and Resources declined 2.4% as low-double-digit growth in manufacturing, logistics, energy, and utilities was offset by double-digit declines in the travel and hospitality industry, and a high-single-digit decline in retail and consumer goods. While still challenged on a year-over-year basis, we have witnessed some stabilization in the last two quarters, particularly within retail and consumer goods, which grew modestly on a sequential basis.

Communications, Media and Technology grew 3.4%, which included a negative 790 basis points impact from our decision to exit certain portions of our content services business. Outside of this impact, we remain very pleased with the business momentum within technology. Communications and media growth accelerated sequentially and grew low-double-digit growth year-over-year, helped in part by several of our acquisitions.

Now, moving on to margins. In 0Q4, our GAAP operating margin was 11.1% and adjusted operating margin, which excludes restructuring and COVID-related charges, was 12.3%. Both our GAAP and adjusted operating margin included a negative 300 basis points impact related to the anticipated contract exit, which includes an approximately 160 basis points impact to gross margin.

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Diluted GAAP EPS was \$0.59, and adjusted diluted EPS was \$0.67, which both included a negative \$0.25 per share impact from the anticipated contract exit. Our adjusted tax rate was 32.9% in the quarter, reflecting the charge related to the anticipated contract exit, which generated losses that are not tax deductible. Adjusted operating margin declined approximately 470 basis points year-over-year, reflecting the charge related to the anticipated contract exit, high incentive compensation, annual merit increases, and investments in organic and inorganic revenue growth.

Savings from our Fit for Growth program, lower T&E, and favorable movement in the rupee partially offset this pressure. During the quarter, we completed our Fit for Growth program, achieving \$530 million in gross annualized savings through continued cost discipline, which has allowed us to accelerate our growth investments. The majority of savings achieved under this program benefits our gross margin while the accelerated pace of investments is primarily being captured in SG&A. These investments include an accelerated pace of acquisitions which we believe are key to our business transformation, additional sales hiring, repositioning the Cognizant brand and hiring more senior talent in international markets to drive growth. We manage the business at the operating margin level and therefore believe it is a better metric to judge the profitability of the business.

Now turning to the balance sheet. We ended the quarter with cash and short-term investments of \$2.7 billion or \$2 billion net of debt. As a reminder, at the end of October, we fully repaid our outstanding revolving credit facility of \$1.7 billion. Cash flow in Q4 was again strong with free cash flow of \$809 million. This brought our full year free cash flow to \$2.9 billion.

DSO ended the year at 70 days, representing a year-over-year improvement of 3 days. In 2021, we expect to see our free cash flow decline from 2020 levels as a result of several benefits we experienced this year, which will not repeat in 2021. These include government offered deferrals of certain tax payments and a lower cash payment related to our 2019 annual incentive compensation, which was paid in Q1 2020.

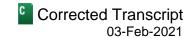
Our outlook for 2021 assumes free cash flow conversion will return to more normalized levels around 100% of net income as we focus on building upon the DSO improvements achieved this year. We opportunistically utilized our strong free cash flow in 2020 and continue to achieve capital deployment strategy, utilizing over 110% of annual free cash flow.

In 2020, we spent \$1.1 billion on acquisitions, representing approximately 40% of our full year free cash flow. We returned approximately 70% of our free cash flow through \$1.6 billion in share repurchases and \$480 million in dividends.

As I mentioned last quarter, we have reversed our indefinite reinvestment assertion on India earnings. This decision allows us to more efficiently utilize 100% of free cash flow globally, giving us greater flexibility in our ongoing capital allocation program.

Over the next several years, we plan to deploy 100% of our annual free cash flow through a balanced capital allocation program. We intend to allocate 50% of free cash flow towards M&A in areas aligned with our strategic priorities. The remaining 50% will be allocated to dividends and share repurchases, targeting a consistent dividend payout ratio of approximately 25% and repurchases to offset dilution annually. While these are a set of guiding principles, we will continue to be opportunistic in our allocation of capital, as well as leverage our strong balance sheet.

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In support of this strategy, during the fourth quarter, the board approved a \$2 billion increase in our share repurchase authorization, and today we are announcing a 9% increase in our quarterly cash dividend, the second consecutive year of increase since initiated the dividend in 2017.

Turning to guidance. For Q1, we expect revenue in the range of \$4.34 billion to \$4.38 billion, representing 2.8% to 3.8% growth or 1% to 2% in constant currency based on our expectation that currency will have a favorable 180 basis points impact. This outlook assumes an improving yet still cautious start to the year with continued macro uncertainty. We expect stabilization in Financial Services and continued pressure across retail and consumer goods, travel and hospitality, and communications and media. Q1 also still includes an approximately 85 basis points of headwind from the exit of certain content services.

For the full year, we expect revenue of \$17.6 billion to \$18.1 billion, representing 5.5% to 8.5% growth, or 4% to 7% in constant currency, based on our expectation that currency will have a favorable 150 basis points impact. This outlook includes approximately 300 basis points contribution from inorganic revenue and assumes improving revenue momentum from Q1 levels. Our full year outlook assumes an approximately 30 basis points headwind from the exit of content services.

To put the full year guidance and better perspective, there are several factors impacting the quarterly guidance to highlight. First, keep in mind our Q2 2020 actuals included a combined impact of COVID and the ransomware attack, which will lead to easier year-over-year compares in Q2 2021 and growth levels above our full year outlook.

Second, the charge recognized in Q4 related to the anticipated exit from the customer engagement will create challenging year-over-year compares through Q3 and then an easy compare in Q4. However, this does not impact full year revenue comparisons.

Moving on to margins. We expect full year adjusted operating margin in the range of 15.2% to 16.2%. We expect margins in Q1 to be at the low end of that range and to operate within the range each quarterly period for the full year. This leads to our full year adjusted EPS guidance of \$3.90 to \$4.02. Our full year outlook assumes interest income of \$20 million to \$30 million versus \$119 million in 2020, as a result of the \$1.2 billion cash repatriation in the fourth quarter, which moved cash from India to other jurisdictions with lower yields. Our outlook assumes average shares outstanding of approximately \$530 million and a tax rate of 25% to 26%. Our guidance does not account for any potential impact from events like changes to the immigration and tax policies.

With that, we will open the call for questions.



QUESTION AND ANSWER SECTION

Operator: At this time, we will be conducting a question-and-answer session [Operator Instructions] Our first question comes from the line of Lisa Ellis with MoffettNathanson. You may proceed with your question.

Lisa Ellis

Analyst, MoffettNathanson LLC

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Terrific. Thanks for taking my question. Brian, in your prepared remarks, you highlighted a number of areas of progress in the Cognizant transformation, both strategic and operational. Just can you take a step back, you're now almost two years in, how would you characterize where you are in the transformation journey at Cognizant, kind of still in the beginning, middle innings near the end? And what aspects would you say are mostly completed versus what are the big steps still remaining? Thank you.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.



Hi, Lisa. Yeah, thanks for the question. I'd say we're in the middle, and I think we still have a few years of work ahead of us, but we've made huge progress, and I'm very proud of the team and grateful for everything that they've helped us to do. If you go back two years ago, we talked about a transformation of us that started with our strategic direction and refinements, which naturally led to refinements of our company portfolio both exiting non-strategic elements such as content moderation, as well as strengthening our digital capabilities with an intensive targeted set of M&A transactions.

We're now much more in the strategic execution mode and there are four elements to that. Core to this is globalizing and repositioning the brand. You've seen some recent announcements. We'll have more to go through in the coming weeks and months. That will actually help us with our second goal, that of globalizing Cognizant, which involves really getting after underpenetrated markets internationally, which today still represent approximately a quarter of our revenue, as well as giving clients around the world greater assurance that we have a robust and resilient delivery network.

The third goal will be around accelerating digital, and we made good progress there, and we will continue to invest behind this strategic goal, and I should point out that clients are very pleased that we are actually showing up with a broader portfolio, giving them optionality and alternatives.

And then the fourth point that you'll see us continue to invest in as part of our transformation is increasing our relevance to clients. That has involved us changing out some of our commercial teams, refreshing them, bringing in people with much deeper industry knowledge and indeed sub industry knowledge, and making sure we have client-facing teams who can interface across the entire C-suite of Global 2000 companies.

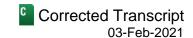
So we've accomplished a great deal. Some would say against the odds, particularly given COVID and ransomware in the last year, but the team are energized, we're in this together, and we're all committed to do something incredible in the coming years. But that's why, to be very honest, we've also left room in our financial plan in the coming years to continue to invest behind the transformation because we're not done yet.

Lisa Ellis

Analyst, MoffettNathanson LLC



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Terrific. Thank you.

Operator: Our next question comes from the line of Bryan Bergin with Cowen. You may proceed with your question.

Bryan C. Bergin

Analyst, Cowen & Co. LLC

Hi. Thank you. I wanted to ask around bookings performance. Any color you can give as it relates to the overall company and digital bookings in 4Q? And then as you think about your growth here over the last, let's say, two quarters or so, can you give us a sense of whether that's been from stronger competitive wins and better positioning of Cognizant due to the investments you've been making versus just the rising tide in the recovery of overall demand and spend? Just curious if you can give us a sense of how you see the mix of those contributing factors to your booking performance here.

Jan Siegmund

Chief Financial Officer, Cognizant Technology Solutions Corp.

Yeah. I'll jump in and kick this off on the bookings side because I think I mentioned in my last call I had to do some remedial training to dive in and deeper understand our bookings number. And I did so. Our full year bookings growth for this year was in the mid-teens. But as I learned, of course, we offer this bookings number for illustrative purposes to convey basically the distribution momentum and sales momentum and success we have with our clients, and you should see it as that.

Brian mentioned in his notes that we continually improve, review and our understanding of this bookings number, and we made good progress in the fourth quarter. So I'm delighted that the momentum continues basically in the mid-teens. We did make some adjustments to our bookings number as we shifted a little bit the bookings between the quarters. But the full year number is similar to what we've reported in the third quarter – around the mid-teens.

And then, Brian, do you want to give some more detail on digital bookings and distribution bookings?

Brian J. Humphries

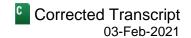
Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Yeah. So, look, I think, first of all, it's fair to say, I believe we are more competitive than we have been. I believe we're more client-facing than we have been in recent years. That starts with a tone from the past, but we've also added significant coverage in the course of the last year.

In some regards, that's positive, but it should be more positive on a go-forward basis as well because these people that we brought into the company will ultimately become more productive as time goes on. And some of the goodness from that, which will ramp over time, will also be complemented by the fact – we've had some disruption this year because we've been upgrading our client-facing teams, because we wanted to have a set of client-facing teams who are better capable of conversing across the entire C-suite.

So I think we're stronger. We're more energized. We're more client-centric. Frankly, we also have a stronger portfolio. We have been aggressive in our M&A stance in the past year. We got a lot of momentum behind the assets we've acquired, and that puts us in a position where we can show up well beyond the CIO, CTO organization and now engage much more broadly at the C-suite.

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Similarly, I think it is fair to say that the – there is growing optimism in the market. If I think about client behavior, clients are certainly making investment decisions. It's somewhat of an uncertain background because of where we are with vaccine rollout spread to world. But clients are being decisive. And indecision is the enemy of CEOs of services companies, so I'm happy to see them making decisions. What are they putting their money behind?

Ultimately, growth acceleration, efficiency, agility, scalability, business continuity, of course, this leads to investment decisions, if you will, around Customer 360, customer experience, cloud acceleration, automation, hyper-personalization, of course, which brings you with the core and data modernization, AI analytics and machine learning. So this is all happening in a period where we're working in a different manner. And clients have gotten used to working via distributed agile, which I think will fuel different ways of working going forward.

I believe it's also giving rise to questions around who strategic partners are, which is why we're really committed to continuing to invest behind industry thought leadership, industry solutions, partnerships, technology consulting and vendor consolidation is real, and I'm delighted to say Cognizant can truly play across build, operate, and indeed into transformation innovation with our extended brand.

So I feel very good about our position. The market is getting stronger. If anything, right now, what we have is a disconnect between demand supply economics. And I'm worried about skill shortages across the industry.

Bryan C. Bergin

Analyst, Cowen & Co. LLC

Thank you.

Operator: Our next question comes from the line of Keith Bachman with BMO. You may proceed with your question.

Keith Bachman

Analyst, BMO Capital Markets Corp.

Hi. Thank you very much. Good afternoon, good evening. I wanted to ask about guidance, and thank you for the information, 4% to 7% includes 3 points of M&A. But I wanted to get some additional clarifications surrounding the events of Q4. And how should we be thinking about Financial Services within the context of that 4% to 7% constant currency growth, given that I assume this is an ongoing headwind associated with, as you said, the first couple of quarters? But could you give us a little parameters on how we should be thinking about Financial Services in particular?

And then the second part, is there any incremental impact that we should be contemplating to the adjusted operating margin, 15.2% to 16.2%? Is there any additional charges related to what happened in Q4 with the Financial Services organization? Thank you.

Jan Siegmund

Chief Financial Officer, Cognizant Technology Solutions Corp.

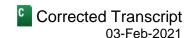
Yes. I can add a little bit more color around the exit from this Financial Services engagement. It's really contained in the fourth quarter. So we took the charge in revenues on the bottom line. And that impact on Financial Services in the fourth quarter had a growth impact of a little bit more than 7%, I think I said.

Keith Bachman

Analyst, BMO Capital Markets Corp.



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Yes.

Jan Siegmund

Chief Financial Officer, Cognizant Technology Solutions Corp.

And with that, Financial Services performance continue to be declining in the fourth guarter and has been a weak spot in our performance. So I anticipate that, as Brian and I indicated, that we're going to be stabilizing Financial Services performance throughout the fiscal year and end up in a stabilized way for Financial Services.

Keith Bachman

Analyst, BMO Capital Markets Corp.

Okay. And the margins, is there any incremental charges then associated with that or is that all taken in Q4?

Jan Siegmund

Chief Financial Officer, Cognizant Technology Solutions Corp.

They're all taken in Q4. There should be no more impact in 2021.

Keith Bachman Analyst, BMO Capital Markets Corp.

Okay.

Brian J. Humphries



Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Keith, it's Brian here. That's behind us. Maybe just a little bit of flavor for quarters where Jan wasn't here last year. Q1, as you know, is a tougher compare than the rest of the year because COVID really started being talked more about in the mainstream media and beyond in the month of March, so the last month of Q1. So the compare in Financial Services, and as we think about the shape of the year, will still be, let's say, more challenging there as the turnaround efforts continue to take hold against a tougher backdrop.

Q2 should be an easier compare for us. And frankly, the easiest compare for us in FSI should be in Q4, given, as Jan said, we've taken financial entries this quarter related to the anticipated exit of this contract. But I'm fully aligned to Jan's point of view, we'd expect a gradual recovery in 2021 with the quarterly I've just given you against the quarters within that.

Keith Bachman Analyst, BMO Capital Markets Corp.

Okay. All right. Thank you, Brian.

Operator: Our next question comes from the line of Rod Bourgeois with DeepDive Equity Research. You may

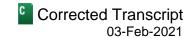
proceed with your question.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Hey, guys. Hey, I just want to ask about the growth versus margin topic as you look forward? Specifically in 2021, does your margin guidance leave you with enough room to invest in building digital capabilities and driving share gains? And then I think even looking beyond 2021, it'd be great to get a sense, do you feel like your growth investments would taper after this year as you make further progress in the turnaround or would your growth

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investments be prone to continue at a similar clip as you look beyond maybe this year? If you can give us some outlook there on the growth versus margin trajectory.

Jan Siegmund

Chief Financial Officer, Cognizant Technology Solutions Corp.

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Yeah. Maybe I'll jump in with setting the framework. Our guidance includes the impact of acquisitions that we have announced and closed as of today, and is anticipated. These acquisitions will create margin pressure for us in 2021, approximately 100 basis points or so, roughly. And that is built into as well as our continued investment of building out our organic growth capabilities, our investments into marketing, et cetera. So the guidance includes the substantive continuation of our strategic initiatives into 2021. That was very important for Brian and me as we devised our budget process that we continue committed to executing that strategy, which is a multi-year strategy.

Future acquisitions, as I indicated, we're planning to continue on our M&A strategy, where I illustrated our capital allocation outlook and plan. So if we were to spend another \$1 billion on acquisitions, that would be incremental margin pressure that is now built – could be incremental margin pressure. That's not built into our guidance as always will be incremental. But I think the plan as it is provides full support of the strategic direction that Brian illustrated earlier.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.



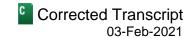
Yeah. Maybe if I could just embellish those comments that we [indiscernible] (00:45:30) hello, Rod. First of all, yeah, we feel good about our guidance for 2021. It sees us accelerate revenue, show margin expansion, whilst ultimately investing materially into the future. But I always want to be crystal clear on these calls that our goal is to drive shareholder value creation by positioning Cognizant for medium and long-term success and sustained earnings growth. And I think the best way for us to get about doing that is to get after the revenue opportunities.

Look, we're in the middle of what we're calling a multi-year project to reposition the company. I'm genuinely pleased with how the team has come together. We're united. We're ambitious. We're eager to prove our potential. In 2020, I asked the team to pull together to operationalize the transformation agenda. That included strategic, organizational, cultural, and indeed financial elements, and some of it was uncomfortable for certain segments of the employee base. But we executed an aggressive M&A strategy to complement our portfolio. We executed a restructuring program. The savings of which allowed us to start reinvesting in the business, including hiring those commercial resources we referenced earlier.

And with bookings now up in the mid-teens, the P&L can start to work again. And that was the secret sauce of Cognizant over the years. It was always a growth company fueling investments in our clients with delivery excellence, which afforded us to continue to drive that on a sustainable basis.

That's the direction we're taking the company forward. We've got so much more work to do, but I think so much more optimism about the future. And I definitely feel a lot better about our position because a lot of the heavy lifting of the initial portion of the transformation is behind us. We'll continue to invest in delivery excellence, commercial coverage, our talent, our systems and tools which were not, in my mind, fit-for-purpose for a Fortune 200 company. That's why we announced today our intent to go forward with Workday and HCM. You know we're investing heavily between IT and security remediation and modernization. We'll continue to invest in our portfolio and in our brand, and we're feeling pretty comfortable in terms of where we are.

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Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Thank you.

Operator: Our next question comes from the line of Ashwin Shirvaikar with Citi. You may proceed with your question.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thank you. Hey, Brian. Hi, Jan. So, I guess the question for me is with regards to the underlying sort of economic and operating assumptions for the lower and upper part of both the revenue and margin outlook and given the confidence implied in post 1Q acceleration. I guess the follow-on to that is the supply side question, because when I look at high utilization and sequentially higher attrition, can you provide some comfort on the ability to meet delivery objectives of that implied acceleration of demand?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

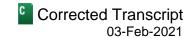
So, let me start a little bit with some order questions. Jan, feel free to jump in at any moment here as well. So, first of all, with regards to the delivery organization, where we stand on that, look, we have a demand-supply imbalance, if you will. The market has snapped back aggressively, as evidenced in our strong bookings momentum. I would say that the competition for digital talent is extremely competitive. All major digital domain skills are in high demand across cloud, digital engineering, data, Al, ML. We are, therefore, very much focused on recruitment and attrition. For those of you who track media, you'll see us be much more aggressive in terms of social platforms for hiring. We're doing a lot of work with our employee base around making sure they see the potential of the company, making sure they understand the growth ambitions of the company, their career opportunities. And so we look forward to trying to optimize that as best we can. But you guys know, as much as we do, that in a high-demand environment where you have an imbalance, it can lead to certain outcomes.

Now, we've got to understand what that means in terms of pricing environment as well to be very, very clear. With regards to utilization, there's a few things happening simultaneously from my perspective. First of all, clients are embracing new ways of working, including distributed agile, and that has been somewhat forced upon them in 2020. But actually I think it's worked well. And now, many clients are looking at real estate consolidation policies and understanding that we can work for them nearshore, onshore or indeed, offshore.

The higher the offshore mix can actually help margin rate, but it's not necessarily helpful to margin dollars or indeed revenue dollars. So, we're seeing a trend certainly towards offshore leverage, which is pushing the short-term offshore utilization higher as we consume the bench. But I don't know that that's likely to be sustained over the longer term because we plan to increase our hiring, rebuild our benches, and though we are, as I said earlier, in a high-demand environment at this moment in time.

We're also doing some tactical things internally. We've recently moved our India-based workforce onto a nine-hour work day, which is in line, I should add, with industry practice, which will result in a reduction of utilization in India, in theory, in the next quarter or so by 1 to 2 points. But we'll continue to look at utilization and track it and understand how these dynamics play in.

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Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Got it. Thank you.

Operator: Our next question comes from the line of Tien-Tsin Huang with JPMorgan. You may proceed with your question.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Hey. Thanks so much. I know you've covered a lot already, but I want to ask about the customer engagement again and what makes this unique here in terms of what happened and why the exit occurred? I'm just trying to get a better sense of if this is one-off or are there some other accounts that you're tracking as well?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

Yeah. Let me tee it off. And then, Jan, if you've any of the financial elements, please embellish this as well. So, first of all, we have a delivery-excellent organization that ensures were aligned to a sophisticated set of delivery methods, for want of better words. You could think about these as methodologies, principles, programs, tools. As a Global Fortune 200 company, at any time, we probably have between 20,000 and 25,000 projects or programs underway in our delivery organization. And these projects are constantly reviewed and mapped, it goes without saying for Cognizant than it'd be to every other services company out there in the world that at any one time, for a company of our size, there are certain projects that are classified amber, some red. These projects are monitored constantly, actioned. And frankly, senior management right up to me get involved in client discussions as needed.

I will say we're on top of this. I've reviewed our entire portfolio over the last few years. I know where we stand. We have enhanced rigor in our deal review and solutioning processes. Many of those aspects, by the way, have been changed in the past year. And just, as a reminder, we have a new CFO, who's pretty hands on. We have a new global delivery leader who came in the last year. We've a new Chief Admin Officer who's in charge, amongst other things, with contract management and pricing. Each of these executives bring their own experience and value on complex deal pursuits, deal solutioning and pricing, which puts me in a position where I feel confidence where we stand.

Tien-Tsin Huang

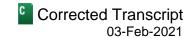
Analyst, JPMorgan Securities LLC

[indiscernible] (00:53:27). No, thanks for that.

Operator: Our next question comes from the line of [ph] Matt O'Neill with Goldman Sachs (00:53:34). You may proceed with your question.

Hey. Hi, gentlemen. Good evening. Thanks for talking my question. A lot of good questions asked and answered already. I was hoping I could ask a little bit more around the sort of hiring dynamics and as well as the kind of international dynamics, as well as far as, Brian, you mentioned hiring a lot of MDs internationally. What is the kind of sort of expected ramp or lag from kind of hire to accelerating the actual business in some of the international

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markets, as well as going back to the broader discussion on hiring as far as the relative scarcity of talent and challenges there as far as finding the right people with the right skill sets? Thank you.

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

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Look, from the international perspective, we call this global growth markets, which is about 25% of our business, we were quite intentional in the last year that as we're globalizing the company, so too that we want to localize the company to a certain extent. So, that means, as an example, we've recently changed our Head of Japan. We've hired a Japanese local, previously was the Head of Microsoft Japan; prior experience in Oracle, HP, IBM Japan. So, somebody with followership amongst clients, somebody with followership with talent, and a roster of C-suite networks in the country. That's important to me, but we also need the people who can fit in with Cognizant culture, are extremely energetic and really want to do something incredible in the years ahead.

I've got to say, it's been an absolute pleasure. We've been able to attract incredible talent to Cognizant across upgrades we've made in the UK, Ireland, in the Nordics, in Germany, in Australia, New Zealand, in Japan and indeed as the new Head of Global Growth Markets, Ursula, who joined us in the month of December as well.

And I'm very optimistic that they will ramp rapidly because they are Class A type personalities, very senior, quick studies. We've helped them already with multi-year business plans to see how we can drive exponential growth in these geographies. Of course, I want to give them time to settle in, but they know that they've been hired with great expectations. And of course, they're charged not just with delivering commercially, and from a delivery point of view locally and standing for the principles of the company, but also we are pivoting, transforming the company, the classic, very heavy leverage of application outsourcing, labor arbitrage, [ph] India (00:56:19) model is being complemented, of course, with much more local selling, solutioning and delivery, as we're driving across the entire C-suite to sell projects.

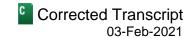
So, I'm very optimistic. I'm very excited about the potential we have overseas. And I think it's an area that we haven't adequately mined internationally, and it's an area that, frankly, should enable us to drive nice growth. The broader talent question ultimately goes back to the market dynamics, which are stronger. If you look at the industry analysts these days, many of them are thinking about growth rate in the 3% to 6% for the entire industry going forward. Digital skills are particularly in demand. And that's something I think the entire industry is facing into. We can control what we will. So, we are 100% focused as the management team around recruitment and around attrition and making sure we can fulfill against our bookings momentum.

In the same vein, I'm proud to say we promoted tens of thousands of associates recently, and rewarded the majority of our employees with a merit-based salary increase. And indeed, this year, we accrued and we will pay bonuses at higher levels than last year, notwithstanding COVID-19 and a ransomware attack. So, we have a more rigorous approach to talent. You will see that process continue. We will probably be faced with still sequential pressure in involuntary attrition simply because we're going through end of year cycles. And after bonuses are paid, we'll see what happens. But we're 100% focused on attrition and recruiting and 100% focused on ensuring that our employee value proposition and employee brand is world-class.

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Got it. Thank you very much.

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Operator: We have time for one more question. Our next question comes from the line of Maggie Nolan with William Blair. You may proceed with your question.

Maggie Nolan

Analyst, William Blair & Co. LLC

Thank you. Brian, you spoke positively about the building strength of the portfolio and your positioning in light of substantial M&A activity. Can you comment on the competitive environment in the digital engineering space? Do you hope to take up market share with new or existing clients? And do you have to disrupt competitors to do this?

Brian J. Humphries

Chief Executive Officer & Director, Cognizant Technology Solutions Corp.

This is one of the hidden jewels, Maggie, in the entire corporation. Obviously, we have a rich heritage in application development and application maintenance, but that gives us a tremendous opportunity then to move much more forward, leveraging the strong skill sets and the talent that we acquired with Softvision back in 2018. In fact, we've done two digital engineering acquisitions in the last probably four months, Tin Roof in the United States, as well as Magenic most recently as well in this week that we closed. And you'll see us continue to complement those across the globe. We already have a very strong footprint across North America, and you'll see us continue to embellish Western Europe with that skill set as well.

Of course, we think we're entering a new phase of digital, and this brings with it different dynamics. Clients aren't thinking of digital necessarily anymore simply as the classic tech stack at the bottom where they think about applications or infrastructure or data. Our vision is ultimately that clients will recognize that the power of digital is unlocked not in those silos investments, but more across business processes and operating models.

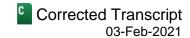
And that, ultimately, involves selling value, delivering value. It involves intelligence in consumer-grade applications from a CX point of view with security grade features, ultimately driven by intelligence that's fueled by massive data, modern architecture sitting on cloud platforms. And our digital engineering play truly with our interactive and experience capabilities makes us one of the only companies in the world that can scale from the bottom of the tech stack right up to the top.

There are certain pure-play digital companies that play in certain arenas. There are certain IPPs that play more at the bottom of the stack. But we're one of, I think, the two companies in the world who can truly scale top to bottom in that regard. And core to this belief as well, by the way, is the notion that processes will ultimately become more agile, data-driven and automated, with a huge focus on CX. We've got some great examples already, by the way, in the portfolio, both vertically as well as horizontally.

ATG is a company we acquired in 2018. It's a leader in advisory, implementation and managed services in Quote to Cash, and that's one example; or Lev, another Salesforce Platinum Partner that we acquired in 2020, helps businesses simplify and modernize marketing campaigns, leveraging Salesforce's marketing cloud, and that really helps them provide data insight and personalization across their customer journey.

This, in my mind, is where digital is going. It's not about silo tech stacks. I personally have collapsed our organization to really get at the intersection point of cloud and digital. This is happening when certain other companies are actually doubling down in cloud silos, but I actually think the true value is that intersection point. And I feel we can truly get after new customers, but we're also dislodging certain companies from accounts that they've long held. Some of these companies are private companies, some are public, but we feel we got one of the biggest digital engineering companies in the world, and you'll see us continue to double that in that regard.

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Maggie Nolan

Analyst, William Blair & Co. LLC

Thank you.

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Operator: Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn the floor back over to management for closing comments.

Katie Royce

Global Head-Investor Relations, Cognizant Technology Solutions Corp.

This is Katie. I just like to thank you all for taking the time and joining the call, and we look forward to speaking with you in the coming days. Thanks.

Operator: This concludes today's Cognizant Technology Solutions Q4 2020 earnings conference call. You may all disconnect your lines at this time, and enjoy the rest of your evening.

Disclaime

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