



Cognizant

Third Quarter 2017 Earnings Supplement

Accelerating the Shift to Digital

November 1, 2017

Forward Looking Statements and Non-GAAP Financial Measures

This earnings supplement includes statements which may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the accuracy of which are necessarily subject to risks, uncertainties, and assumptions as to future events that may not prove to be accurate. These statements include, but are not limited to, express or implied forward-looking statements relating to our expectations regarding opportunities in the marketplace, expectations regarding our digital capabilities and ramping up our workforce, our anticipated financial performance, our capital return and realignment programs and management's plans, objectives and strategies. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Factors that could cause actual results to differ materially from those expressed or implied include general economic conditions, changes in the regulatory environment, including with respect to immigration and taxes, and the other factors discussed in our most recent Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. Cognizant undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities law.

This earnings supplement includes references to the following measures defined by the Securities and Exchange Commission as non-GAAP financial measures: non-GAAP operating margin and non-GAAP diluted earnings per share ("non-GAAP diluted EPS"). These non-GAAP measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures should be read in conjunction with our financial statements prepared in accordance with GAAP. Reconciliations of these non-GAAP financial measures to the corresponding GAAP measures can be found in the Appendix of this presentation and should be carefully evaluated.

Driving Digital at Scale Through Transformation of Clients' Enterprise Models

- To enable our clients to grow and compete effectively, we work with them to transform their business, operating and technology models simultaneously
- To meet the growing demand for enterprise transformation, we've re-aligned our global delivery along 3 practice areas, extensively retrained our workforce, and accelerated our investments in platform-based software and solutions, client co-innovation centers, and new technologies, such as AI & automation
- The three practice areas are structured to drive digital at scale:

Cognizant Business Consulting

Digital Business:

Helping clients conduct business digitally by developing virtual channels with customers and creating smart products

We design, prototype, and scale digital experiences to reshape clients' products and business models—all aimed at generating new growth

Digital Operations:

Helping clients to re-engineer, digitize, manage, and operate their core business processes to lower costs and deliver growth

We're building repeatable, industry solutions to make operating models more efficient and agile, harnessing automation and systems of intelligence

Digital Systems & Technology:

Helping clients to simplify, modernize, and secure their heritage IT infrastructure and applications

We're increasingly helping clients create an agile, secure, and resilient infrastructure and migrate workloads to the cloud

Strong and Consistent Execution with Continued Momentum

REVENUE



DILUTED EPS



NON-GAAP DILUTED EPS¹



3Q17 HIGHLIGHTS

- **3Q Revenue of \$3.77 billion** was up **9.1%** from the year-ago period
 - *Consulting & Technology Services Revenue up 11.3% y/y*
 - *Outsourcing Services Revenue up 6.1% y/y*
 - **38%** of our revenue from fixed price contracts
- **GAAP operating margin** for the quarter was **17.2%**.
- **Non-GAAP operating margin¹** for the quarter was **20.0%**
- **7 new strategic customers** added, bringing total to **350**
- **Employee metrics** reflect improving resource alignment:
 - *Headcount decreased by 700 Q/Q to 256,100; Gross employee adds of ~14,000*
 - *Annualized attrition was 22.5%; reflects higher than usual voluntary attrition related to aspects of our realignment program*
 - *Utilization - Offshore (excluding trainees) was 82%; On-site was 93%*

CAPITAL RETURN AND REALIGNMENT PROGRAM

- Continued to improve cost structure and expand operating margins
- Margin improvement plan to reach 22% non-GAAP operating margins¹ in 2019
- Completed the \$1.5B Accelerated Share Repurchase program
- Declared quarterly cash dividend of \$0.15 per share to be paid November 30th

¹Reconciliations of the non-GAAP financial measures to the corresponding GAAP measures can be found in the Appendix of this presentation

Continued Growth Across all Segments and Geographies

REVENUES BY SEGMENT (\$M)

	3Q17	Y/Y Chg.
Financial Services	\$1,427	3.8%
Healthcare	1,085	9.3%
Products and Resources	774	14.0%
Communications, Media and Technology	480	18.2%

REVENUES BY GEOGRAPHY (\$M)

	3Q17	Y/Y Chg.
North America	\$2,891	6.7%
Europe	628	16.9%
Rest of World	247	19.9%

SELECT SEGMENT INSIGHTS

- **Financial Services** - Solid contribution from our Insurance business and double-digit growth in our mid-tier banking accounts with continued softness in large, global banks
- **Healthcare** - Consistent demand across payer clients. Acquired TMG Health and Top Tier Consulting
- **Products and Resources** – Continued strong growth with our manufacturing and logistics clients and energy and utilities clients, offsetting sluggishness in retail
- **Communications, Media and Technology** – Strong growth across this segment

SELECT OPERATIONAL INSIGHTS

- Committed to recruiting and training workers everywhere we operate through investing in developing skills in next-generation technologies, attracting and retaining the workforce of the future, and building and expanding regional delivery centers across the globe
- Deploying talent closer to our clients while establishing training hubs with our education partners to reskill the local workforce

Key Takeaways and Guidance

KEY TAKEAWAYS

- Another quarter of strong execution on top and bottom lines
 - Raising the low end of full year revenue guidance range
 - Raising Non-GAAP operating margin and EPS guidance
- Developing repeatable solutions, by fusing software and services to deliver business outcomes
- Continuing to enhance digital capabilities through M&A, announcing acquisitions of Netcentric and Zone in Q4
- Consistent execution of our plan to deliver sustainable revenue growth and profitability and to accelerate our shift to digital

GUIDANCE

	4Q17
Revenue ¹	\$3.79B to 3.85B
Non-GAAP Diluted EPS ^{1,2}	at least \$0.95
Share Count	~592M
Tax Rate	~26%

	Full Year 2017
Revenue ¹	\$14.78B to 14.84B
Non-GAAP Operating Margin ^{1,2}	at least 19.6%
Non-GAAP Diluted EPS ^{1,2}	at least \$3.70
Share Count	~595M
Tax Rate	~23%

- Share count guidance includes the full impact of the \$1.5 billion ASR
- Guidance is based on the current exchange rates at the time at which we are providing the guidance and does not forecast for potential currency fluctuations over the course of the year
- Guidance does not account for any potential impact from events such as changes to immigration and tax policies

¹ Guidance is as of November 1, 2017

² Further information on our non-GAAP operating margin and non-GAAP diluted EPS guidance can be found in the Appendix of this presentation

Appendix:

Reconciliation of Non-GAAP Financial Measures

Reconciliations of Non-GAAP Financial Measures

This earnings supplement includes references to the following measures defined by the Securities and Exchange Commission as non-GAAP financial measures: non-GAAP operating margin and non-GAAP diluted earnings per share (“non-GAAP diluted EPS”). These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures should be read in conjunction with our financial statements prepared in accordance with GAAP. The reconciliations of Cognizant’s non-GAAP financial measures to the corresponding GAAP measures should be carefully evaluated.

Our non-GAAP income from operations and non-GAAP operating margin exclude stock-based compensation expense, acquisition-related charges and, in 2017, realignment charges. Our definition of non-GAAP diluted earnings per share excludes net non-operating foreign currency exchange gains or losses, the effect of recognition in the first quarter of 2017 of an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position, the impact of a one-time incremental income tax expense related to the India Cash Remittance, in addition to excluding stock-based compensation expense, acquisition-related charges and, in 2017, realignment charges. Our non-GAAP diluted earnings per share is additionally adjusted for the income tax impact of the above items, as applicable. The income tax impact of each item is calculated by applying the statutory rate and local tax regulations in the jurisdiction in which the item was incurred.

We believe providing investors with an operating view consistent with how we manage the Company provides enhanced transparency into the operating results of the Company. For our internal management reporting and budgeting purposes, we use non-GAAP financial measures for financial and operational decision making, to evaluate period-to-period comparisons, to determine portions of the compensation for our executive officers and for making comparisons of our operating results to those of our competitors. Therefore, it is our belief that the use of non-GAAP financial measures excluding these costs provides a meaningful supplemental measure for investors to evaluate our financial performance. Accordingly, we believe that the presentation of non-GAAP income from operations, non-GAAP operating margin and non-GAAP diluted earnings per share, when read in conjunction with our reported GAAP results, can provide useful supplemental information to our management and investors regarding financial and business trends relating to our financial condition and results of operations.

A limitation of using non-GAAP financial measures versus financial measures calculated in accordance with GAAP is that non-GAAP measures do not reflect all of the amounts associated with our operating results as determined in accordance with GAAP and exclude costs that are recurring, namely stock-based compensation expense, certain acquisition-related charges, and net non-operating foreign currency exchange gains or losses. In addition, other companies may calculate non-GAAP financial measures differently than us, thereby limiting the usefulness of these non-GAAP financial measures as a comparative tool. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP income from operations, non-GAAP operating margin and non-GAAP diluted earnings per share to allow investors to evaluate such non-GAAP financial measures.

A full reconciliation of non-GAAP operating margin guidance to GAAP operating margin guidance on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to acquisition-related charges. A full reconciliation of non-GAAP diluted EPS guidance to GAAP diluted EPS guidance on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to acquisition-related charges, net non-operating foreign currency exchange gains or losses, and the tax effects of these adjustments, as well as the tax effects of stock-based compensation expense, all of which are adjustments to non-GAAP diluted EPS. The reconciling information for non-GAAP operating margin guidance to GAAP operating margin guidance and non-GAAP diluted EPS guidance to GAAP EPS guidance that is available without unreasonable efforts is provided in the reconciliations on the following pages.

Reconciliations of Non-GAAP Financial Measures

(Unaudited)
(dollars in millions, except per share amounts)

	Three Months Ended		Nine Months Ended		Guidance	
	September 30,		September 30,		Q4 2017	Full Year 2017
	2017	2016	2017	2016		
GAAP income from operations	\$ 648	\$ 583	\$ 1,824	\$ 1,728		
Add: Stock-based compensation expense ^(a)	52	49	161	165		
Add: Acquisition-related charges ^(b)	35	35	104	94		
Add: Realignment charges ^(c)	19	—	69	—		
Non-GAAP income from operations	\$ 754	\$ 667	\$ 2,158	\$ 1,987		
GAAP operating margin	17.2 %	16.9 %	16.6 %	17.2 %		
Effect of stock-based compensation expense	1.4	1.4	1.5	1.7		1.4% - 1.5%
Effect of acquisition-related charges	0.9	1.0	1.0	0.9		(b)
Effect of realignment charges	0.5	—	0.6	—		approximately 0.5%
Non-GAAP operating margin	20.0 %	19.3 %	19.7 %	19.8 %		at least 19.6%
GAAP diluted earnings per share	\$ 0.84	\$ 0.73	\$ 2.55	\$ 1.87		
Effect of above operating adjustments, pre-tax	0.18	0.14	0.56	0.42	(a), (b), (c)	(a), (b), (c)
Effect of non-operating foreign currency exchange (gains) losses, pre-tax ^(d)	0.02	(0.01)	(0.06)	0.01	(d)	(d)
Tax effect of non-GAAP adjustments to pre-tax income ^(e)	(0.06)	(0.04)	(0.21)	(0.12)	(a), (b), (c), (d)	(a), (b), (c), (d)
Effect of recognition of income tax benefit related to an uncertain tax position ^(f)	—	—	(0.09)	—	—	(0.09)
Effect of incremental income tax expense related to the India Cash Remittance ^(g)	—	0.04	—	0.35	—	—
Non-GAAP diluted earnings per share	\$ 0.98	\$ 0.86	\$ 2.75	\$ 2.53	at least \$0.95	at least \$3.70

Please refer to page 10 and 11 of this earnings supplement for corresponding Non-GAAP notes.

Reconciliations of Non-GAAP Financial Measures

Notes:

(a) Stock-based compensation expense reported in:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cost of revenues	\$ 13	\$ 13	\$ 41	\$ 39
Selling, general and administrative expenses	39	36	120	126

Our guidance anticipates pre-tax stock-based compensation to be in the range of \$0.09 to \$0.10 per share for the fourth quarter of 2017 and \$0.36 to \$0.37 per share for the full year 2017. We cannot provide the tax effect of stock-based compensation on a forward-looking basis without unreasonable effort as it is subject to significant fluctuations based on the timing and number of stock options exercised by employees, the price of our stock at the time of such exercises and the price of our stock at the time of vesting of other stock-based awards.

(b) Acquisition-related charges include, when applicable, amortization of purchased intangible assets included in the depreciation and amortization expense line on our consolidated statements of operations, external deal costs, acquisition-related retention bonuses, integration costs, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs. We cannot provide acquisition-related charges on a forward-looking basis without unreasonable effort as such charges may fluctuate based on the timing, size, and complexity of future acquisitions as well as other uncertainty inherent in mergers and acquisitions.

(c) Realignment charges include severance costs, including costs associated with the voluntary separation program, or VSP, lease termination costs, and advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs, as applicable. The total costs related to the realignment are reported in "Selling, general and administrative expenses" in our consolidated statements of operations and are expected to be incurred primarily in 2017. However, as we continue to evaluate our realignment program, additional expenses may arise in 2018. Our guidance anticipates realignment charges for the fourth quarter of 2017 of approximately \$0.01 per share and for the full year 2017 of approximately \$0.08 per share.

(d) Non-operating foreign currency exchange gains are inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, reported in "Foreign currency exchange gains (losses), net" in our consolidated statements of operations. Non-operating foreign currency exchange gains and losses are subject to high variability and low visibility and therefore cannot be provided on a forward-looking basis without unreasonable efforts.

Reconciliations of Non-GAAP Financial Measures

Notes:

(e) Presented below are the tax impacts of each of our non-GAAP adjustments to pre-tax income:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Non-GAAP income tax benefit (expense) related to:				
Stock-based compensation expense	\$ 19	\$ 10	\$ 60	\$ 37
Acquisition-related charges	11	12	35	34
Realignment charges	6	—	24	—
Foreign currency exchange gains (losses)	(1)	2	4	3

The effective tax rate related to each of our non-GAAP adjustments varies depending on the jurisdictions in which such income and expenses are generated and the statutory rates applicable in those jurisdictions.

(f) During the three months ended March 31, 2017, we recognized an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position of \$55 million. The recognition of the benefit in the first quarter of 2017 was based on management's reassessment regarding whether this unrecognized tax benefit met the more-likely-than-not threshold in light of the lapse in the statute of limitations as to a portion of such benefit.

(g) In May 2016, our principal operating subsidiary in India repurchased shares from its shareholders, which are non-Indian Cognizant entities, valued at \$2.8 billion. As a result of this transaction, we incurred an incremental income tax expense of \$24 million and \$214 million during the three and nine months ended September 30, 2016, respectively.