

Cognizant Reports Third Quarter 2017 Results

Third quarter 2017 revenue of \$3.77 billion, up 9.1% over 2016

Declares quarterly cash dividend of \$0.15 per share

TEANECK, N.J., Nov. 1, 2017 /PRNewswire/ -- Cognizant Technology Solutions Corporation (NASDAQ: CTSH), one of the world's leading professional services companies, today announced its third quarter 2017 financial results.

Highlights - Third Quarter 2017

- Quarterly revenue rose to \$3.77 billion, up 9.1% from the year-ago quarter.
- Quarterly GAAP diluted EPS was \$0.84, compared to \$0.73 in the year-ago quarter.
- Quarterly non-GAAP diluted EPS¹ was \$0.98, compared to \$0.86 in the year-ago quarter.

Revenue for the third quarter of 2017 rose to \$3.77 billion, up 9.1% from \$3.45 billion in the third quarter of 2016. GAAP net income was \$495 million, or \$0.84 per diluted share, compared to \$444 million, or \$0.73 per diluted share, in the third quarter of 2016. Non-GAAP diluted EPS was \$0.98, compared to \$0.86 in the third quarter of 2016. GAAP operating margin was 17.2% and non-GAAP operating margin¹ was 20.0% for the third quarter of 2017.

"We are making consistent progress in executing the plan to accelerate our shift to digital services and solutions," said Francisco D'Souza, Chief Executive Officer. "We've systematically built the significant capabilities needed to help our clients transform their business, operating, and technology models- a transformation we call digital at scale. We believe our long-term relationships with clients and deep understanding of their priorities puts us in a privileged position to help them adapt, compete, and grow."

¹ Non-GAAP diluted EPS and non-GAAP operating margin exclude stock-based compensation costs and acquisition-related charges, realignment charges and, in the case of non-GAAP diluted EPS, net non-operating foreign currency exchange gains or losses, the effect of recognition of an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position (for the nine months ended September 30, 2017 only) and the effect of incremental income tax expense related to the India cash remittance transaction (for the three and nine months ended September 30, 2016). Reconciliations of non-GAAP diluted EPS and non-GAAP operating margin to the corresponding GAAP measures are included at the end of this release.

Fourth Quarter & Full Year 2017 Outlook

The Company is providing the following guidance:

- Fourth quarter 2017 revenue expected to be in the range of \$3.79 billion to \$3.85 billion.
- Fourth quarter 2017 non-GAAP diluted EPS² expected to be at least \$0.95.
- Full year 2017 revenue expected to be in the range of \$14.78 billion to \$14.84 billion.
- Full year 2017 non-GAAP diluted EPS expected to be at least \$3.70.

"We delivered solid third-quarter performance and completed a \$1.5 billion Accelerated Share Repurchase program," said Karen McLoughlin, Chief Financial Officer. "During the quarter, we continued to take actions designed to improve our cost structure while allowing us to invest in the business for growth. We maintained our momentum, and we expect to close out 2017 with solid revenue and earnings growth while having undertaken a substantial return of capital to shareholders."

Return of Capital Program - Dividend

The Company has declared its quarterly cash dividend of \$0.15 per share on Cognizant Class A Common Stock for shareholders of record at the close of business on November 20, 2017. This dividend will be payable on November 30, 2017.

Conference Call

Cognizant will host a conference call on November 1, 2017 at 8:00 a.m. (Eastern) to discuss the Company's third quarter 2017 results. To listen to the conference call, please dial (877) 810-9510 (domestically) and (201) 493-6778 (internationally) and provide the following conference passcode: "**Cognizant Call.**"

The conference call will also be available live on the Investor Relations section of the Cognizant website at <http://investors.cognizant.com>. Please go to the website at least 15 minutes prior to the call to register and to download and install any necessary audio software. An earnings supplement will also be available on the Cognizant website at the time of the conference call.

For those who cannot access the live broadcast, a replay will be available by dialing (877) 660-6853 for domestic callers or (201) 612-7415 for international callers and entering 13672167 from two hours after the end of the call until 11:59 p.m. (Eastern) on Wednesday, November 15, 2017. The replay will also be available at Cognizant's website www.cognizant.com for 60 days following the call.

² 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 diluted EPS guidance to GAAP EPS guidance that is available without unreasonable efforts is included at the end of this release.

About Cognizant

Cognizant (NASDAQ-100: CTSH) is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the U.S., Cognizant is ranked 205 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow us @Cognizant.

Forward-Looking Statements

This press release 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, our shift to digital solutions and services, our anticipated financial performance and our capital return and realignment programs. 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.

About Non-GAAP Financial Measures

To supplement our financial results presented in accordance with GAAP, this press release 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. The reconciliations of Cognizant's non-GAAP financial measures to the corresponding GAAP measures should be carefully evaluated.

We seek to manage the Company to a non-GAAP operating margin, which excludes stock-based compensation costs, acquisition-related charges and, in 2017, realignment charges. 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. Realignment charges include severance costs, 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. In addition to excluding stock-based compensation costs, acquisition-related charges and, in 2017, realignment charges, our non-GAAP diluted EPS also excludes net non-operating foreign currency exchange gains or losses, inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, and, for the nine months ended September 30, 2017, the effect of recognition of an income tax benefit previously unrecognized in our consolidated financial statements. For the three and nine months ended September 30, 2016, non-GAAP EPS also excludes the effect of incremental income tax expense related to the India cash remittance transaction. In all periods presented, our non-GAAP diluted EPS 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.

Management believes providing investors with an operating view consistent with how it manages 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 provides a meaningful supplemental measure for investors to evaluate our financial performance. Accordingly, we believe that the presentation of our non-GAAP measures, 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 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, acquisition-related charges, including amortization of purchased intangibles, 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 operating margin and non-GAAP diluted EPS to allow investors to evaluate such non-GAAP financial measures.

- tables to follow -

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	\$ 3,766	\$ 3,453	\$ 10,982	\$ 10,025
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	2,337	2,077	6,792	6,030
Selling, general and administrative expenses	674	701	2,069	2,001
Depreciation and amortization expense	107	92	297	266
Income from operations	648	583	1,824	1,728
Other income (expense), net:				
Interest income	34	27	97	86
Interest expense	(6)	(5)	(18)	(15)
Foreign currency exchange gains (losses), net	(16)	7	41	(4)
Other, net	(2)	1	(2)	2
Total other income (expense), net	10	30	118	69
Income before provision for income taxes	658	613	1,942	1,797
Provision for income taxes	(164)	(170)	(421)	(661)
Income from equity method investment	1	1	1	1
Net income	\$ 495	\$ 444	\$ 1,522	\$ 1,137
Basic earnings per share	\$ 0.84	\$ 0.73	\$ 2.56	\$ 1.88
Diluted earnings per share	\$ 0.84	\$ 0.73	\$ 2.55	\$ 1.87
Weighted average number of common shares outstanding - Basic	590	606	594	607
Dilutive effect of shares issuable under stock-based compensation plans	2	3	2	3
Weighted average number of common shares outstanding - Diluted	592	609	596	610
Dividends declared per common share	\$ 0.15	\$ —	\$ 0.30	\$ —

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(in millions, except par values)

September 30, December 31,

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 1,577	\$ 2,034
Short-term investments	3,136	3,135
Trade accounts receivable, net	2,889	2,556
Unbilled accounts receivable	403	349
Other current assets	552	526
Total current assets	<u>8,557</u>	<u>8,600</u>
Property and equipment, net	1,304	1,311
Goodwill	2,608	2,554
Intangible assets, net	957	951
Deferred income tax assets, net	464	425
Long-term investments	262	62
Other noncurrent assets	428	359
Total assets	<u>\$ 14,580</u>	<u>\$ 14,262</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 186	\$ 175
Deferred revenue	333	306
Short-term debt	100	81
Accrued expenses and other current liabilities	1,981	1,856
Total current liabilities	<u>2,600</u>	<u>2,418</u>
Deferred revenue, noncurrent	114	151
Deferred income tax liabilities, net	5	6
Long-term debt	723	797
Other noncurrent liabilities	159	162
Total liabilities	<u>3,601</u>	<u>3,534</u>
Stockholders' equity:		
Preferred stock, \$0.10 par value, 15.0 shares authorized, none issued	—	—
Class A common stock, \$0.01 par value, 1,000 shares authorized, 590 and 608 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	6	6
Additional paid-in capital	208	358
Retained earnings	10,721	10,478
Accumulated other comprehensive income (loss)	44	(114)
Total stockholders' equity	<u>10,979</u>	<u>10,728</u>
Total liabilities and stockholders' equity	<u>\$ 14,580</u>	<u>\$ 14,262</u>

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
Reconciliations of Non-GAAP Financial Measures
(Unaudited)

(dollars in millions, except per share amounts)

	Three Months Ended		Nine Months Ended		Guidance	
	September 30,	2016	September 30,	2016	Q4 2017	Full Year 2017
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	<u>\$ 754</u>	<u>\$ 667</u>	<u>\$ 2,158</u>	<u>\$ 1,987</u>		
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	<u>20.0 %</u>	<u>19.3 %</u>	<u>19.7 %</u>	<u>19.8 %</u>		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	<u>\$ 0.98</u>	<u>\$ 0.86</u>	<u>\$ 2.75</u>	<u>\$ 2.53</u>	at least \$0.95	at least \$3.70

Notes:

(a) Stock-based compensation expense reported in:

Three Months Ended

Nine Months Ended

Revenues by Segment:	\$	4,209	38.3 %	4.9 %
Healthcare		3,138	28.6 %	9.5 %
Products and Resources (a)		2,258	20.6 %	14.5 %
Communications, Media and Technology (b)		1,377	12.5 %	17.2 %
Total Revenues	\$	10,982		9.5 %

Revenues by Geography:	\$	8,503	77.4 %	8.6 %
North America		863	7.9 %	(4.4) %
United Kingdom		903	8.2 %	27.7 %
Rest of Europe		1,766	16.1 %	9.7 %
Europe - Total		713	6.5 %	22.1 %
Rest of World				9.5 %
Total Revenues	\$	10,982		

Employee Metrics:	September 30, 2017	June 30, 2017	September 30, 2016
Number of employees	256,100	256,800	255,800

Notes:

(a) Previously referred to as Manufacturing/Retail/Logistics.

(b) Previously referred to as Other.

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cash flows from operating activities:				
Net income	\$ 495	\$ 444	\$ 1,522	\$ 1,137
Adjustments for non-cash income and expenses	121	81	399	418
Changes in assets and liabilities	157	78	(350)	(514)
Net cash provided by operating activities ^(a)	773	603	1,571	1,041
Cash flows from investing activities:				
Purchases of property and equipment	(78)	(74)	(204)	(213)
Net sales (purchases) of investments	20	(505)	(146)	(475)
Payments for business combinations, net of cash acquired	(66)	(34)	(72)	(185)
Net cash (used in) investing activities	(124)	(613)	(422)	(873)
Cash flows from financing activities:				
Repurchases of common stock	(13)	(157)	(1,557)	(492)
Net change in borrowings and capital lease obligations	(170)	(14)	(62)	(391)
Dividends paid	(90)	—	(179)	—
Issuance of common stock under stock-based compensation plans	42	44	146	135
Net cash (used in) financing activities ^(a)	(231)	(127)	(1,652)	(748)
Effect of exchange rate changes on cash and cash equivalents	2	3	46	5
Increase (decrease) in cash and cash equivalents	420	(134)	(457)	(575)
Cash and cash equivalents, beginning of year	1,157	1,684	2,034	2,125
Cash and cash equivalents, end of period	\$ 1,577	\$ 1,550	\$ 1,577	\$ 1,550

SUPPLEMENTAL CASH FLOW INFORMATION
(in millions)

	Three Months Ended		
	September 30, 2017	June 30, 2017	September 30, 2016
Stock Repurchases under Board of Directors' authorized stock repurchase program:			
Shares repurchased ^(b)	2.2	—	2.5
Remaining authorized balance	\$ 2,000		

Notes:

(a) In March 2016, the FASB issued an update to the standard on stock compensation, which among other things, changed the classification of the excess tax benefits and deficiencies in the statement of cash flows to cash flows from operating activities. We adopted this standard on January 1, 2017 and conformed prior year presentation. This resulted in a \$9 million reduction in net cash used in financing activities and a \$9 million increase in the net cash provided by operating activities for the three months ended September 30, 2016 and a \$19 million reduction in net cash used in financing activities and a \$19 million increase in the net cash provided by operating activities for the nine months ended September 30, 2016.

(b) In March 2017, we entered into accelerated share repurchase agreements, referred to collectively as the ASR, with certain financial institutions under our stock repurchase program. Under the terms of the ASR and in exchange for up-front payments of \$1,500 million, the financial institutions initially delivered 21.5 million shares. In August 2017, upon the final settlement of the ASR, we received an additional 2.2 million shares based on the final

volume-weighted average price of the Company's Class A common stock during the purchase period less the negotiated discount.

SOURCE Cognizant

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<https://investors.cognizant.com/2017-11-01-Cognizant-Reports-Third-Quarter-2017-Results>