To Our Stockholders

As companies worldwide seize new business opportunities brought about by digital technology, the prospects for Cognizant have never been greater or more exciting. Future-focused businesses are moving to create and execute strategies to innovate, build and lead with digital. These leaders realize they must operate with a “digital-first” mindset in order to benefit from new ways of working – within physical and virtual environments – to remain relevant today and tomorrow.

With our technology expertise, industry knowledge and strategic insight delivered by an exceptionally skilled and talented workforce, we are well positioned to guide clients through this unprecedented shift. In 2016, we launched several initiatives to make Cognizant an even more valuable partner to our clients as they face the challenges and opportunities of the new digital era. We have strengthened our business model, and are aggressively investing in and scaling our digital capabilities while driving efficiencies in our core business through increased automation. We also announced a robust capital return program. These changes expand our ability to help clients lead with digital while delivering greater value for our shareholders.

The challenges businesses face today are many and varied. How can they use data to predict customer behavior and design better products and experiences? Can they connect intelligent machines and systems to achieve greater performance and efficiency? In an increasingly mobile economy, can they deliver for customers anywhere, anytime, on any device? To meet these and other complex challenges, organizations must create new business capabilities on the backbone of legacy systems and technologies, and embed digital throughout their organizations front to back. Cognizant is better positioned than ever to help clients master digital and bolster our own performance.

Growing Digital Capabilities

Meeting the growing demand of clients worldwide to build digitally-driven businesses, along with our proven capacity to help them optimize their core business-technology operations, led to another year of strong performance in 2016. Revenue was a record $13.49 billion, up 8.6% from 2015. GAAP net income was $1.55 billion, or $2.59 per diluted share. Non-GAAP diluted EPS of $3.39 for 2016 was more than 10% greater than the prior year.*

Reflecting the growing importance of digital, we have broken out our digital-related revenue for the first time. This includes projects that help clients create more engaging experiences by applying artificial intelligence and advanced analytics to build loyalty and drive revenue growth; automate and modernize core business processes through bots that augment human capabilities and simplify how business is conducted; and deploy secure, cloud-as-a-service models that enhance operational efficiencies. Revenue associated with digital-oriented activities accounted for 23% of our total revenue in 2016 – growing well above the company average – and we are rapidly accelerating our digital initiatives moving ahead.

Helping Leading Companies Unlock the Promise

We are proud of Cognizant’s track record of making critical investments to stay ahead of our clients’ changing needs. Today, companies in every industry, including banking, insurance, healthcare, life sciences, media/entertainment, and manufacturing, depend on us to help them meet new business challenges.

To make Cognizant an even more valuable partner to our clients, we have formed three new practice areas that span our business. These practices address with pinpoint precision the needs of our clients – helping them unlock the power and realize the promise of the new digital era.

Cognizant Digital Business works with clients to reshape their products and business models, and reinvent how they interact with their customers, employees, and partners. Our approach combines data science, design thinking, and deep industry and process knowledge with deep technology capabilities to unite the physical and virtual aspects of a company seamlessly, across every channel. With the application of big data and artificial intelligence, we help clients uncover insights they can
act on, develop new business models and go-to-market strategies, and design, prototype and scale meaningful experiences for their customers.

**Cognizant Digital Operations** helps clients re-engineer, digitize, manage, and run their most essential business processes to reduce operating costs, improve user experiences, deliver better outcomes, and achieve top-line growth. Across the practice, we are creating automated, data-driven platforms and industry utilities. We also help clients develop more effective operating models and achieve process excellence by applying both traditional and new optimization methods.

**Cognizant Digital Systems & Technology** works with clients to simplify, modernize and secure their IT infrastructure and applications through automation, analytics and Agile development that help unleash the power of their technology environments. We help clients create and evolve systems that meet their needs by delivering industry-leading standards of performance, cost, and flexibility.

We have seen momentum across each practice area for a very important reason: digital is no longer a nice to have, but a must have. Becoming a digital business requires companies to rethink their products, services, and channels; revitalize and replace core processes by applying artificial intelligence and new-age automation tools; and employ a high-powered digital backbone to support new business models and new ways of working.

**Investing in Growth, Rewarding Shareholders**

To reinforce the capabilities of these new practices, we are pursuing acquisitions and making equity investments that augment our intellectual property, industry expertise, geographic reach, and platform and technology capabilities. For example, we acquired Idea Couture, which offers digital innovation, strategy, design, and technology services to advance clients’ digital business models. Other recent acquisitions include Australia-based Adaptra, which will deepen our capabilities in insurance, business transformation, and IT services; Mirabeau BV, a Netherlands-based digital marketing and customer experience agency; and KBACE Technologies, Inc., a U.S. company that strengthens our ability to assist clients in moving critical business applications to the cloud. We also purchased a 49% stake in ReD Associates, a strategic consulting firm that uses social science tools to help business leaders understand customer behavior and improve the customer experience.

Another investment is the regional expansion of our client innovation spaces, called Collaboratories. In addition to our flagship Manhattan space, we’ve opened Collaboratories in Europe (Amsterdam) and Asia Pacific (Melbourne). Moreover, we are investing in training and re-skilling our teams, and expanding our local workforce in key regions such as the U.S., so we can work more closely with clients to unlock digital’s business promise. We continue to strengthen foundational areas of our business, such as IT infrastructure management, applications value management, and business process services. These competencies remain vital to our clients, particularly larger enterprises that are building their digital futures atop existing technology and operational foundations. Our deep knowledge of our clients’ core systems is a key advantage as we partner with them to add new capabilities that streamline the way they operate, create new revenue streams, and open untapped markets. By applying greater operational discipline and increasing automation in the delivery of these core services, we will be better positioned to help clients achieve these objectives while meeting our profitability targets.

In addition to investing in our digital capabilities, we plan to increase our historic 19% to 20% non-GAAP operating margin target by accelerating our pursuit of broad-based, high-value digital transformation work. We also intend to leverage our scale to reduce overhead in 2017 and 2018 through cost optimization and intelligent sourcing.

Finally, we have initiated a robust capital return program to deliver greater value to our shareholders through a planned return of $3.4 billion to investors over the next two years. We initiated a $1.5 billion accelerated share repurchase program in March 2017, and plan to repurchase an additional $1.2 billion of our shares during 2017 and 2018. Further, starting with the second quarter of 2017, we intend to initiate a quarterly cash dividend of $0.15 per share. Both this share value initiative, and our ongoing digital investments, are supported by our strong cash generation potential and solid balance sheet.

**The Opportunity Ahead**

We have reached an exciting new stage — seizing the potential of the digital economy and honing our ability to proactively address and serve client needs. There is a large and growing demand for our services among leading companies embracing digital throughout their businesses. And our new digital practices and business capabilities enable us and our clients to win in the digital era. What hasn’t changed — and will never change — is our unrelenting focus on serving clients. This is core to our values and culture.

Going forward, we are confident that our growing digital capabilities, unassailable business-technology pedigree, and demonstrated track record of success will allow us to deliver on digital’s potential for our clients, shareholders, associates and communities, worldwide.

Sincerely,

Francisco D’Souza
Chief Executive Officer