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November 28, 2016

The Board of Directors
Cognizant Technology Solutions Corporation
500 Frank W. Burr Blvd.
Teaneck, NJ 07666
Attn: Chairman John Klein
Attn: CEO Francisco D'Souza

Dear John, Frank and Members of the Board:

I am writing to you on behalf of Elliott Associates, L.P. and Elliott International, L.P. (together, "Elliott" or "we"). Elliott owns over 4% of Cognizant Technology Solutions Corp. (NASDAQ: CTSH) (the "Company" or "Cognizant"), making us one of the Company's top four shareholders. At approximately $1.4 billion in market value, this large investment demonstrates our significant level of conviction in the value opportunity present at Cognizant today.

We are writing to you today to outline that opportunity in detail and share our thoughts on how to achieve it. Specifically, **we believe that Cognizant can achieve a value of $80–$90+ per share by the end of 2017, representing upside of 50% to 69% in just over a year**. This level of value creation is unique in today's market for any company, much less one with a more than $30 billion market capitalization.

Cognizant is one of the world's most successful IT services firms, and **we have tremendous respect for what Frank and his team have accomplished**. They deserve enormous credit for the achievements to date, and we recognize that the value opportunity described in this letter is only possible due to what they have built over the years.

Our letter today is organized as follows:

- **Opportunity:** We review the Company's past successes as well as its present need for change in the areas of operational improvement and capital allocation.

- **Value-Enhancement Plan:** We detail an immediately actionable set of initiatives to improve operational efficiency, capital allocation and oversight.

- **Value Implications:** We lay out the value creation that these steps will achieve, which is unique in both magnitude as well as achievability.

Elliott looks forward to working collaboratively with Frank, John and the entire Cognizant team, and we respectfully request a near-term meeting with the Board to further share our thoughts about this clear and compelling opportunity.

About Elliott

Elliott is an investment firm founded in 1977 that today manages approximately $30 billion of capital for both institutional and individual investors. We are a multi-strategy firm, and investing in the technology sector is one of our most active efforts.

Elliott's track record in technology investing is distinguished by our extensive due diligence, which includes experienced C-level executives, leading consulting firms and a proven team in public and private equity investing. This effort leaves us well-positioned to evaluate operations, technologies and markets with respect to every investment. Our approach to Cognizant has followed the same discipline, and we believe this time- and resource-intensive exercise has given us a thorough understanding of the Company's strengths and challenges. We are convinced that the resulting recommendations will not only create substantial additional shareholder value, but also significantly improve the quality of Cognizant's business.

The Cognizant Opportunity

Cognizant is one of the world's largest and most successful IT services firms. While the Company's core capability is its ADM business, it has been at the forefront of anticipating the broader shifts in the technology landscape. Cognizant has long been the most successful amongst its Indian-heritage peers in moving up the value chain and offering differentiated solutions. In fact, from our survey of more than 600 enterprise IT purchasers, Cognizant received leading Net Promoter Scores in its peer group for its core ADM and BPO/BPaaS franchises. Recently, Cognizant has developed a leading franchise in next-generation digital and SMAC capabilities (a term which Cognizant itself coined several years ago).

Despite this leading position, however, Cognizant's stock price performance tells the story of **deep underperformance across all relevant benchmarks, including its closest peers, over all time periods** during the last five years. In fact, over the last five years, Cognizant has underperformed its core IT services peers by 83% despite growing revenue at a 22% CAGR vs. the peer average growth of a 16% CAGR over the most recent five fiscal years.

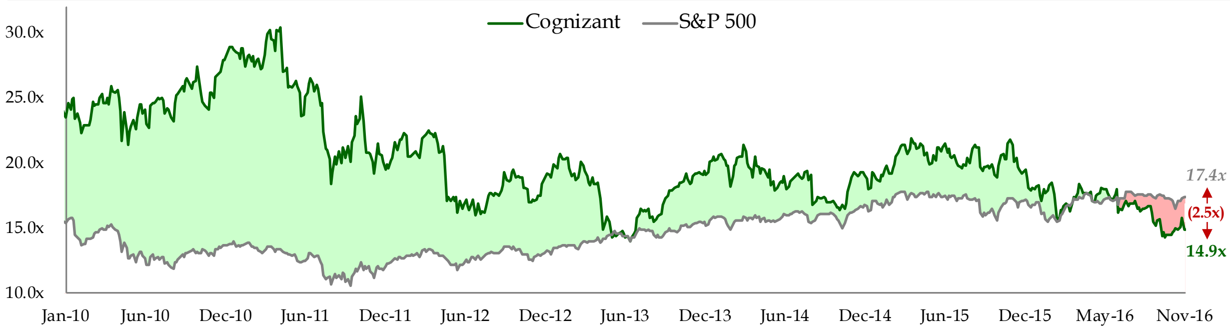
Relative Total Shareholder Return

	Period Ending November 25, 2016				
Cognizant's TSR Relative to:	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**
1. S&P500 Index	(26%)	(12%)	(16%)	(11%)	(42%)
2. NASDAQ Composite	(24%)	(17%)	(26%)	(32%)	(66%)
3. 10-K Peers(1)	(33%)	(23%)	(33%)	(47%)	(109%)
4. Proxy Peer Group(2)	(41%)	(32%)	(37%)	(60%)	(129%)
5. Core IT Services Peers(3)	(15%)	(4%)	(21%)	(38%)	$\boxed{(83\%)}$

Source: Bloomberg as of November 25, 2016. Assumes dividends are reinvested.
(1) Reflects average of ACN, CAP, CSC, G, HCLT, HPE, IBM, INFY, TCS, WPRO.
(2) Reflects average of ACN, ADP, CA, CSC, CVG, FIS, FISV, LDOS, MA, NTAP, SYMC, V, YHOO.
(3) Reflects average of ACN, HCLT, INFY, TCS, WPRO.

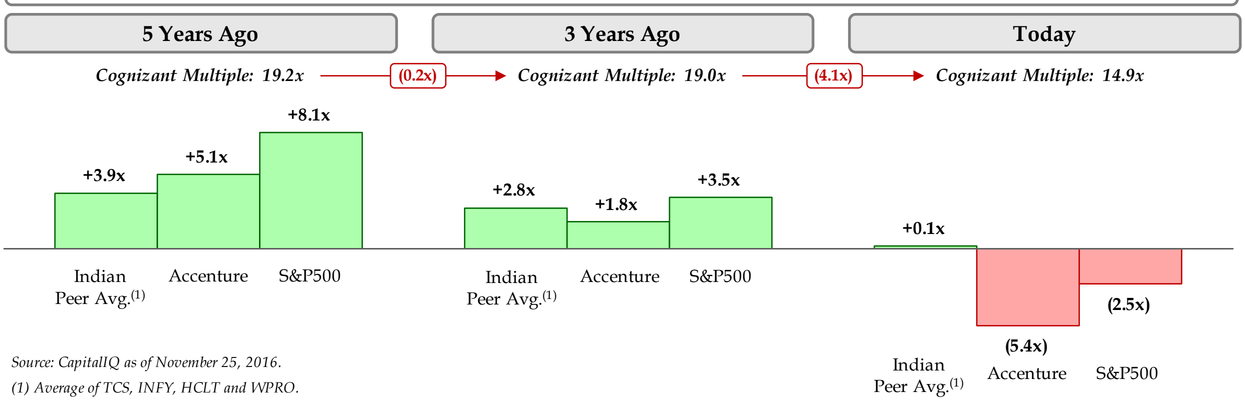
In addition, Cognizant's relative valuation illustrates a **profound loss of confidence amongst the shareholder base**. Historically, Cognizant had been viewed as the premier franchise within the large-cap IT services space and had therefore traded at a meaningful premium to its peers and the broader market. However, Cognizant's valuation premium has now entirely eroded. Despite maintaining an industry-leading growth outlook, Cognizant now trades at near parity to its Indian heritage peers and at a significant discount to both Accenture and the S&P500 *for the first time*.

NTM P/E – Cognizant vs. S&P500 Since 2010



Source: CapitalIQ as of November 25, 2016.

Cognizant's NTM P/E Multiple Premium / (Discount) vs. Peers



Source: CapitalIQ as of November 25, 2016.
(1) Average of TCS, INFY, HCLT and WPRO.

This profound share price and valuation underperformance is made even starker by the facts that Cognizant is an industry leader, an above-average grower and a high-quality franchise. The drivers of this deep and material underperformance are as follows:

1) **Profitability and Efficiency:** Cognizant continues to practice and swear by a strategy that was developed nearly <u>two decades ago</u>, when revenues were over 200x smaller, to keep operating margins in the 19%–20% range.

2) **Capital Allocation:** Despite growing into a scale market leader with stable and significant cash flows, Cognizant has remained unwilling to establish a capital return program.

Cognizant's operations and capital allocation strategies are remnants of its history as a nascent industry "challenger" that invested at all costs to gain share. Today, however, **<u>Cognizant has evolved into a scale industry leader, and its business choices must also evolve to reflect this reality</u>**.

Elliott is far from the first to identify these issues and propose actionable steps to rectify them. In fact, they have steadily become the primary concern among investors, **precipitating the <u>sharp loss of confidence</u> illustrated in the charts above. The quotes below represent just a small sample of the commentary on this point**:

– "The question that we're getting a lot from investors is how to think about EPS growth and should EPS growth just follow and marry revenue growth, or is there opportunity and **would management and the Board come off their 19% and 20% margin range or even perhaps get more aggressive on share repurchases or get more aggressive on M&A**." – *Oppenheimer, Aug. 2016*

– "So when all said and done, **if you don't grow at a premium, would we see a very quick change in terms of your investment strategy and approach to the company or even your capital structure?**" – *JP Morgan, May 2016*

– "**Does the slowing in the growth rate, but still similar dollar addition to revenue, change the approach to fixing your margins** or maintaining your margins at 19% to 20% over time" – *Bank of America, June 2016*

– "So trying to figure out what else you guys can do to grow EPS. **Is it time to expand operating margins?** Because essentially, I mean, we're only going to grow EPS at about 10% at the top line it's only going to grow at that level. And then as we get larger, it's only going to get smaller. **So what are we going to offset that to be able to grow EPS? Is it margins or buybacks or what else can we do?**" – *Deutsche Bank, Aug. 2016*

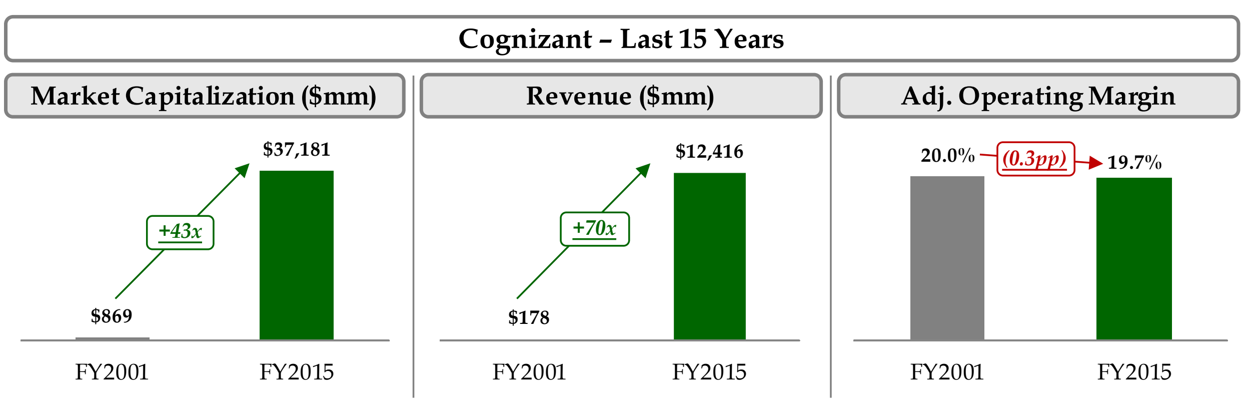
– "We think change of management is needed at Cognizant…**We think Cognizant should 'act its age' and accept lower growth and consider stock buy-backs and paying a dividend**." – *BMO, Sept. 2016*

These quotes provide a highly representative picture of investor sentiment towards Cognizant and its operational strategy. The good news is that Cognizant can take clear, actionable steps to re-evaluate its dated operational and capital strategies for the good of the Company and its shareholders.

Cognizant and Its Markets Have Changed, But Its Approach to Profitability Has Not

*"…our margins are 19-20%. Many of **our competitors historically have been running at margins well above that…[We] have taken the philosophy of reinvesting anything back into the business above 20%**" – Cognizant, February **2003***

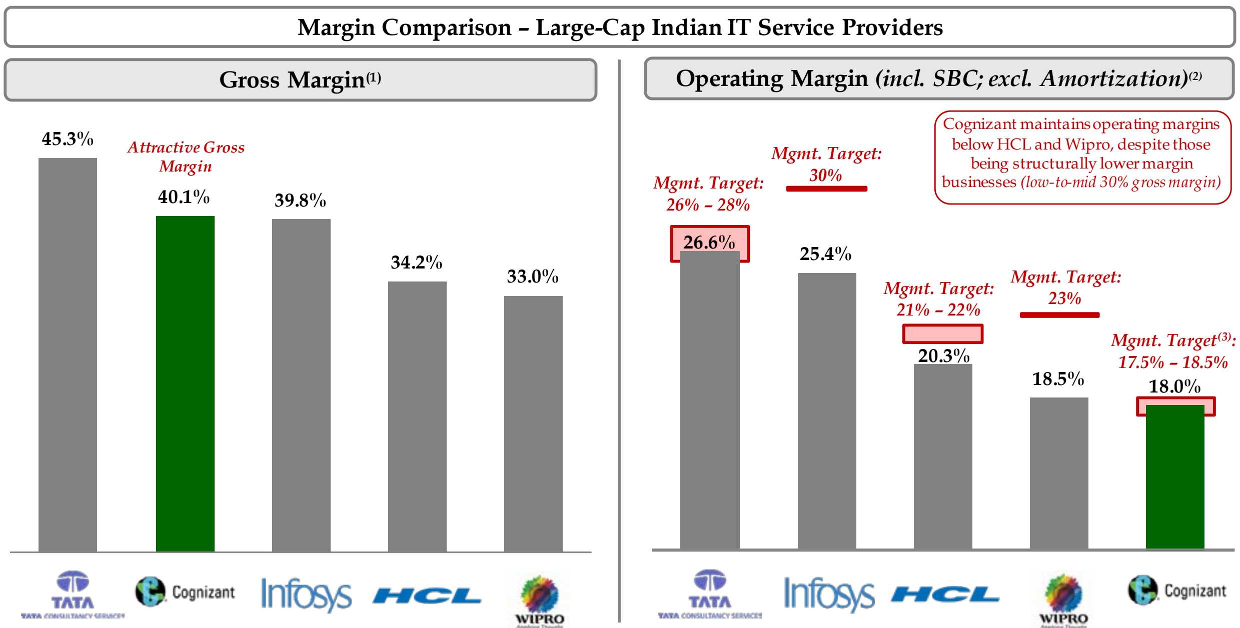
*"…as you know, **when we went public 18 years ago, we made a decision to keep our margins lower than others** so we can reinvest." – Cognizant, May **2016***



Source: Company filings, CapitalIQ, Bloomberg.

The above chart indicates a truly astonishing lack of operating leverage given the change in the Company over the past 15 years. Furthermore, Cognizant currently operates at a meaningful profitability discount to its direct peers. This margin differential is incredibly unique, both **<u>in magnitude and in cause</u>**. First, the magnitude is meaningful: despite a similar business mix and gross margin profile to its two closest peers (TCS and Infosys), Cognizant maintains operating margins that are at a **<u>~750–850bps discount</u>** on a comparable basis. Second, the cause is not accidental, but *intentional*: Since its origins, Cognizant has **<u>deliberately maintained a strategy of targeting margins at a level established nearly 20 years ago under vastly different business considerations</u>**.

Moreover, **<u>Cognizant's *target* margins are ~1,000bps lower</u>** than those of its direct peers. While all of Cognizant's peers are focused on achieving higher levels of profitability longer term, Cognizant remains wedded to the same 19%–20% range it has maintained for 20 years. Consequently, as peers execute against their own profitability initiatives and increase margins, **<u>the profitability gap between Cognizant and its peers will only continue to widen</u>**.



Source: Company filings.

Note: Figures reflect last fiscal year financials. Targets reflect management's long-term target operating margins.

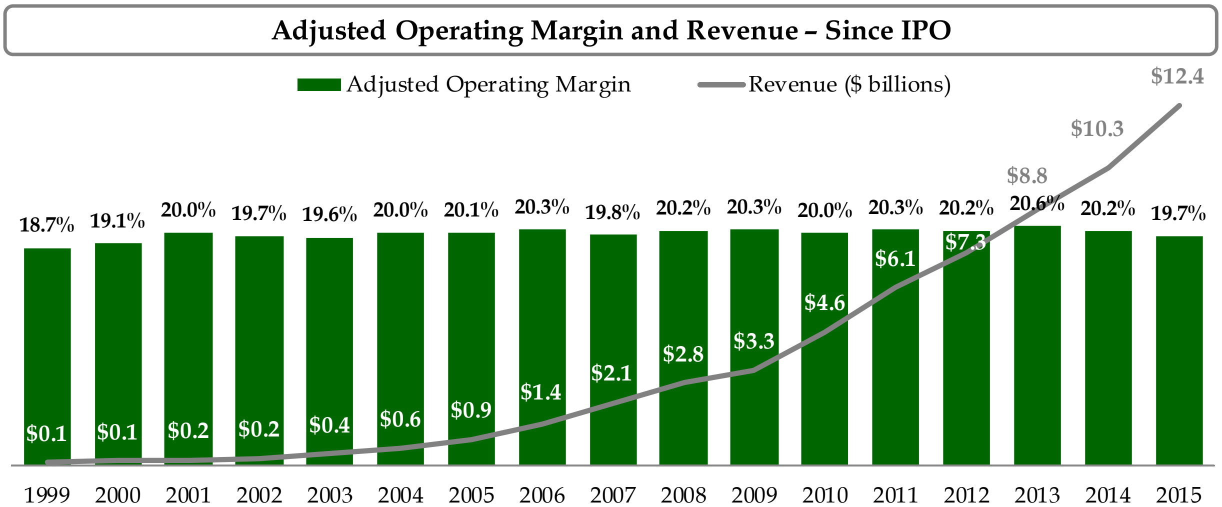
(1) Gross margins exclude D&A for comparability purposes.

(2) Operating margins exclude intangible amortization expense and include stock-based compensation expense for comparability purposes.

(3) Reflects Cognizant's 19%–20% adjusted operating margin target less 1.5% of sales for stock-based compensation to align with peer methodology.

What is perhaps most striking is the level of consistency with which Cognizant has been able to ***<u>purposefully inhibit</u>* any margin expansion** beyond the 19%–20% band despite revenue growing exponentially. Following Cognizant's first full year as a public company in 1999, revenue has increased by a factor of **<u>140x</u>**, from under $90 million to nearly $12.5 billion in 2015. Despite this increase, adjusted operating margins **<u>have never deviated outside of the targeted 19%–20% range</u>**. In fact, margins have actually *decreased* over the past several years, recently reaching their lowest levels since 2003, when Cognizant's sales were just 3% of what they are today. **<u>While the discipline of reinvestment may have made sense when the Company was emerging, the established dogma of "managing to a number" regardless of</u>**

evolving business conditions no longer makes sense and is a prime contributor to the Company's underperformance.



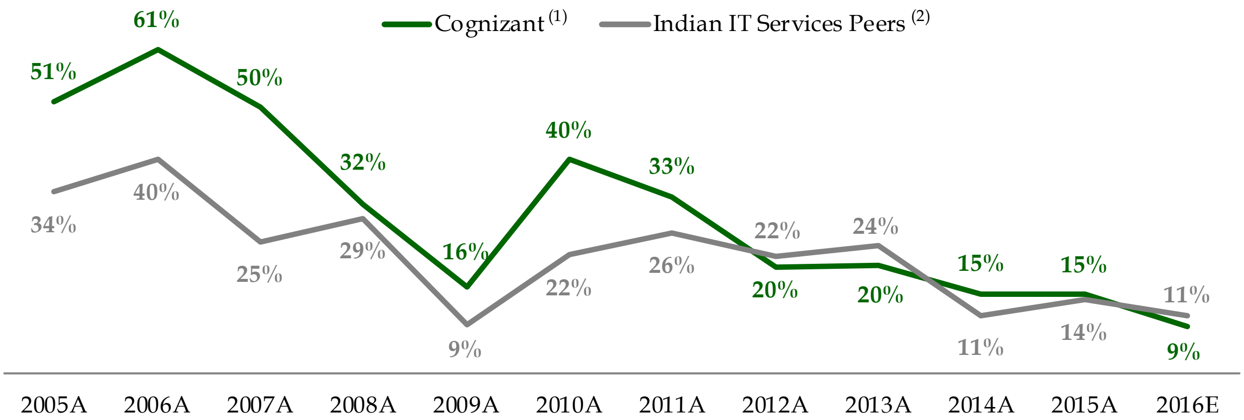
Source: Company filings.

Beyond the clearly negative value implications, this lack of operating leverage is damaging from a business perspective because it **masks inefficiency while impairing the Company's flexibility to make sound investments in R&D and M&A**. For example, the Company's stated rationale for keeping margins artificially low is to "reinvest." However, based on our substantial diligence, **these "reinvestments" are actually disguising a lower level of business efficiency.** Cognizant's peers, for example, also make substantial investments, but they achieve higher operating margins by internally targeting a higher level of efficiency and profitability. The result is that Cognizant's inferior efficiency and lower margins have served to suppress cash flow and income statement flexibility that could have been used for prudent and growth-focused R&D and M&A investments.

> *"We said to our investors, **in return for the privilege of having slightly lower but stable margins, you should expect some very strong, industry-leading revenue growth.**"*
>
> *– Cognizant, September 2015*

For years, Cognizant's lack of operating efficiency and general disregard for margins were less noticeable because the Company was a smaller player, growing in excess of the market and its peers. Today, Cognizant has grown into a scale player in the IT services market with $13.5 billion of revenue, while both the Company and the broader IT services market have matured and are growing more slowly. Not only has Cognizant stopped delivering outsized growth, it is actually expected to grow at a slower pace than the average of its closest Indian IT services peers this year and for the third time in the last five years. In fact, **Cognizant has failed to meaningfully differentiate itself in terms of growth since 2011.**

Relative Revenue Growth Rates Since 2005



Source: Company filings and consensus estimates.

Note: Cognizant financials represent fiscal year measures. Peer financials represent closest fiscal year (e.g., March 31, 2016 FYA represented as 2015A).

(1) Excludes impact of acquired Trizetto revenue.

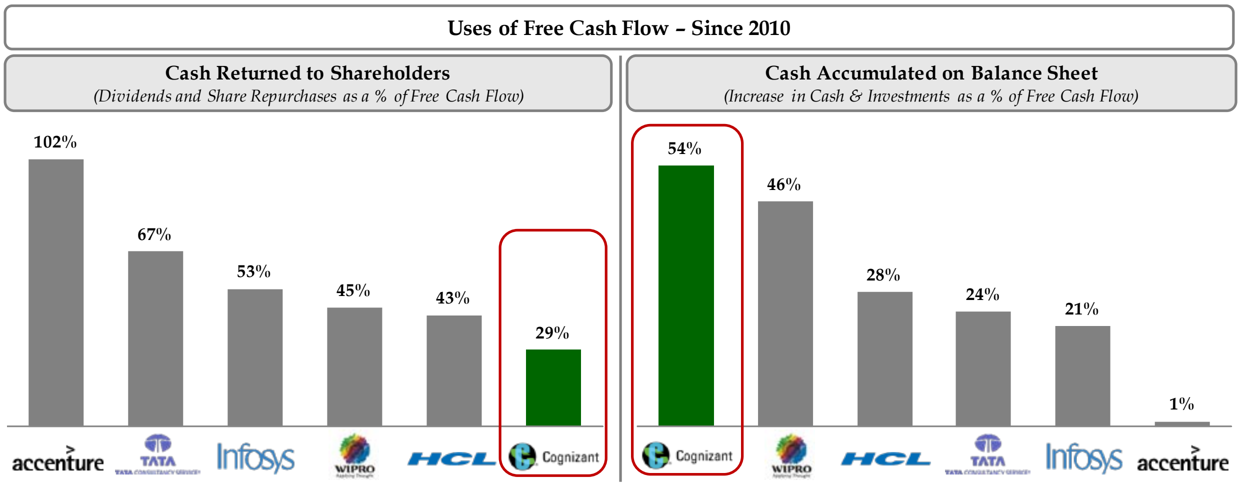
(2) Represents average growth rate of HCL, Infosys, TCS and Wipro.

Though we expect Cognizant to return to above-market growth in the near term, the overall market has matured, and revenue growth rates are lower than they have been in the past. In any scenario, **there is no argument against operating with improved efficiency, cash flow and margins.**

Suboptimal Capital Allocation Hurts Both Valuation and Operations

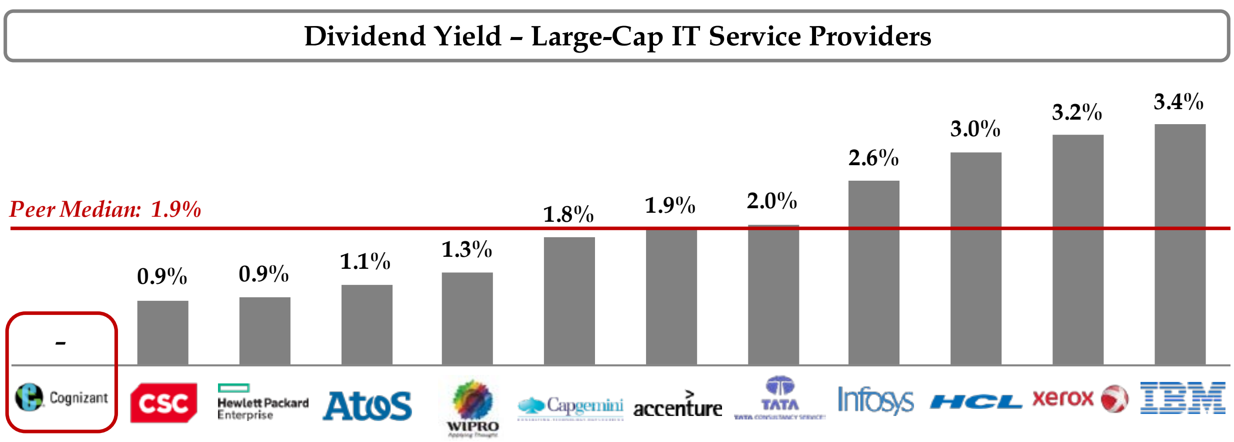
> *"…we believe **there is underappreciated potential for Cognizant to unlock value as it matures and evolves its capital allocation.**"*
>
> *– J.P. Morgan, September 2016*

Relative to both peers and optimal business practices**, Cognizant's lack of an appropriate capital return policy has long made it a distant outlier**. Cognizant possesses a $13.5 billion (and growing) revenue base, $2 billion of cash flow per year, $4 billion of net cash, a meaningful margin expansion opportunity and a strong franchise. Despite these attributes, Cognizant has no dividend, only repurchases shares to offset dilution and clings to the flawed belief that growth and capital allocation are somehow at odds.



Source: Company filings (U.S. GAAP and IFRS conventions used where multiple exist).
Note: Figures reflect last six fiscal years. HCL final period represents 9mo. period ending March 31, 2016 due to fiscal year change. Free cash flow defined as net cash flow from operations less capital expenditures. Percentages represent allocation of cumulative values.

As the chart above illustrates, Cognizant has historically returned the *lowest* level of cash flow to shareholders while accumulating the *highest* level of cash flow on its balance sheet. Also, and perhaps most notably, **Cognizant is the only large-cap IT service provider which does not maintain a dividend**. This is a particularly unique fact given Cognizant's scale and positioning.



Source: Bloomberg as of November 25, 2016.

As investors look across the peer group, **they see peers that have generated considerable returns through a balanced combination of margin expansion, EPS growth through share repurchases and return of capital via dividends.** For example, despite the lowest growth outlook of the group, Accenture has generated strong shareholder returns through a thoughtful balance of share repurchases and dividends as well as consistent margin improvement. It is worth noting that Accenture has also positioned itself astutely at the forefront of digital services through a continued emphasis on acquisitions. This focus demonstrates that not only can an appropriate capital return program allow for smart investments, but also that a more efficient and cash-flow-generative profile can provide greater acquisition capacity and income statement flexibility to make the investments necessary in today's changing environment.

Comparison of Capital Return Priorities – Cognizant vs. Accenture

	Cognizant	accenture
Share Repurchases	▪ Only repurchases shares to offset dilution	▪ Over $12 billion of repurchases over last five years, helping drive 58% EPS growth
Dividends	▪ None	▪ 2% dividend yield per year ▪ Attracts a new class of investors
M&A	▪ 8 acquisitions since 2014	▪ >45 acquisitions since 2014
Cash Return	▪ Returns <30% of free cash flow	▪ Returns ~100% of free cash flow
Valuation	▪ Despite growing at over 10% per year, among the highest in its peer group, Cognizant trades at one of the lowest multiples of **14.9x**	▪ With consistent margin expansion and a robust dividend and repurchase program, Accenture drives leading shareholder returns and trades at **20.3x**

Source: Company filings, CapitalIQ as of November 25, 2016.

The last point in the table is worth emphasizing – **Cognizant is viewed as being shareholder-unfriendly.** In contrast, Accenture is viewed as being a responsible steward of shareholder capital and is therefore awarded a multiple of more than 20x NTM P/E, a meaningful premium to the entire peer group, despite having the *lowest* revenue growth rate. Its robust capital return and margin expansion programs support a far higher multiple than its slower growth alone warrants, because it offers shareholders a balanced set of drivers to deliver investment returns.

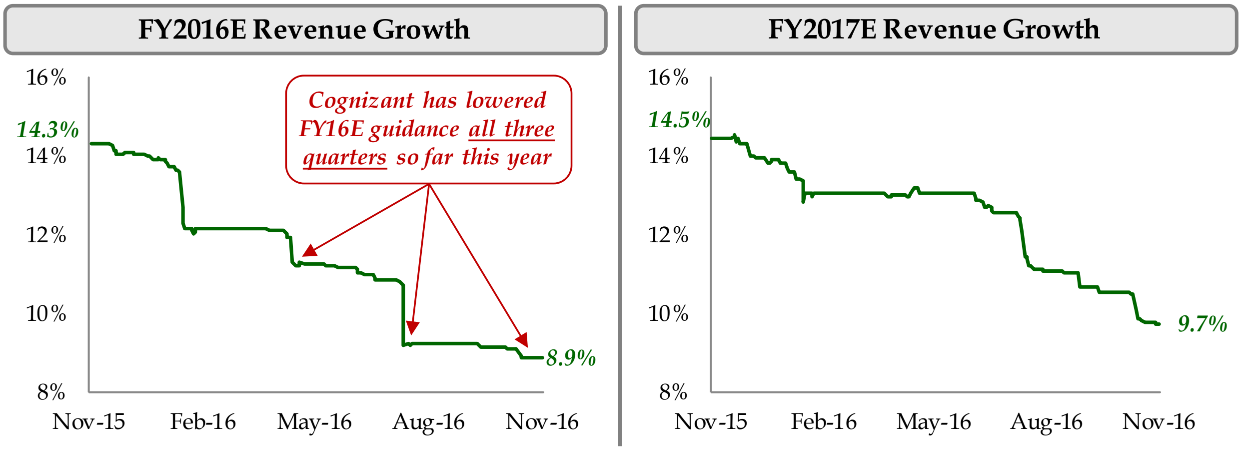
Cognizant, on the other hand, gets penalized with a significant discount. Because Cognizant has a limited capital return program and explicitly commits *not* to expand margins, shareholders must rely on the Company delivering above-average revenue growth for investment returns. When selecting companies in which to invest capital, **shareholders will naturally gravitate toward management teams with proven capital allocation track records**.

This lack of balance negatively impacts both Cognizant shareholders and management:

- From an **investor perspective**, when shareholder returns are entirely tied to revenue growth, even the slightest deceleration in revenue can elicit drastic negative reactions in share price, as the Company’s recent performance illustrates. This dynamic renders Cognizant significantly less appealing to a wide range of shareholders.

- From an **operational perspective**, this undue dependence on revenue growth leads to suboptimal decision-making, as a “growth at all costs” mindset is embraced in an effort to avoid the repercussions that Cognizant faced earlier this year when revenue growth slowed.

Evolution of Consensus Growth Estimates – Last Twelve Months



Source: CapitalIQ as of November 25, 2016.

Fortunately, Cognizant is well-positioned today to remedy this imbalance by enhancing its capital return policy and thereby signaling to the market that it is willing to take the steps necessary to deliver industry-leading returns. A more shareholder-friendly approach to capital allocation would be warmly received by the investment community, as the below sampling of quotes from research analysts indicates:

- "As the company matures, we believe **management needs to offer a more sophisticated capital allocation strategy to reflect its size** (both revenue and market capitalization) and stage of development." – *Goldman Sachs, Sept. 2016*

- "**As Cognizant matures and its topline growth slows, the company's overall capital return profile is increasingly important to investors.**" – *Bernstein, Aug. 2016*

- "**Cognizant's investors increasingly expect the company to return cash in the form of dividends and buybacks**, specifically as its growth rates slow down and the stock transitions from being a growth story to a GARP/value stock" – *J.P. Morgan, Sept. 2016*

- "…We believe **the introduction of a regular dividend could broaden the appeal of the stock to new investors, while enhancing total shareholder return.** In our view, gone are the days when investors look at the initiation of a dividend by a growth company as a negative." – *Jefferies, Oct. 2016*

- "In the recent past (last six to nine months), our positive bias of the company was largely driven by our belief that **Cognizant would take on a more Accenture-like model, prioritizing capital returns to shareholders**, especially in the form of a consistent dividend. On that front, **we are disappointed with the company** and have not seen any signs of the company moving in that direction. Given that this aspect of the story was a big driver of our Outperform rating, our diminished confidence has contributed to the downgrade." – *William Blair, Nov. 2016*

The Cognizant Value-Enhancement Plan

Today, Elliott is formally requesting a meeting with the Board to share the details of an operational plan that we believe will create significant value for stockholders. What we call the Cognizant Value-Enhancement Plan was developed through exhaustive research with the help of a full team of operating partners, all with proven experience creating value at technology companies:

- **Senior IT Services Executives:** We have worked closely with a team of senior IT services executives to evaluate Cognizant and the opportunity for value creation. These are C-level executives who have assisted us in understanding the operating and strategic possibilities at Cognizant and who have helped diagnose issues at, and develop solutions for, other technology companies in which we have invested.

- **Top-Tier Consulting Firm:** We retained a leading consulting firm to aid in our in-depth diligence on Cognizant's offerings and end markets. The firm conducted a survey of over 600 customers and decision makers, enabling us to better understand the competitive landscape from a customer's perspective and identify key industry themes.

- **Operations Consultant:** We worked with a major operations consulting firm to conduct a deep-dive on Cognizant's operations with an emphasis on its global delivery network, sales & marketing, third-party spend and corporate overhead.

- **IT Purchasers:** We have assembled a broad team of CIOs and CTOs with extensive experience as customers of the largest IT services firms. In particular, we have several leading executives with specific domain expertise in financial services and healthcare.

- **Investment Bank**: We engaged a leading investment bank to evaluate capital return options, strategic alternatives and financial benchmarking.

The Cognizant Value-Enhancement Plan is based upon three driving principles: the need for 1) **fundamental operational improvements**, 2) **efficient allocation of capital** and 3) **effective oversight and incentive alignment**. The key components for fundamental change are as follows:

1) **Implementation of Operational Best Practices:** With the help of our operational consultants, we have developed a granular cost baseline which we have used to compare Cognizant against direct outsourcing peers and other industry benchmarks, helping us triangulate upon what an appropriate cost structure for Cognizant should look like. We have identified numerous opportunities throughout the organization for significant improvement, which we believe will result in a more efficient use of resources without impacting Cognizant's ability to pursue industry-leading growth. In total, **our Cognizant Value-Enhancement Plan calls for a 23.0% adjusted operating margin in FY18E**, as compared to a 19.7% operating margin in FY15.

   It is necessary to frame this target in the context of Cognizant's direct peers. As highlighted above, on a comparable basis including stock-based compensation, Cognizant today operates at an 18.0% operating margin, whereas its closest ADM-oriented peers TCS and Infosys operate at comparable margins of 26.6% and 25.4%, respectively. After adjusting for the ~1.5% of sales that Cognizant spends on stock-based compensation, the Cognizant Value-

Enhancement Plan would leave Cognizant with a comparable operating margin target of ~21.5% in FY18E – **still a highly conservative ~400–500 basis-point discount to peers.**

Looked at another way, this plan represents such a highly targeted effort to cut costs that **it does not assume a reduction in the aggregate cost base**. Given Cognizant will continue to grow roughly 10% per year over the coming years, **the Cognizant Value-Enhancement Plan does not assume a reduction in dollar costs** but instead calls for more than *$125 million of growth in operating expenses* from FY2016 to FY2018. This provides an entirely achievable framework for Cognizant to prudently grow into a more appropriate cost structure without having to take out costs.

Our team has identified the major areas for improvement as follows:

- **Delivery:** Cognizant's delivery organization currently operates below industry benchmarks. One important factor is the Company's maintenance of a deeper bench of unbillable trainees relative to peers, particularly onsite where costs are much higher. This carrying of excess bench capacity is an increasingly unnecessary drag in a maturing world with decelerating growth and fewer greenfield opportunities. In addition, we believe there are opportunities to optimize Cognizant's Two-In-a-Box model, particularly with respect to non-strategic clients, where we believe stricter utilization, increased coverage ratios and potential reductions in non-client facing roles could generate meaningful operating leverage.

- **Sales & Marketing:** The sales organization is unquestionably operating at a higher expense level vs. peer and industry benchmarks, particularly after what we have observed to be a ramp up of selling expenses in recent quarters. There is an opportunity to streamline the sales function through an optimization of the complex matrix structure and selected selling roles, reduction of non-selling resources, and clarification of P&L responsibilities. We also believe there is a meaningful opportunity to better align sales compensation incentives to focus on both profitability and growth.

- **G&A**: We have identified an opportunity to trim function sizes, specifically HR and Finance. Our analysis has revealed opportunities to improve management spans of control, eliminate redundancy throughout the organization and increase the level of process optimization. While we acknowledge that Cognizant has recently taken steps to consolidate U.S. G&A support functions in the lower-cost College Station facility, we believe that there remains a large opportunity to further right-size U.S. corporate overhead and reduce the concentration in high-cost locations.

- **Third-Party Spend**: Cognizant's procurement functions, while having improved recently, are operating below best-in-class industry benchmarks. We have identified potential savings to be achieved through more rigorous procurement policies and oversight, active management of supplier performance and increased governance over travel and entertainment costs. We have observed Cognizant to generally exhibit a lower level of scrutiny and emphasis on expense management than its direct competitors.

Finally, the plan was designed to be deliberately conservative, affording Cognizant meaningful flexibility to adjust its cost structure as business conditions change. One such hypothetical change concerns speculated-about modifications to skilled labor visa regulation. First, Cognizant is unique in having much wider latitude than its peers to improve its cost structure and can easily accommodate any of the speculated changes to regulations while still achieving the margins laid out in the plan (e.g., **the plan contemplates an *increase* in operating expenses, whereas Cognizant could easily accelerate cost removals to achieve the plan's margin targets**). Second, we would anticipate any changes in this area, if there are any, to be instituted over time, further providing Cognizant with a clear ability to plan for any adjustments. Cognizant has for some time been reducing its reliance on visas both organically (e.g., increased local hiring, sourcing talent from near-shore centers and reduced need for visa labor on higher-value digital work) and inorganically (e.g., U.S. acquisitions such as Trizetto). Finally, Cognizant could also benefit considerably from favorable policy change (e.g., through any one of a number of permutations of tax/repatriation reforms) and with ~$5bn of cash and ~$2bn of annual cash flow has ample capacity to adapt to any further changes in the landscape. In all cases, **the degree of conservativism built into the Cognizant Value-Enhancement Plan provides the Company with ample room to respond to a wide range of hypotheticals while still achieving plan targets**.

2) **Capital Allocation:** Cognizant today suffers from a highly inefficient capital structure with $4 billion of net cash, including $1.1 billion of onshore cash following the recent repatriation, and virtually no debt. Moreover, **Cognizant is currently trading at its lowest valuation since the financial crisis** and is now valued at under 15x NTM P/E. This subdued valuation, while unfortunate, does provide Cognizant with a **uniquely opportune time to repurchase shares**. Cognizant should immediately introduce a large share repurchase program. This would be highly accretive to earnings, particularly in light of the tremendous earnings generation potential (over 20% per annum) contemplated by the Cognizant Value-Enhancement Plan. We believe that the following measures should be introduced:

   - **Accelerated Share Repurchase:** The Cognizant Value-Enhancement Plan calls for a **$2.5 billion share repurchase to be completed over the first half of FY17E**, funded with $1.0 billion of domestic cash on hand and an incremental $1.5 billion of new debt. This would still leave Cognizant over $3.5 billion of net cash exiting FY17E and a net cash level of over 1.0x EBITDA, in line with peers.

   - **Ongoing Capital Return:** Cognizant should immediately institute a long-term capital return program with a commitment to return 75% of U.S. free cash flow to shareholders.
     - **Dividend:** **Implement a 1.5% dividend yield**, a conservative discount to peers.
     - **Ongoing Share Repurchases:** Under the commitment to **return 75% of U.S. free cash flow**, Cognizant should use all remaining proceeds after dividend payments to repurchase shares on an ongoing basis.

   - **M&A:** Cognizant operates in a dynamic environment in which it must continually enhance its portfolio to adapt to the changing landscape of client demand. The Cognizant Value-Enhancement Plan provides ample firepower for continued acquisitions through the usage of up to 25% of annual U.S. free cash flow as well as ~$1 billion per year of incremental foreign cash flow. In fact, our Base Case assumes that Cognizant exits FY18E with $5.3 billion of net cash on hand. This capacity allows for a steady pace of attractive tuck-in acquisitions, which we believe will be even better received by shareholders when done in conjunction with a consistent capital return program.

In addition to the prudent financial rationale for implementing a more robust capital allocation program, **the steps outlined above would provide a very meaningful signal to investors that Cognizant is, *for the first time*, willing to embrace a more shareholder-friendly stance towards allocating capital and generating leading shareholder returns**. The Cognizant Value-Enhancement Plan would represent a much needed and highly beneficial inflection point in Cognizant's approach toward investors.

3) **Enhanced Oversight and Incentive Alignment**: Despite our admiration and respect for the organization that John, Frank and the rest of the team have built over the past two decades, we believe the Board and management team would greatly benefit from new Board perspectives and improved compensation incentives.

- **Board Enhancement:** More than half of Cognizant's Directors have been on the Board for at least nine years, including four with more than 13 years of tenure. In situations where a company has generated long-term outperformance, such a long-tenured Board might be accepted by the investor community, but <u>**given the sustained share price underperformance at Cognizant, we believe directors with new experiences, skills and perspectives would be welcome**</u>**.** Such new perspectives are especially important because Cognizant also has an incredibly long-tenured management team. Of the 12 Named Executives from the Company's proxy materials, eight have been with Cognizant since before its IPO, which was more than 18 years ago. The newest outside executive joined more than 11 years ago. In addition to bringing in new perspectives, we would also recommend the <u>**formation of an Operating Committee of the Board**</u> tasked with direct oversight of implementing the Cognizant Value-Enhancement Plan. The formation of such a committee would be the best way to bring the experiences and skills of the new directors directly to bear on the challenges Cognizant faces today.

- **Improved Alignment of Incentives:** We believe that Cognizant should introduce more appropriate compensation criteria which include <u>**far less reliance on revenue growth and instead allocate weight towards earnings growth and total shareholder return.**</u> Today, long-term incentive performance share units comprise ~55%–60% of target executive compensation and are based <u>**75% on revenue targets**</u> and 25% on adjusted EPS targets. In addition to being widely off-market, such financial goalposts can be exceptionally damaging to the business, as they reinforce the "growth-at-all-costs" mindset referenced above. Such purely revenue-focused compensation criteria may be appropriate at a startup or a recent IPO, but not a $30+ billion, mature enterprise. In contrast, Accenture has no allocation to revenue growth in its long-term performance compensation and instead allocates 75% based on operating income and 25% on TSR. Unsurprisingly, Accenture has achieved 1-year, 3-year and 5-year TSR outperformance vs. Cognizant of 32%, 52% and 81%, respectively.

This high-level summary provides a brief overview of the details supporting the Cognizant Value-Enhancement Plan. We strongly believe that the steps outlined above are both prudent and achievable. With enhanced oversight from the Board, we have high confidence that this plan will be successful.

The Cognizant Value-Enhancement Plan Will Create Significant Value

By implementing the Cognizant Value-Enhancement Plan and providing the oversight necessary to ensure its execution, **we believe using conservative assumptions that Cognizant can achieve a value of $80–$90+ per share by the end of 2017**. We would also mention that there is considerable upside to these targets given the conservative approach underlying many of our assumptions. To the extent Cognizant were to take a more aggressive approach towards closing the margin gap vs. peers, increasing capital return or successfully pursuing value-accretive M&A, there exists substantial potential upside to our targets. The table below details Elliott's model scenarios supporting our price targets.

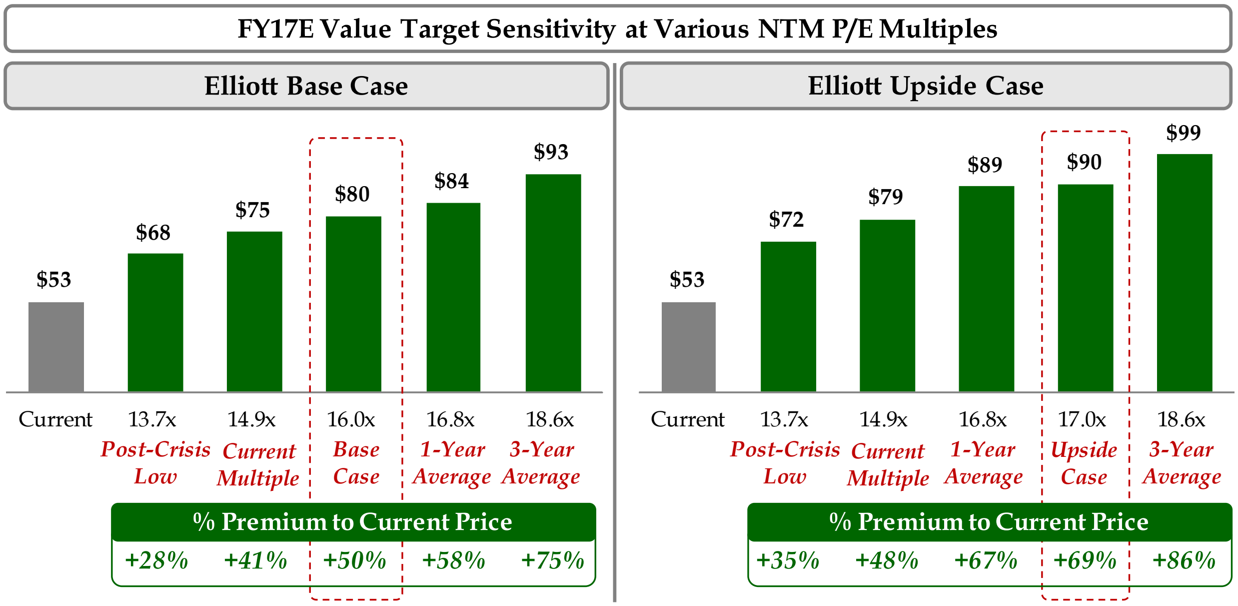
Cognizant Value-Enhancement Plan Assumptions and Results

	Elliott Base Case	Elliott Upside Case
FY15A – FY18E Revenue CAGR	9.0%	10.0%
FY18E OpEx % of Sales	18.2%	17.3%
FY18E Adj. Operating Margin	23.0%	24.0%
FY17E – FY18E Cum. Dividends(1)	$1.1 billion	$1.2 billion
FY17E – FY18E Cum. Repurchases(2)	$3.9 billion	$3.9 billion
FY18E Net Cash	$5.3 billion	$5.5 billion
FY18E Adj. EPS(3)	$4.95	$5.25
NTM P/E Multiple	16.0x	17.0x
Cognizant Price Per Share	$79.20	$89.25
FY17E Dividend Per Share(1)	$0.80	$0.80
FY17E Value Target (December 31, 2017)(4)	**$80**	**$90**
% Gain to Current Price(5)	***+50%***	***+69%***

(1) Assumes 1.5% dividend yield ($0.80 in FY17E using current price of $53.25).
(2) Assumes $2.5bn accelerated share repurchase in the first half of FY2017E funded with U.S. cash on hand and incremental $1.5bn of debt. Assumes 75% of U.S. FCF returned to shareholders through dividends and share repurchases.
(3) EPS figures rounded to the nearest $0.05 per share.
(4) Value targets rounded to the nearest $1.00 per share. FY17E value targets include dividends received during FY17E.
(5) Relative to current share price of $53.25 as of November 25, 2016.

Our base case assumes what we believe to be a conservative NTM P/E multiple of 16.0x, which is well below Cognizant's 1- and 3-year averages of 16.8x and 18.6x, respectively, as well as a lower multiple than those assumed in almost all equity research price targets. This valuation is in line with Infosys at 15.3x and at a significant discount to TCS at 17.2x, Accenture at 20.3x and the broader S&P500 at 17.4x.

Moreover, we believe a major driver behind Cognizant's lower multiple is its antiquated policies around margin expansion and capital return. If the Company were to take the actions outlined in the Cognizant Value-Enhancement Plan, with revenue growth of nearly 10% per year Cognizant would generate a peer-leading EPS growth well north of 20% per annum. In contrast to today's current return profile, whereby shareholder returns entirely mimic revenue growth, this more balanced approach to delivering consistent and outsized returns would be rewarded with a premium multiple, as was shown above to be the case with Accenture. The result could be value creation beyond our base or even our upside cases. In any case, as the valuation range below indicates, we believe that the Cognizant Value-Enhancement Plan will generate tremendous value creation across a broad range of assumed valuation multiples.



Note: Value targets rounded to the nearest $1.00 per share. FY17E value targets include dividends received during FY17E.

We look forward to a collaborative and positive dialogue with Cognizant's Board and management. To that end, we respectfully request a meeting in the next few weeks with the full Board during which we can share a detailed presentation of the Cognizant Value-Enhancement Plan and discuss the significant opportunity at Cognizant. Our desire to find a way to move forward expeditiously is motivated by our conviction that the initiatives outlined above should be evaluated by the Company immediately, so that Cognizant is in a position to announce and implement them at its next earnings call in February.

We firmly believe that the Company is at a pivotal point, facing a more mature and evolving market as well as deeply diminished shareholder confidence. Navigating successfully will require a strategy of greater focus on operational excellence and shareholder value creation. As shareholders, we believe the solutions outlined in this letter offer the optimal path for Cognizant to maintain its market leadership and deliver sustainable shareholder returns.

Thank you very much for your time and consideration. We look forward to our meeting.

Best regards,

Jesse Cohn
Senior Portfolio Manager