

Cognizant[®]

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Overview



Company Overview

- Cognizant is a professional services company, that transforms its clients' business, operation, and technology models for the digital era
- Cognizant provides tech consulting, app outsourcing, systems integration, business process services, and cloud services



Company Overview

- Headquartered in Teaneck, NJ
- Ticker: CTSH (NASDAQ)
- Stock Price: \$59.13
- Market Cap: \$33 Billion



History



History

- **1994** – Kumar Mahadeva starts the company as Dun & Bradstreet Satyam Software (DBSS)
- **1996** – D&B spins off DBSS as part of the Cognizant Corporation
- **1997** – DBSS buys Satyam's 24% stake for \$3.4 Million
 - Renames itself Cognizant Technology Solutions
- **1998** – Cognizant Corp. becomes a subsidiary of its new parent company IMS Health Inc.
 - Kumar Mahadeva named CEO
 - Cognizant focuses on Y2K Projects and Web Development



History

- **1998** – CTSH is listed on NASDAQ
- **2003** – CTSH purchases IMS Health's 56% stake and becomes independent
 - Mahadeva resigns, Lakshmi Narayanan replaces Mahadeva as CEO
- **2004** – Added to the NASDAQ-100 Index
- **2006** – Francisco D'Souza succeeds Narayanan as CEO
 - CTSH moves from S&P 400 (Mid-cap) to the S&P 500



Recent News



News

- **November 2016:** Elliot Management holds a 4% stake in CTSH
- **Q1 2017:** Elliot Management sells 3 million call options
- **February 2017:** CTSH commits to \$3.4 Billion in share repurchases and dividends over 2 years
 - Brings in new board members designated by Elliot
- **December 2017:** Elliot Management holds 1.12 million shares

Exit Files

4% stake held
by US hedge
fund in Cogni-
zant in 2016

1.12 m
shares hedge fund
held in firm as of
Dec 2017 qtr

3,000,000
call options on the stock
sold by the Fund in first qtr of 2017



News

- **May 2018**: Elliot exits its position in CTSH after a 50% gain in the previous 18 months
- **February 2019**: Two former executives charged in bribery probe
 - Coburn (Former President) & Schwartz (Chief Legal Officer)
 - \$25 Million Settlement with SEC
 - CTSH announces it will return 75% of its Free Cash Flow via share buybacks and dividends in 2019



News

- **April 2019: New CEO**
 - Previous CEO steps down; joins on the board as Vice Chairman.
 - Brian Humphries replaces D'Souza. Humphries former CEO of Vodafone, a British telecommunications company
 - Previous experience at Dell and Hewlett-Packard
- **June 2019: Acquisition of Zenith Technologies**



News

- **September 2019:** An additional executive is charged in the bribery case
 - Sridhar Thiruvengadam (Former COO)
 - CTSH releases AI Platform that processes insurance claims from natural disasters in record time
 - Recognized as an AI services leader by Forrester Research
 - Receives praise for investments in AI, willingness to go into uncharted territory



52 Week Performance



- **May 2019**
Projected Revenue Growth was 7-9%, projections were cut to 3.9-4.9%
- **May 2019** – Growth investors exit.



Business Segments



Segments

Digital Business

- Work with customers to reinvent existing businesses
- Create new businesses by innovating products

Digital Operations

- Help customers rethink their operating models and modernize their business
- Highly specialized domain expertise is important in creating industry – aligned solutions for customers' needs

Digital Systems & Technology

- Helps customers reshape their technology models to simplify, modernize, and secure the enabling systems that form the backbone of their business
- Application services



Segments



Healthcare

- Healthcare Tech
- Life Sciences



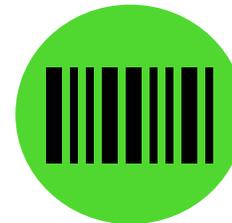
Financial Services

- Banking
- Insurance



Communication Media and Tech

- Communications and Media
- Technology



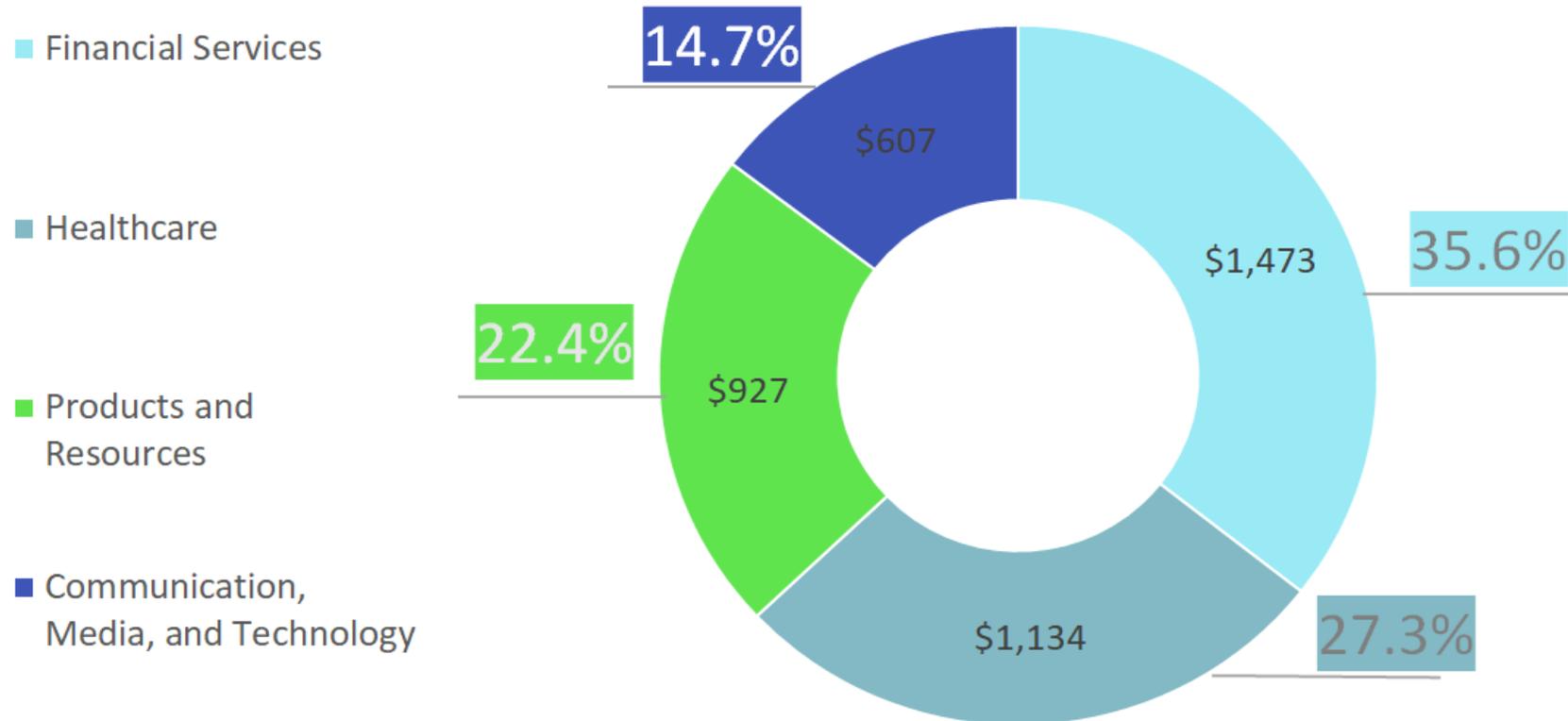
Products and Resources

- Retail & Consumer Goods
- Manufacturing & Logistics
- Travel & Hospitality
- Energy & Utilities

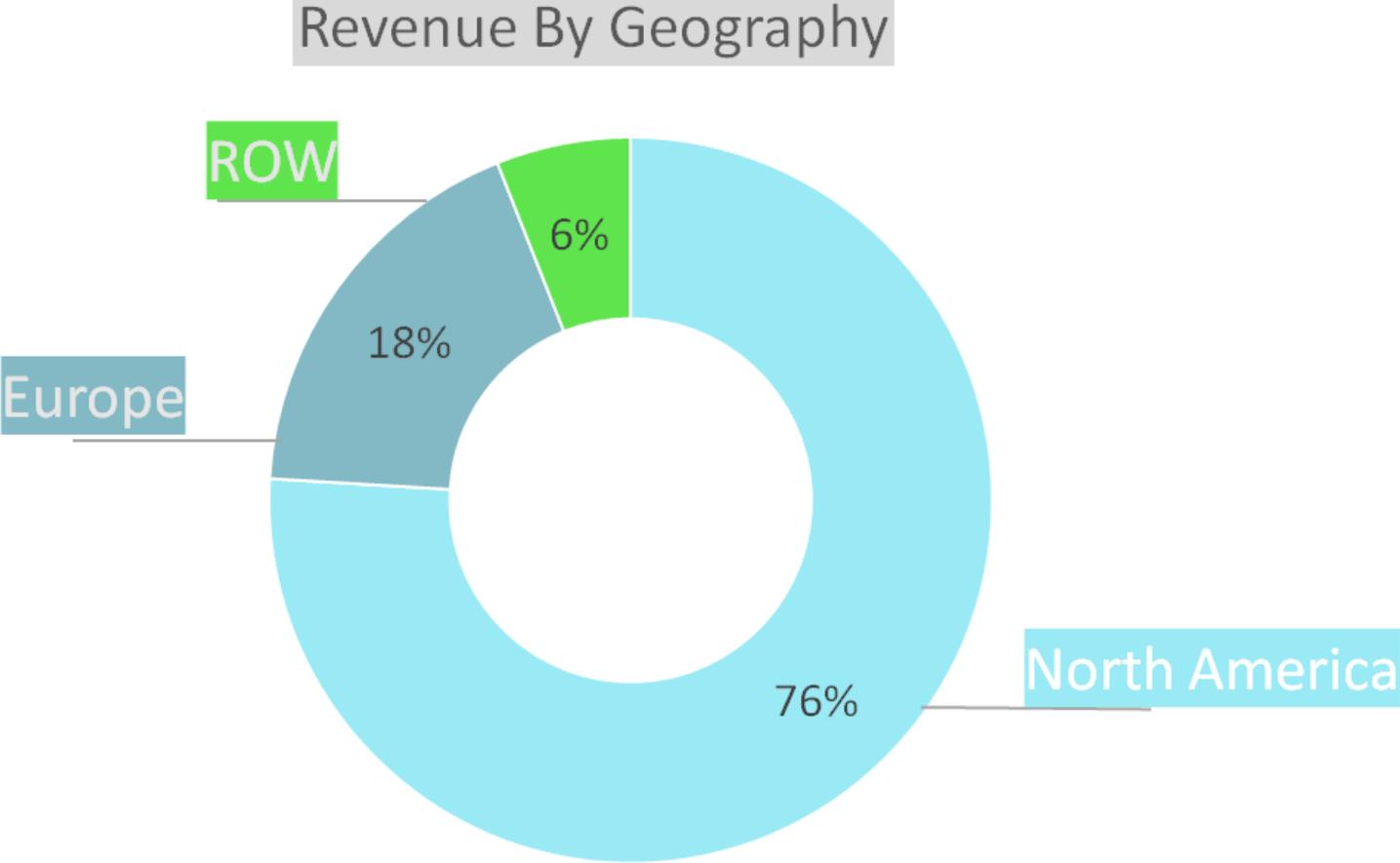


Revenue By Segments

Revenue Performance (In Millions)



Revenue by Geography



Outsourcing

- Common practice amongst those in the IT service Industry
- Decreases labor costs and increases the pool of qualified workers



Management



Management



CEO

Brian Humphries

- President of Enterprise Solutions at Dell EMC (2013-2017)
- CEO of Vodafone Business (2017-2018)



CFO

Karen McLoughlin

- Senior VP of Finance & Enterprise, Senior VP of Finance, VP of Global Financial Planning, VP Finance (Spherion), Director of Corporate Accounting (Ryder), Manager (Price Warehouse)



COO

**Srinivasan
Veeraraghavachary**

- Executive Vice President of Cognizant's Product and Resources business units



Chairman

Michael Patsolos-Fox

- CEO for Vidyo and Stroz Friedberg
- 32-year tenure | senior roles for McKinsey & Company



Economic Moat



Economic Moat

- Commitment to client satisfaction
- Two in a box operating model
- Client retention ratio – 95% to 98%
- 30% of Cognizant project teams are **at** the client's site
 - Dedicated to strong client relationships and better local understanding



Economic Moat

- Sacrifice some margins to reinvestment in:
 - Onshore and offshore senior leaders
 - Industry experts
 - MBAs
 - Flexible resource allocation
- Switching Costs are very high
 - All this makes clients reluctant to switch service providers



Risks



Risks

- Highly Competitive Market
- Immigration Changes - many employees need visas
 - "In the United States, the current administration has implemented policy changes to increase scrutiny of the issuance of new and the renewal of existing H-1B visa applications and the placement of H-1B visa workers on third party worksites, and has issued executive orders designed to limit immigration" - Cognizant's 10K
- Exchange rate volatility
- Indian political changes



Risks

- Failure to protect client and Cognizant data from cyberattacks
- Anti-outsourcing legislation
- Cognizant understands if it does not continue to innovate, it will become irrelevant
- Litigation



Acquisitions



Acquisitions

- Cognizant engages in multiple business combinations a year
- Inorganic growth through acquisitions add additional product offerings to consumers and satiates growth investors
- Generally translates to organic growth later on
- Each individual acquisition was not material to operations and cash flows
- 14 acquisitions since 2017



2019 Acquisitions

Four acquisitions for about \$453 million



A financial software company based in Ireland



Creative content agency specializing in creating original and branded content for digital, broadcast and social mediums based in the U.S. (clients include Google & Netflix)



A developer of services and solutions for the financial sector based in Finland



2019 Acquisitions



- Privately-held company headquartered in Ireland
- Specializes in implementing digital technologies to manage, control and optimize drug and medical device production
- Cognizant acquired Zenith for \$165 million



2018 Acquisitions

Five acquisitions for about \$1.1 billion



A provider of revenue cycle management solutions to the healthcare industry in the U.S.



A business advisory and data analytics service provider in Belgium and the Netherlands



2018 Acquisitions

Cognizant Softvision

A digital engineering and consulting company with significant operations in Romania and India that create custom cloud-based software, primarily for customers in the U.S.



U.S. based consulting company that helps companies plan, implement and optimize automated cloud-based business processes and technologies



Salesforce services provider in Australia



2017 Acquisitions

Five acquisitions for about \$233 million



BRILLIANTSERVICE

A Japanese intelligent products and solutions company specializing in digital strategy, product design and engineering, the internet of things, and enterprise mobility



A U.S. healthcare management consulting firm



2017 Acquisitions



A leading national provider of business process services to the U.S. government healthcare market



A provider of digital experience and marketing solutions for some of the world's most recognized brands

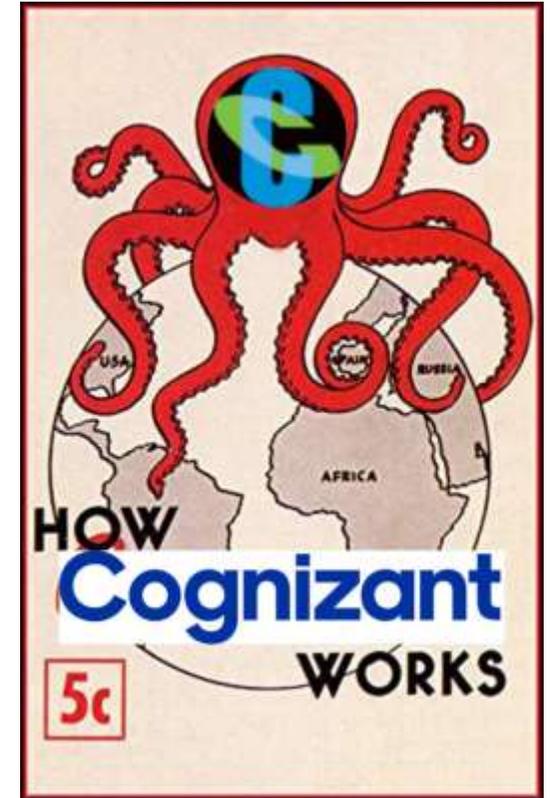


An independent full-service digital agency in the UK specializing in customer experience, digital strategy, technology and content creation



HEY! Why all the Acquisitions?

- Cognizant seeks to improve its marketability and competitive advantage by improving their product offerings in a boundless global industry
- If it adds additional features, systems, or geographic coverage to Cognizant's portfolio - Cognizant won't shy away from an acquisition
- There is risk associated in being too relaxed when acquiring companies
- Management understands this growth is inorganic



Growth Opportunities

- Many opportunities for expansion
- Geographic expansion
- Expansion into new industries such as the public sector
- Emerging digital technologies allowing them to gain competitive advantages
- Training or hiring of new IT experts or 'on site' professionals to aid customer retention



Outlook



Stewardship

- Collectively, all key insiders own approximately 1% of Cognizant's outstanding shares, which isn't particularly high
- Initiated a capital return plan in fiscal 2017, helping to alleviate growth-at-any-cost concerns
- "Despite the managerial change, we don't expect any drastic transformational approach at Cognizant..."



Buybacks & Dividends: Quarter 2

- Paid a \$0.20 dividend per share on August 30, 2019
- \$1.037 billion in share repurchases
- \$116 million in dividend payments

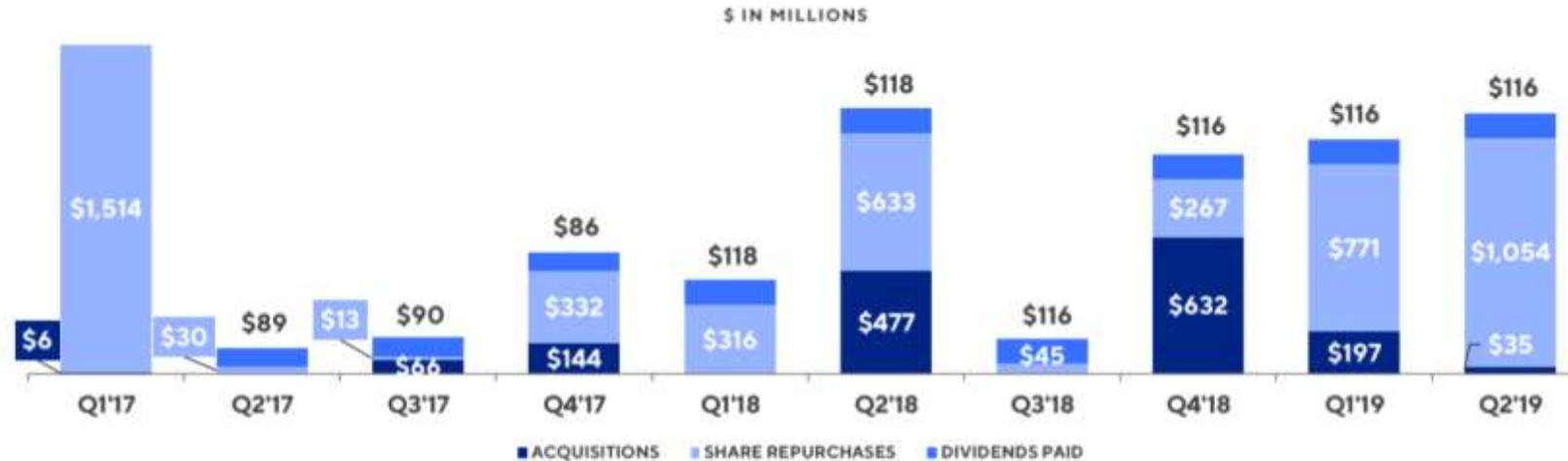


514.70	539.71	560.49	570.05	576.02	583.34	594.46	607.88	606.21	603.36	607.73	609.40	609.00	608.00	588.00	577.00	570.00	565.00	Common Shs Outst'g ^B	550.00
..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	.45	.80	.80	.88	Div'ds Decl'd per sh



Reinvestment Summary

Cash Flow, Balance Sheet & Capital Allocation



(\$ IN MILLIONS)	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19
FREE CASH FLOW ¹	\$211	\$461	\$695	\$756	\$292	\$549	\$768	\$606	\$163	\$479
CASH AND SHORT-TERM INVESTMENTS ^{2,3}	\$4,274	\$4,378	\$4,713	\$5,056	\$4,989	\$4,247	\$4,763	\$4,511	\$3,668	\$3,003

¹ Free Cash Flow is not a measurement of financial performance prepared in accordance with GAAP. See "About Non-GAAP Financial Measures" at the end of this earnings supplement for more information and a reconciliation to the most directly comparable GAAP financial measure.

² Includes \$348, \$419, \$405, \$423, \$427 and \$429 million in restricted time deposits in Q1 '18, Q2 '18, Q3 '18, Q4 '18, Q1 '19 and Q2 '19, respectively.

³ Includes \$159 million in restricted cash in Q1 '18.

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Cognizant



Growth Stock or Long Term Compounder?

- High growth rates made Cognizant an extremely attractive to certain investors
- Cognizant's high growth is slowing, however financially the company remains healthy
- Future turbulence due to flight of Growth Investors could cause fluctuations in share price
- Cognizant's ever widening system offerings and sticky client base adds to its competitive advantage



Management's Guidance

Guidance^{1,4}

REVENUE	<ul style="list-style-type: none">• 3Q '19: 3.8-4.8% Y/Y CC²• FY19: 3.9-4.9% Y/Y CC³
FY19 ADJUSTED OPERATING MARGIN⁵	<ul style="list-style-type: none">• Approximately 17%
FY19 TAX RATE	<ul style="list-style-type: none">• 24-26%
FY19 SHARE COUNT	<ul style="list-style-type: none">• Approximately 562 million
FY 19 ADJUSTED DILUTED EPS⁵	<ul style="list-style-type: none">• \$3.92-\$3.98

¹ Guidance is as of July 31, 2019.

² 3Q'19 revenue guidance based on current exchange rates translates to growth of 2.9-3.9% (\$4.20B-\$4.24B), reflecting our assumption of a negative 90 bps for foreign exchange.

³ FY19 revenue guidance based on current exchange rates translates to growth of 2.8-3.8% (\$16.57B-\$16.73B), reflecting our assumption of a negative 110 bps for foreign exchange.

⁴ Guidance does not account for any potential impact from events such as changes to immigration and tax policies.

⁵ A full reconciliation of Adjusted Operating Margin and Adjusted Diluted EPS guidance to the corresponding GAAP measures on a forward-looking basis cannot be provided without unreasonable efforts as we are unable to provide reconciling information with respect to unusual items, net non-operating foreign currency exchange gains or losses, and the tax effects of these adjustments.



Qualitative Factors

What Kind of Company is it	Competitive Advantage
Is it easily Explained?	NO
Unionized	Slightly
Does it require heavy capital infusion?	No
Can inventory become obsolete?	No
Does it require heavy R&D	No
Are there Chronic One time Write offs?	No
Is the company able to raise price to offset inflation?	Yes
Will the company sell more in the future	Yes
If you had 1 billion dollars could you create an effective competitor?	Maybe



Financials

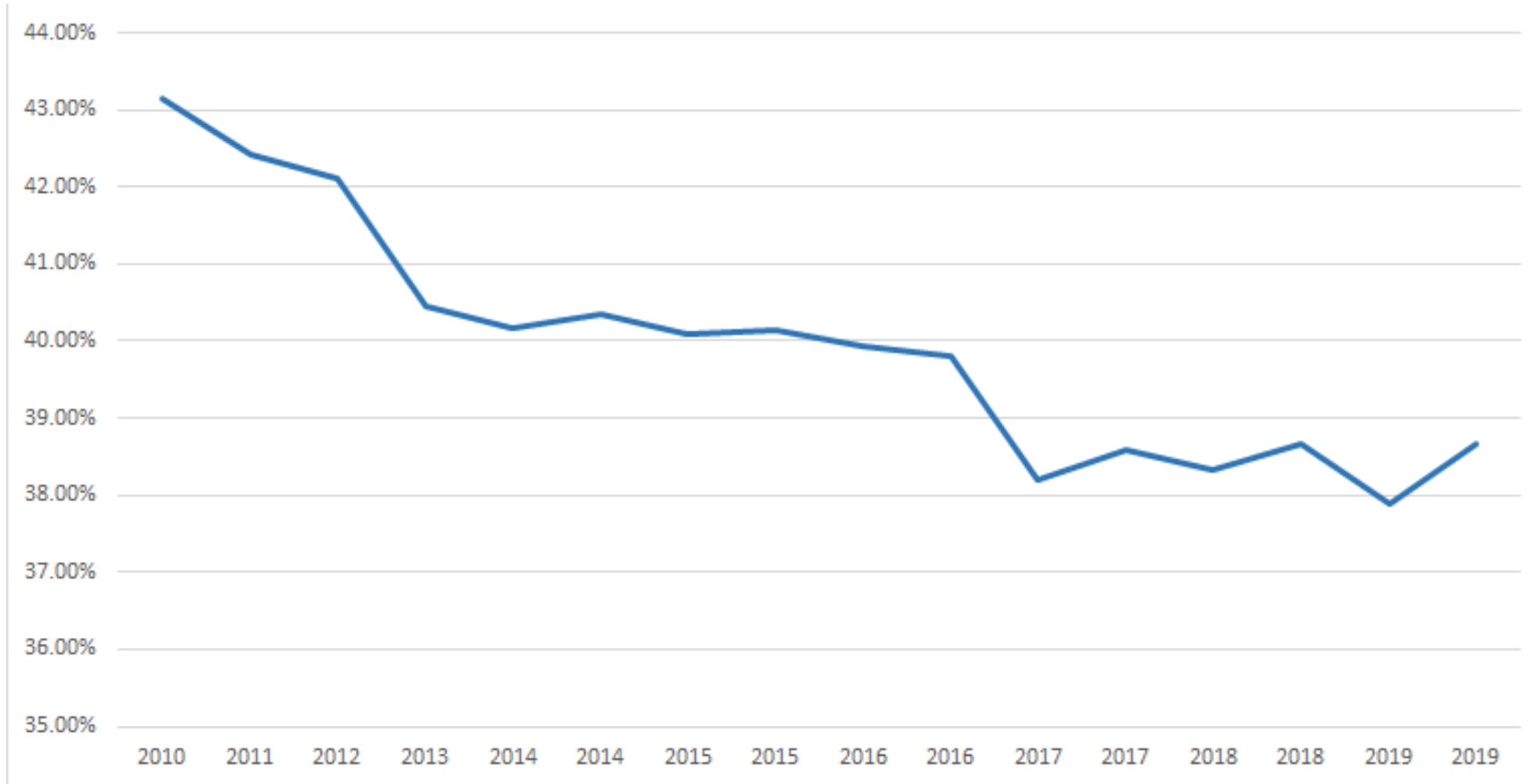


Interpretation of Financial Statements

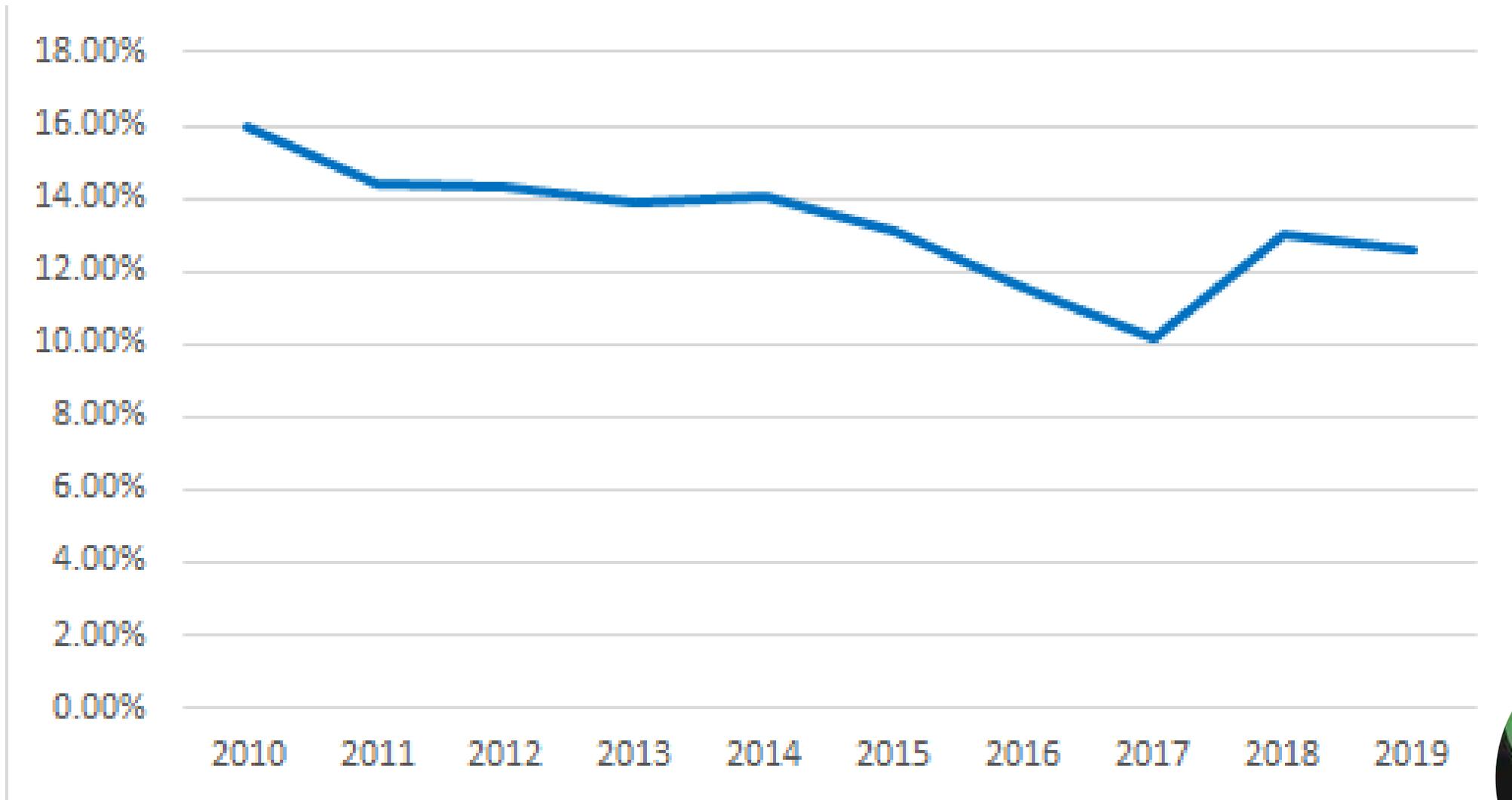
	Value	Minimum Threshold	Pass or Fail
Gross Profit Margin	38%	>20%	Pass
%SGA	50%	<80%	Pass
%R&D	0%	<10%	Pass
%Depreciation	8%	<10%	Pass
Interest % of OP	1%	<15%	Pass
Net Profit Margin	13%	>10%	Pass
Current Ratio	.5	>1 Year	Pass
Obligation Ratio	Today	<5 Years	Pass
ROE	19%	>15%	Pass
ROC	18%	>15%	Pass
Dividend Payout Ratio	22%	<60%	Pass
Preferred Stock	None	None	Pass
Capital Expenditures	2%	<25%	Pass
Net Earnings Trend	Up	Up	Pass
Retained Earnings trend	Up	Stable	Fail



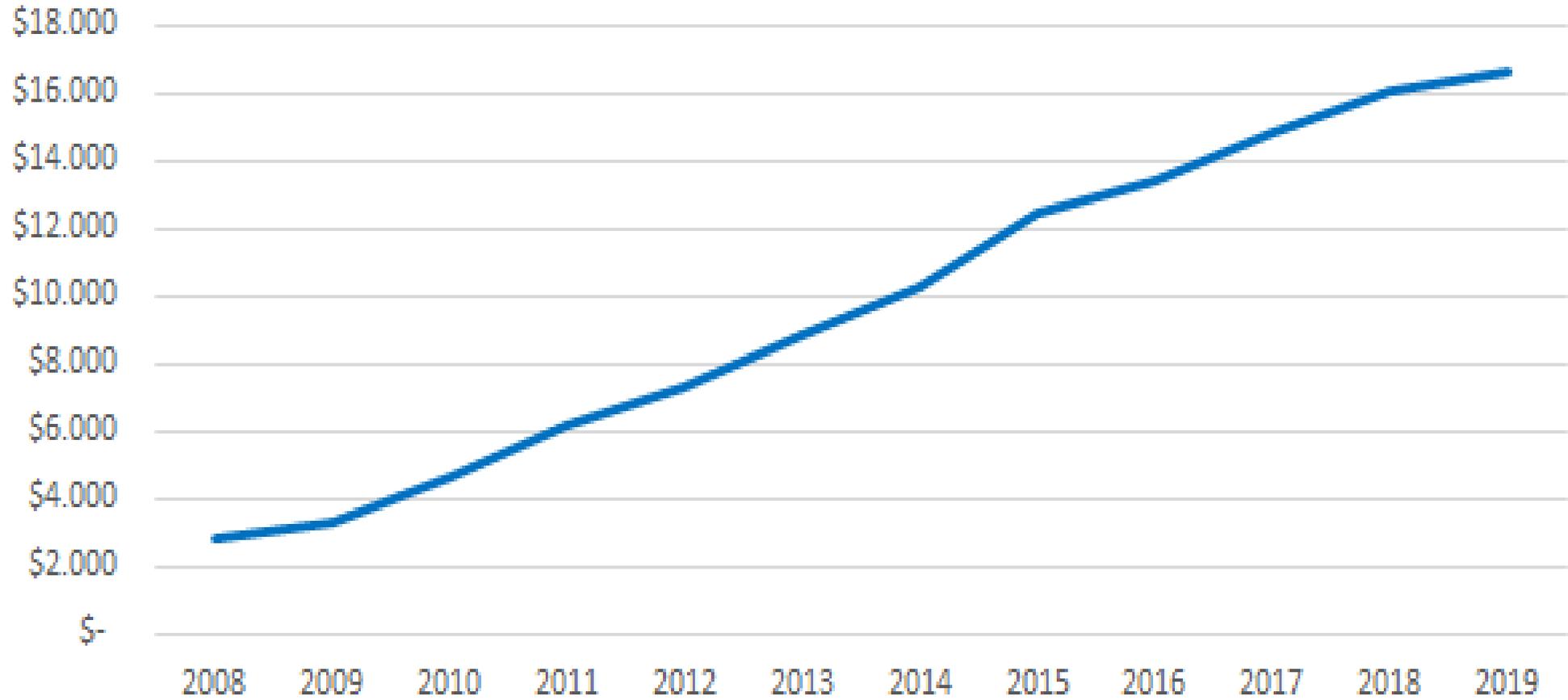
Gross Profit Margin



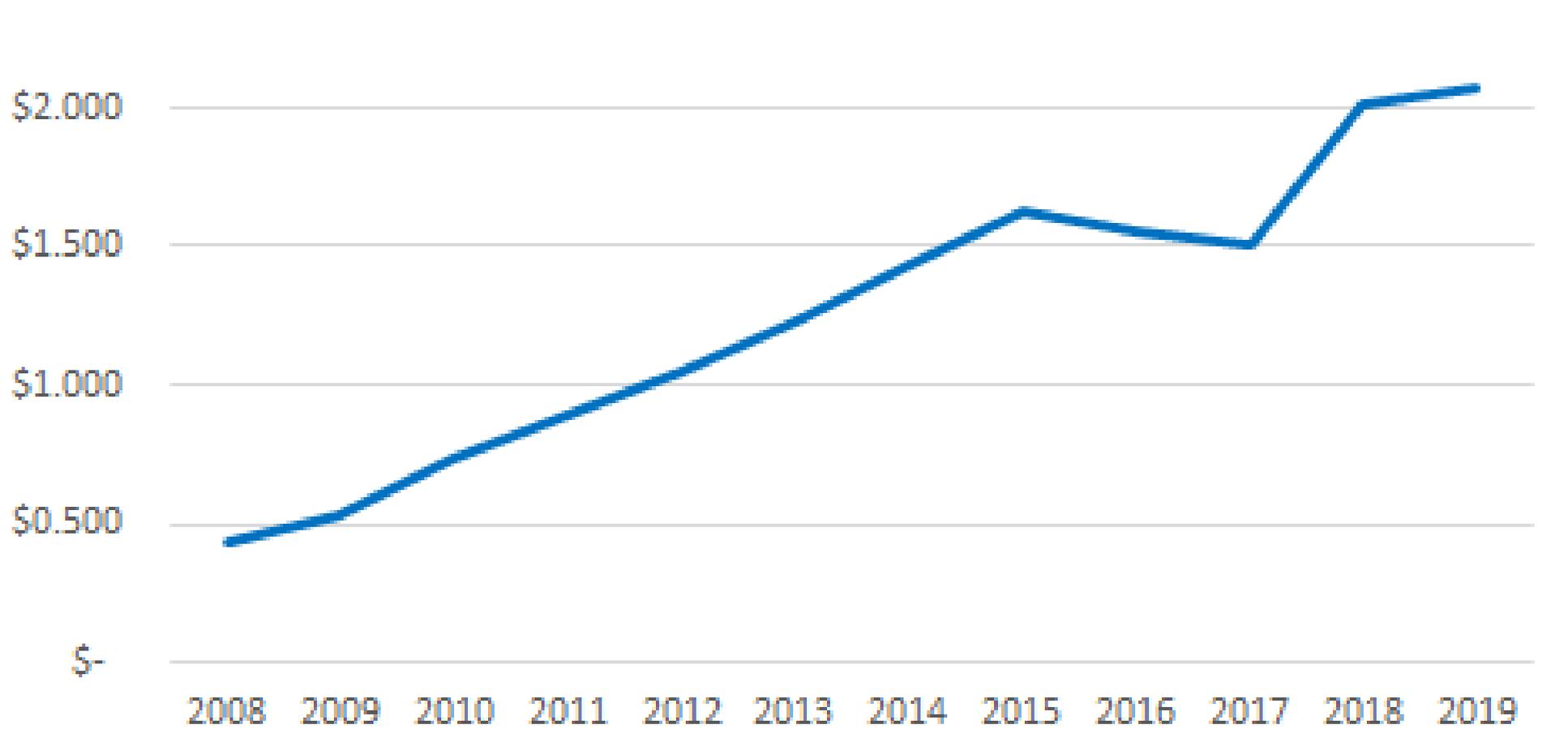
Net Profit Margin



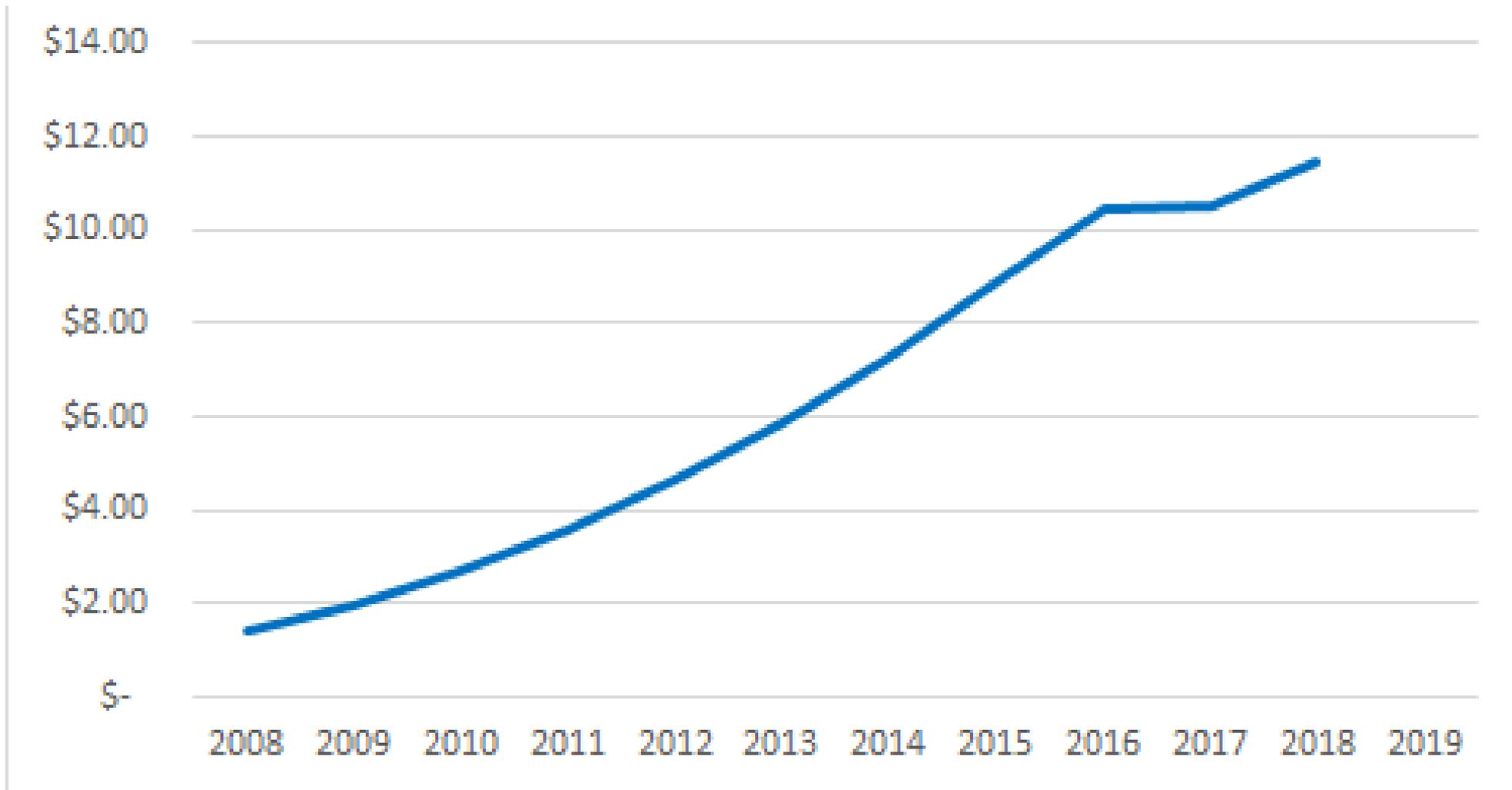
Revenue



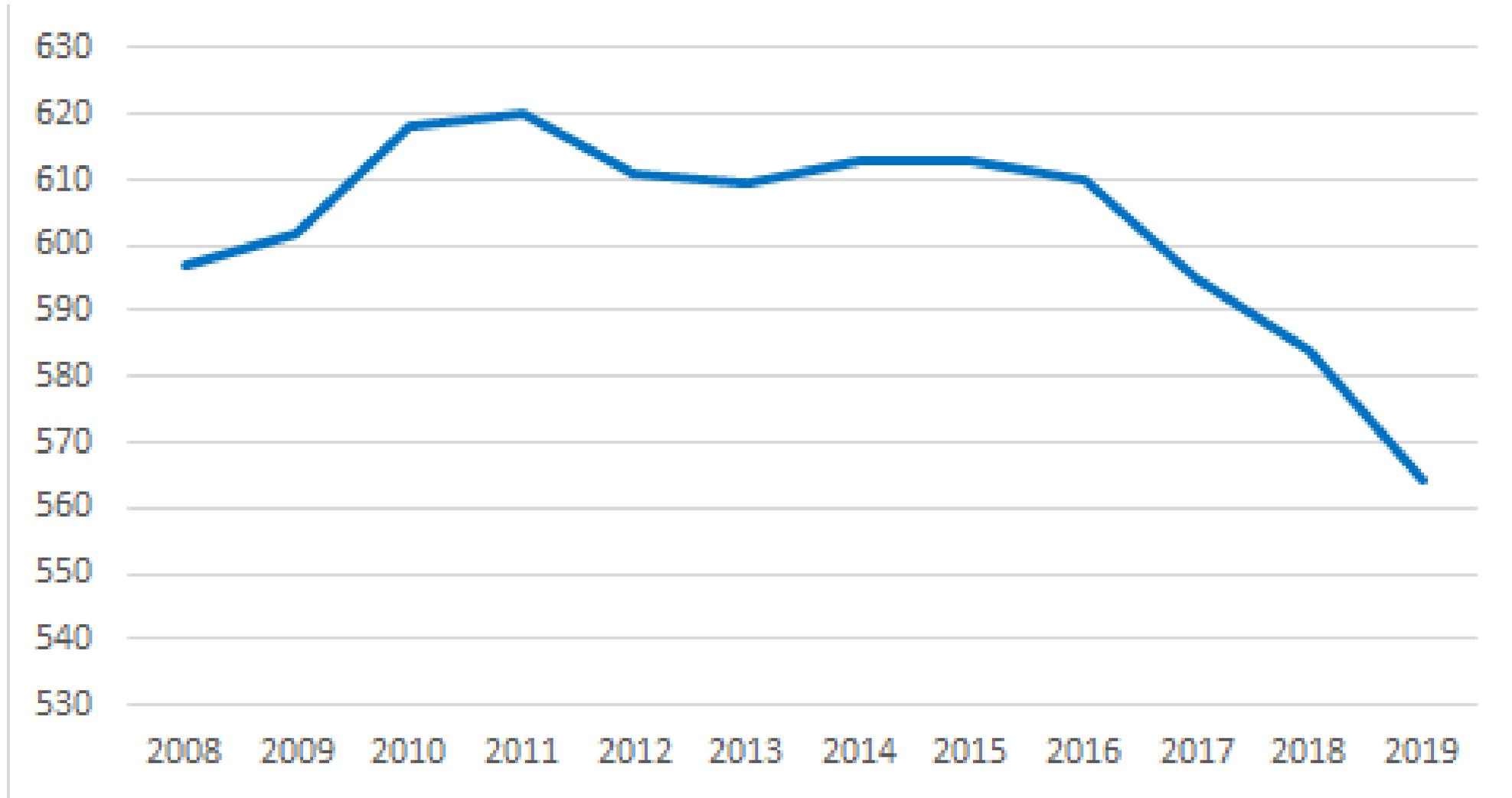
Net Income



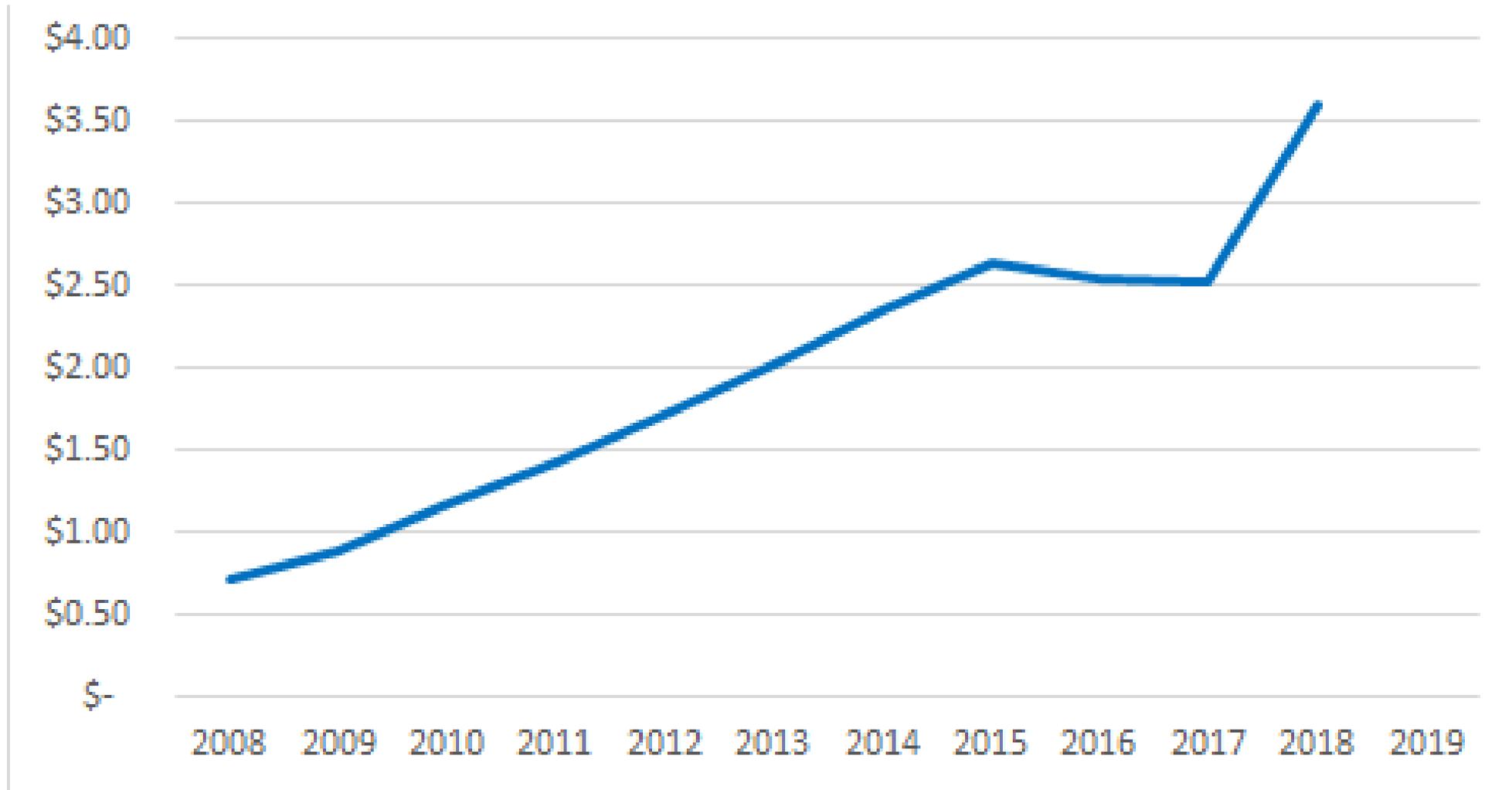
Retained Earnings (In Billions)



Diluted Shares Outstanding



Diluted EPS



Return on Equity



Return on Invested Capital



Obligation Ratio

$$\frac{(\text{Long Term Debt} + \text{Leases}(7) + \text{Preferred Stock} + \text{Pension Obligation} - \text{Cash Assets})}{\text{Net Income}}$$

Net Income

$$\frac{(\$718\text{m} + (\$226\text{m})(7) + 0 + 0 - \$3003\text{m})}{\$2280}$$

\$2280

Obligation Ratio = Negative 0.3 years



DuPont Historical

	TAT	NPM	FLM	ROE
TTM	1.08	12%	1.25	16.73%
2018	1.01	13%	1.39	18.39%
2017	.97	10%	1.43	14.10%
2016	.95	12%	1.33	14.48%



DuPont Industry

	TAT	NPM	FLM	ROE
Cognizant	1.08	12%	1.25	17%
	.35	16%	7.76	46%
Infosys	1.02	18%	1.32	24%
	1.56	11%	2.05	38%

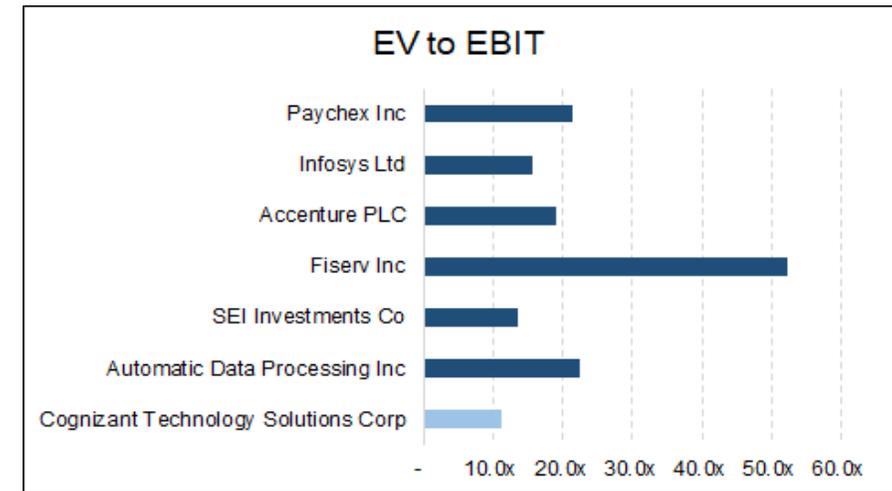
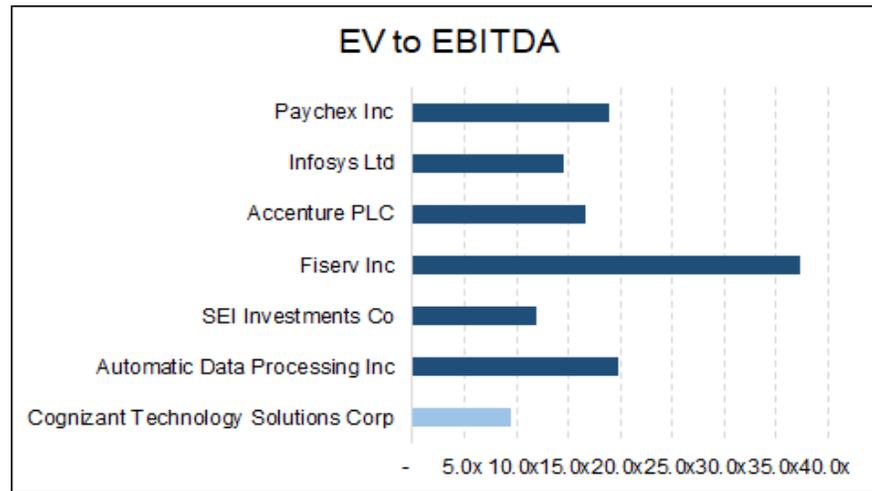
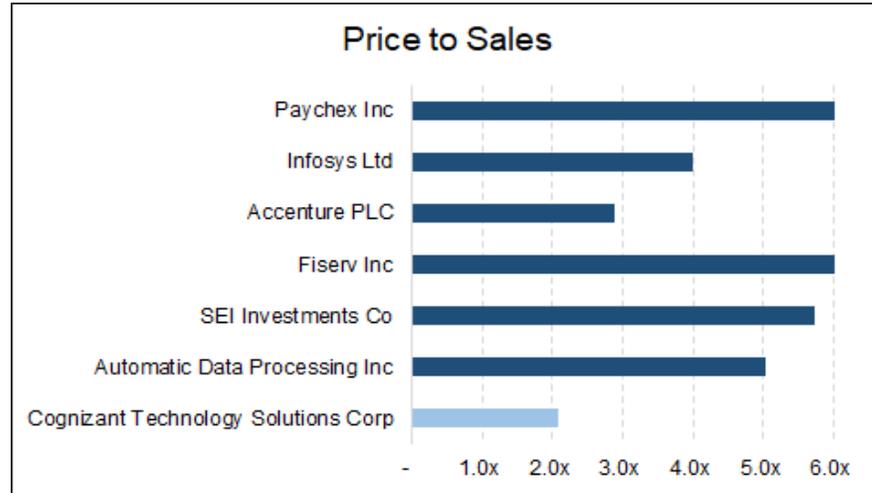


Industry Comparison

	Market Cap	Sales	ROE	Op. Margin	Net Margin	10 Yr Sales Growth
Cognizant	\$34.13B	\$16.46B	18.95%	15.77%	12.00%	19.90%
	\$69.54B	\$15.18B	46.18%	21.34%	19.50%	6.30%
Infosys	\$40.11B	\$12.10B	24.70%	22.25%	18.00%	15.00%
	\$123.59B	\$43.27B	39.07%	14.20%	11.00%	8.00%



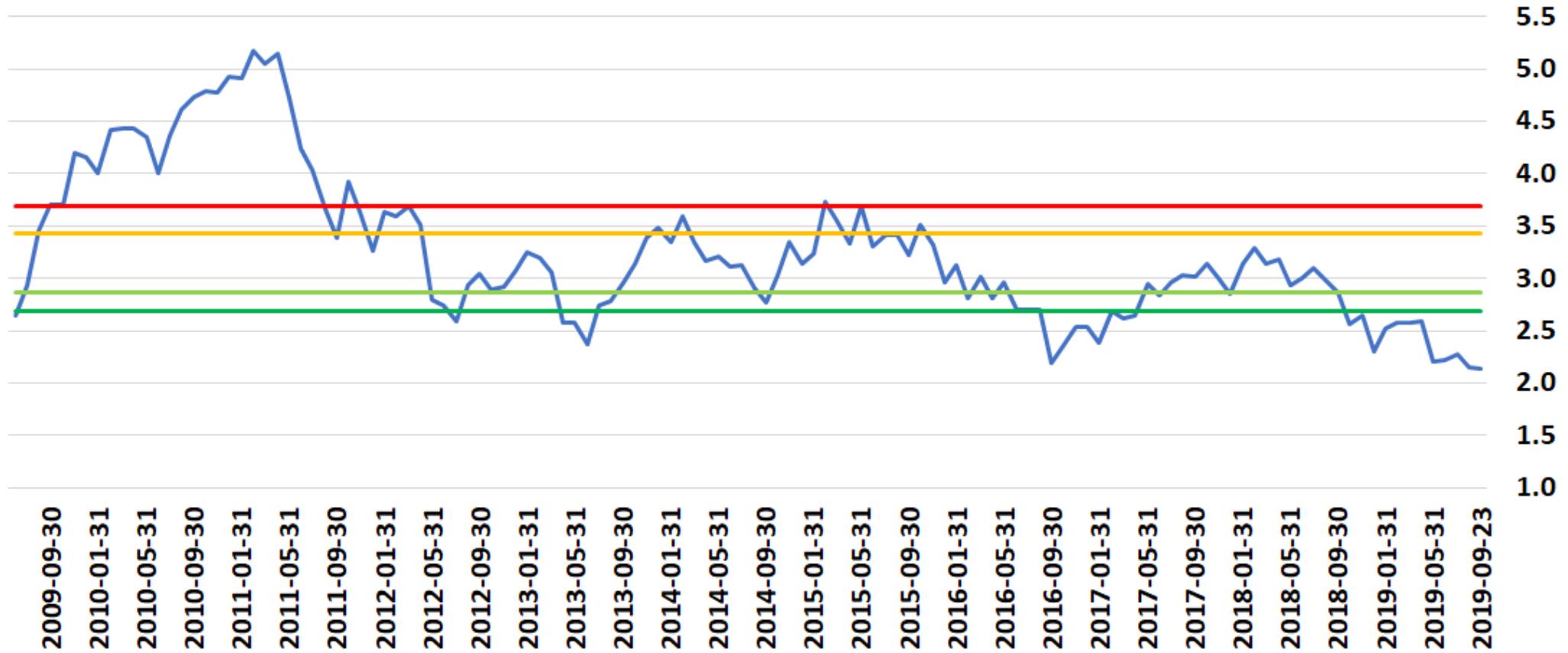
Industry Valuation



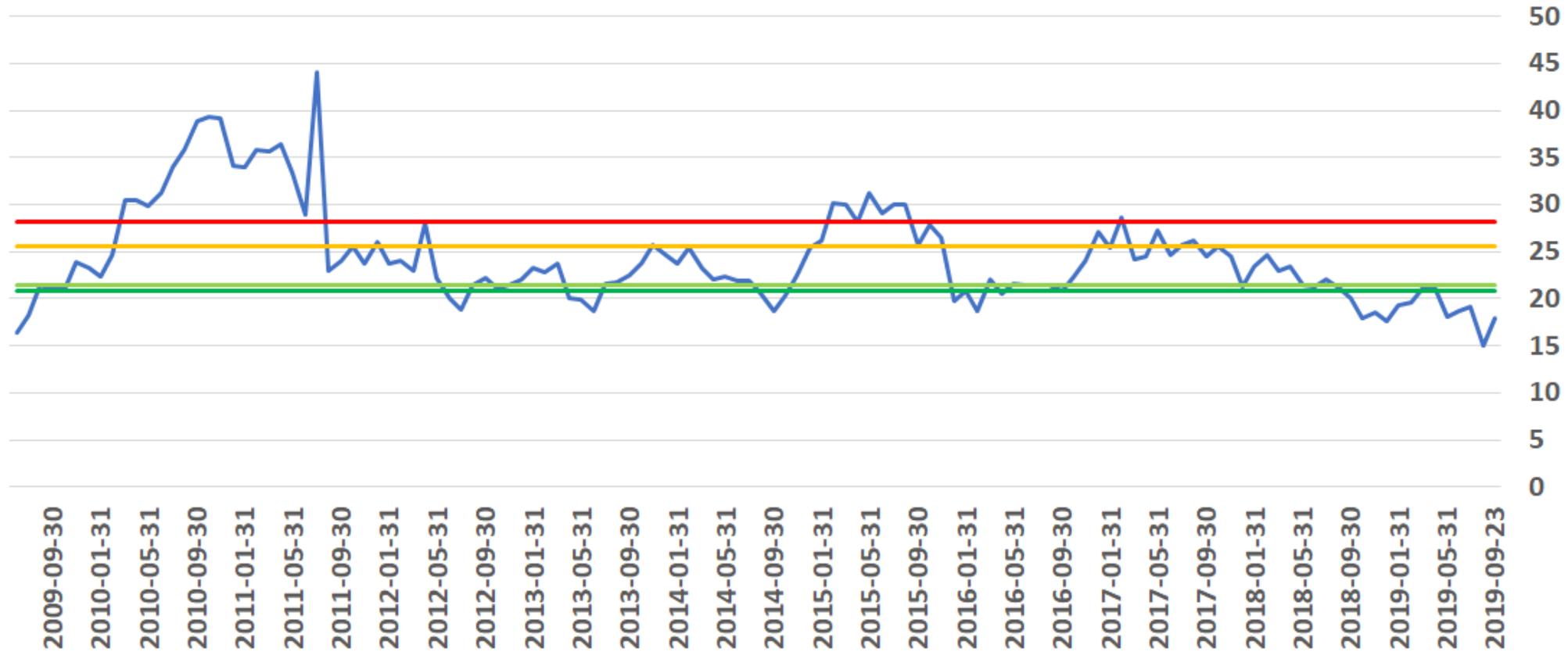
Value Bands



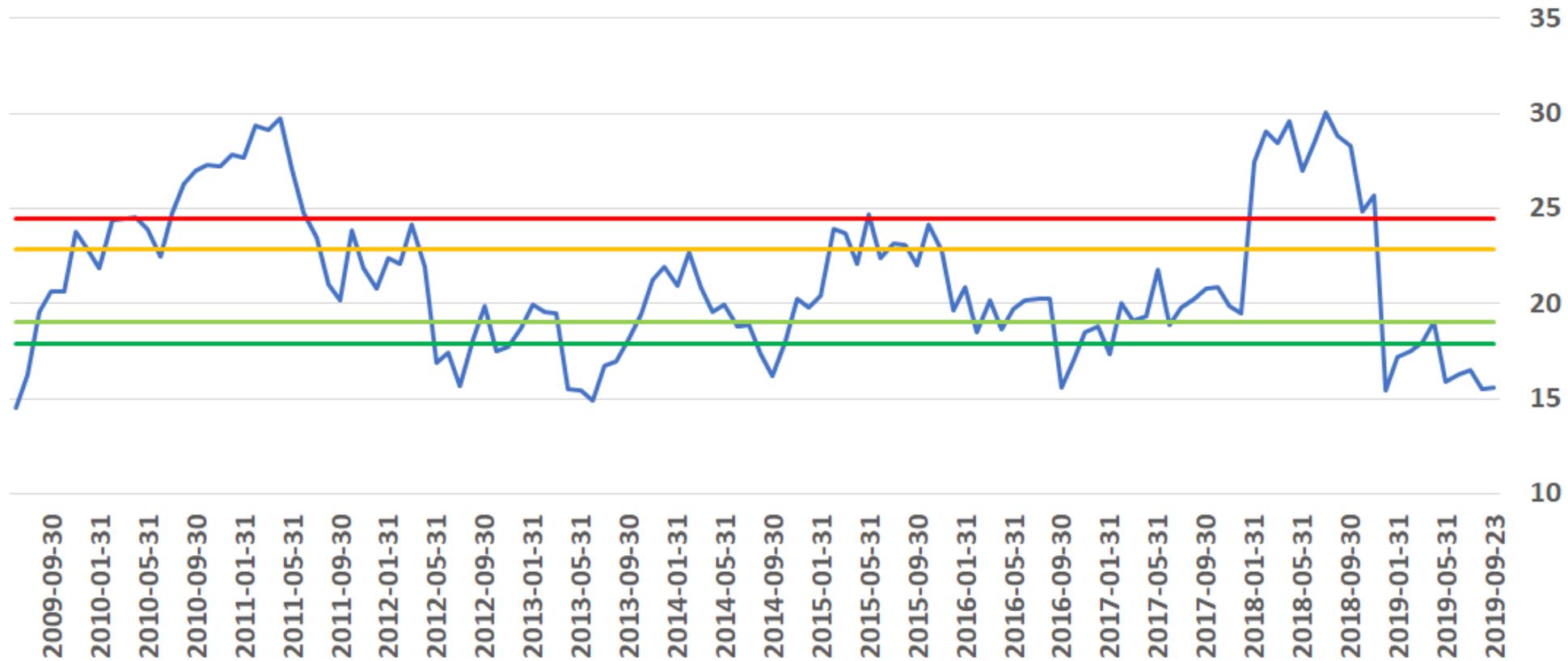
Price/Sales



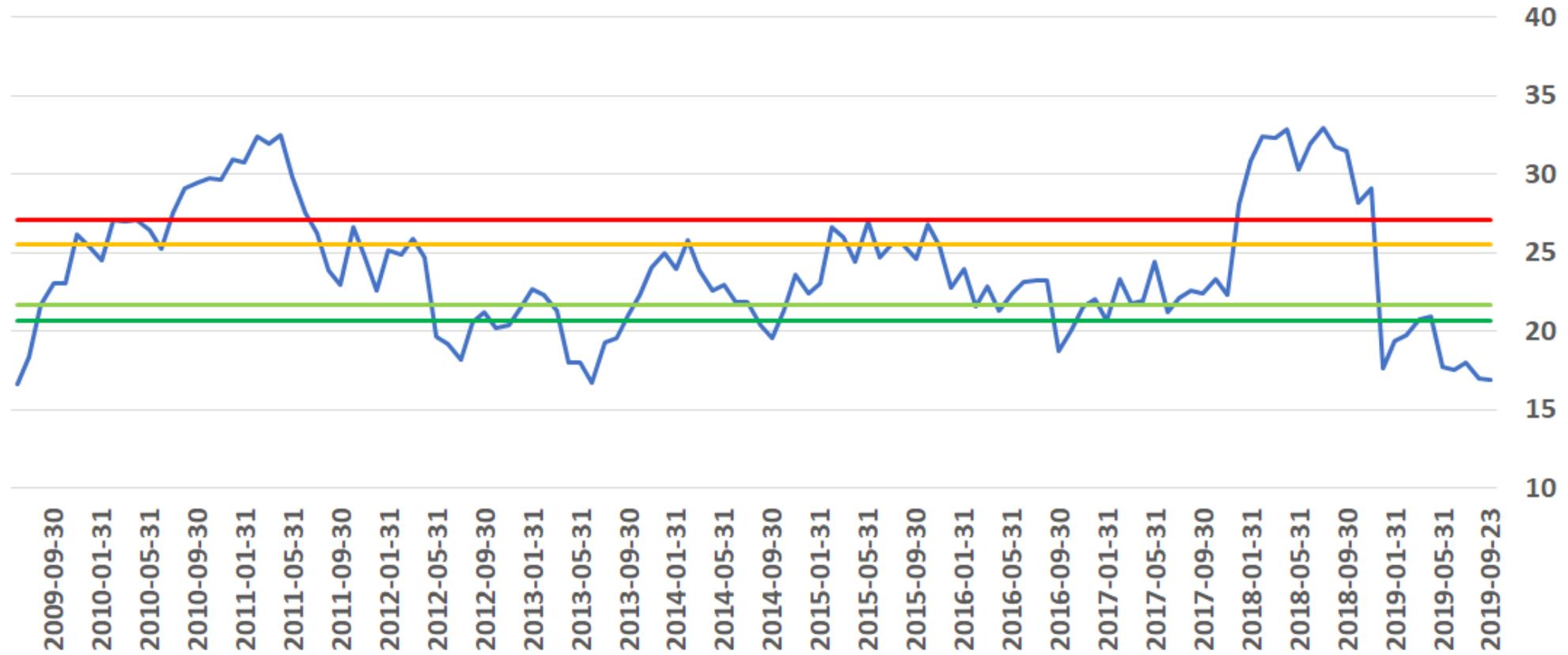
Price/Owner's Earnings



Price/Earnings less Cash



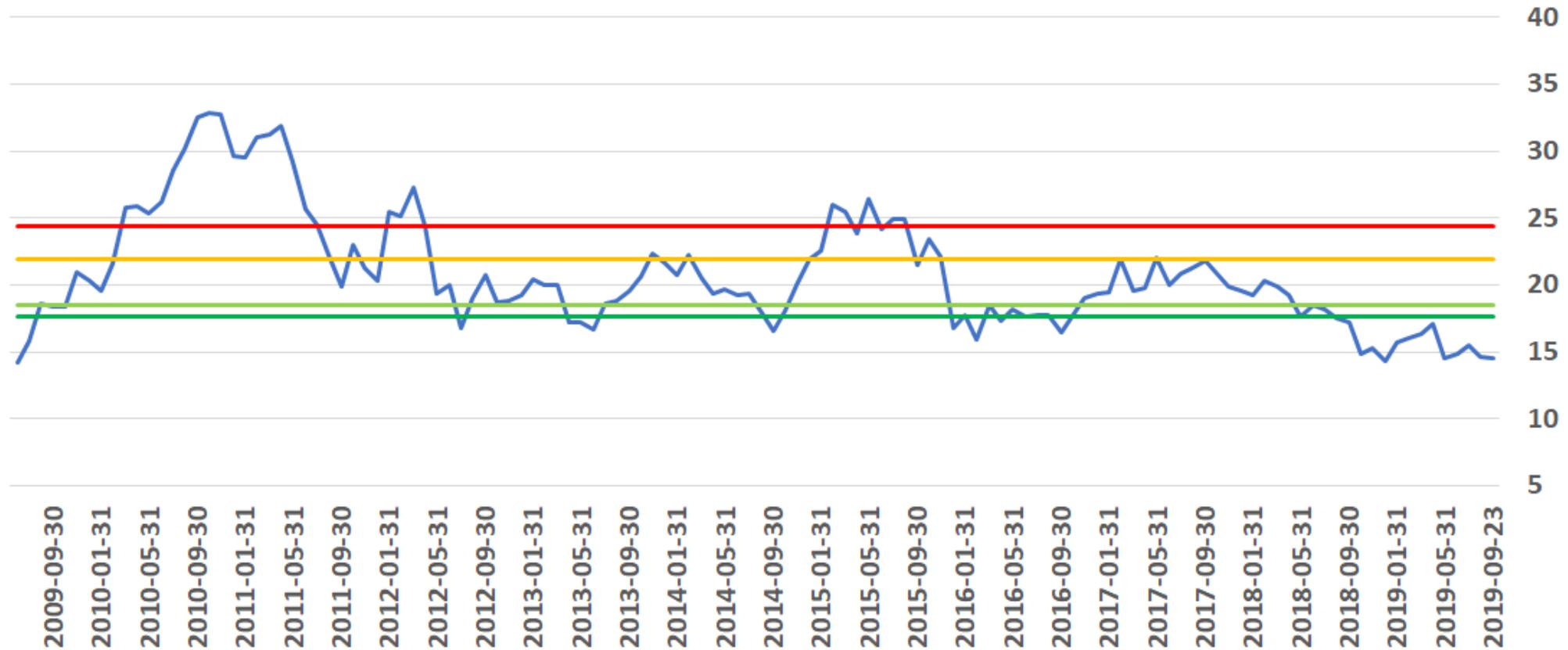
Price/Earnings



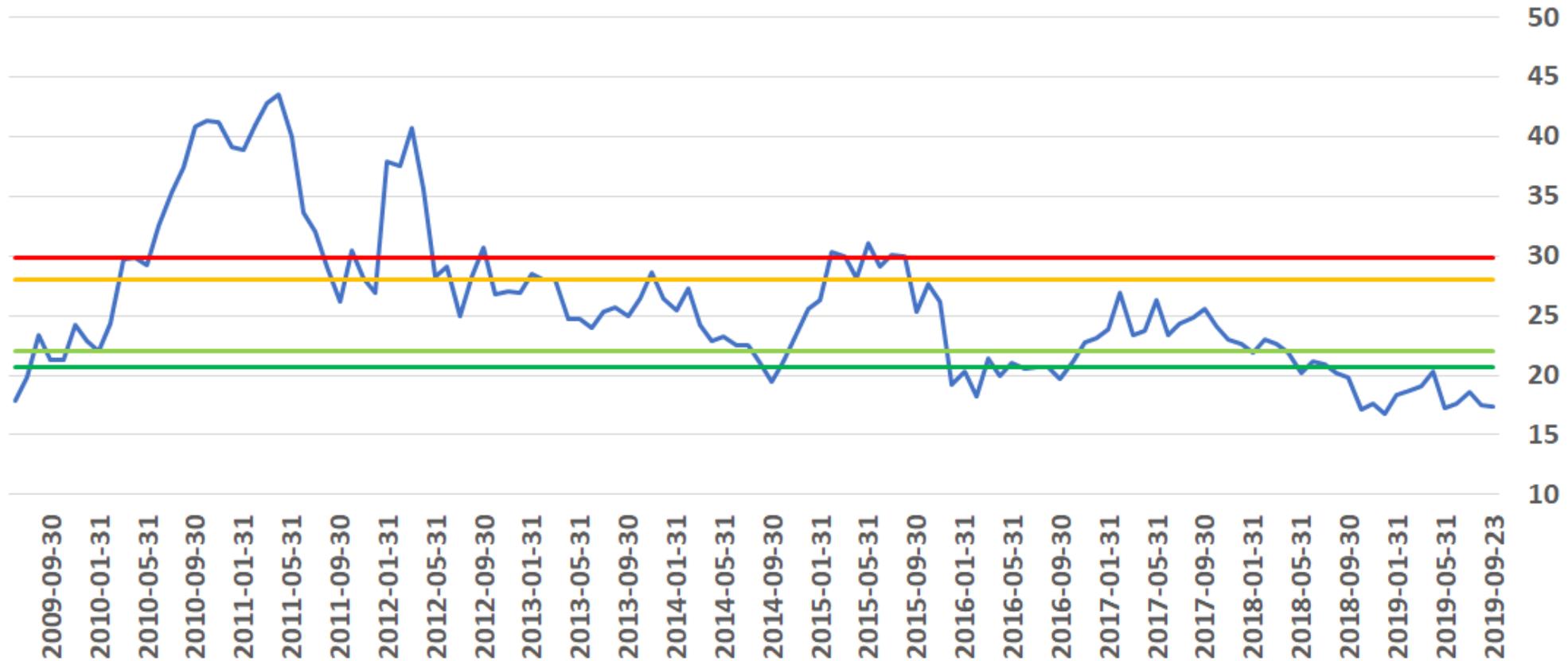
Price/Book



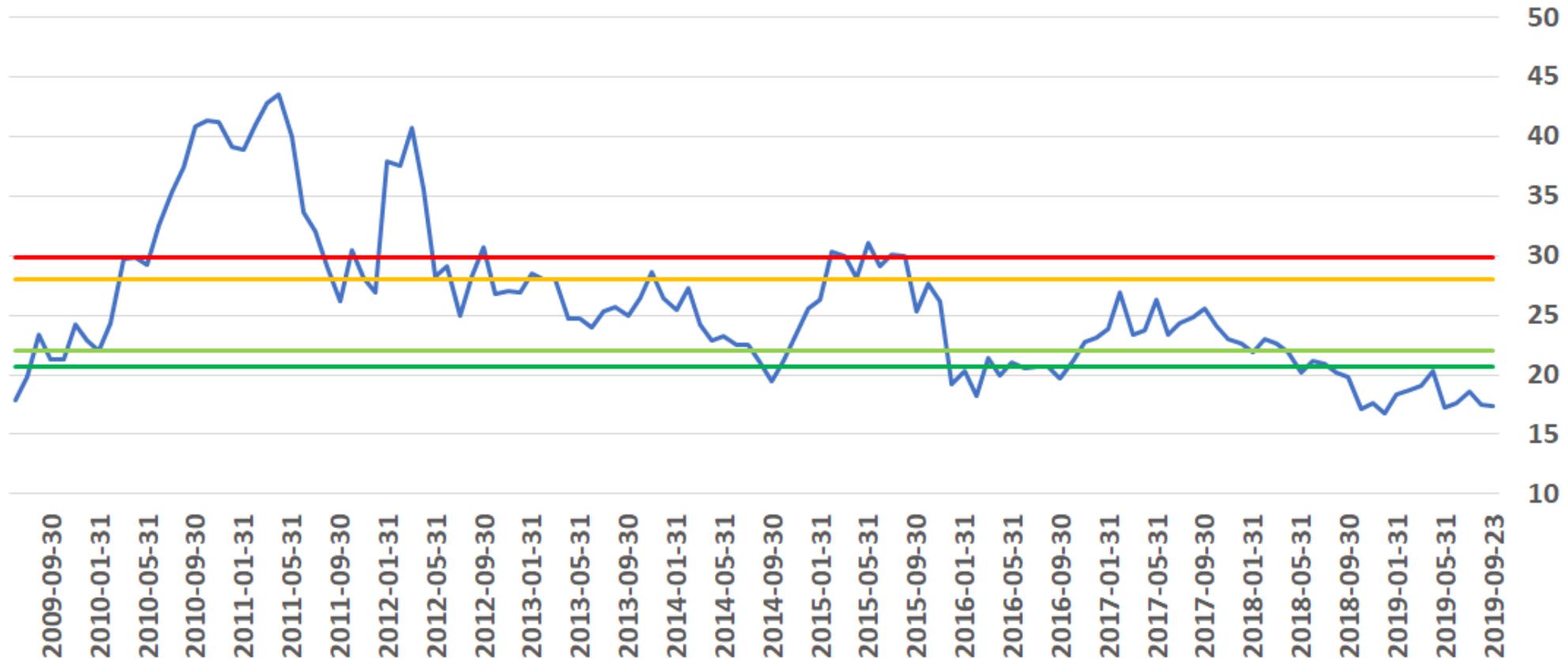
Price/Cash Flow



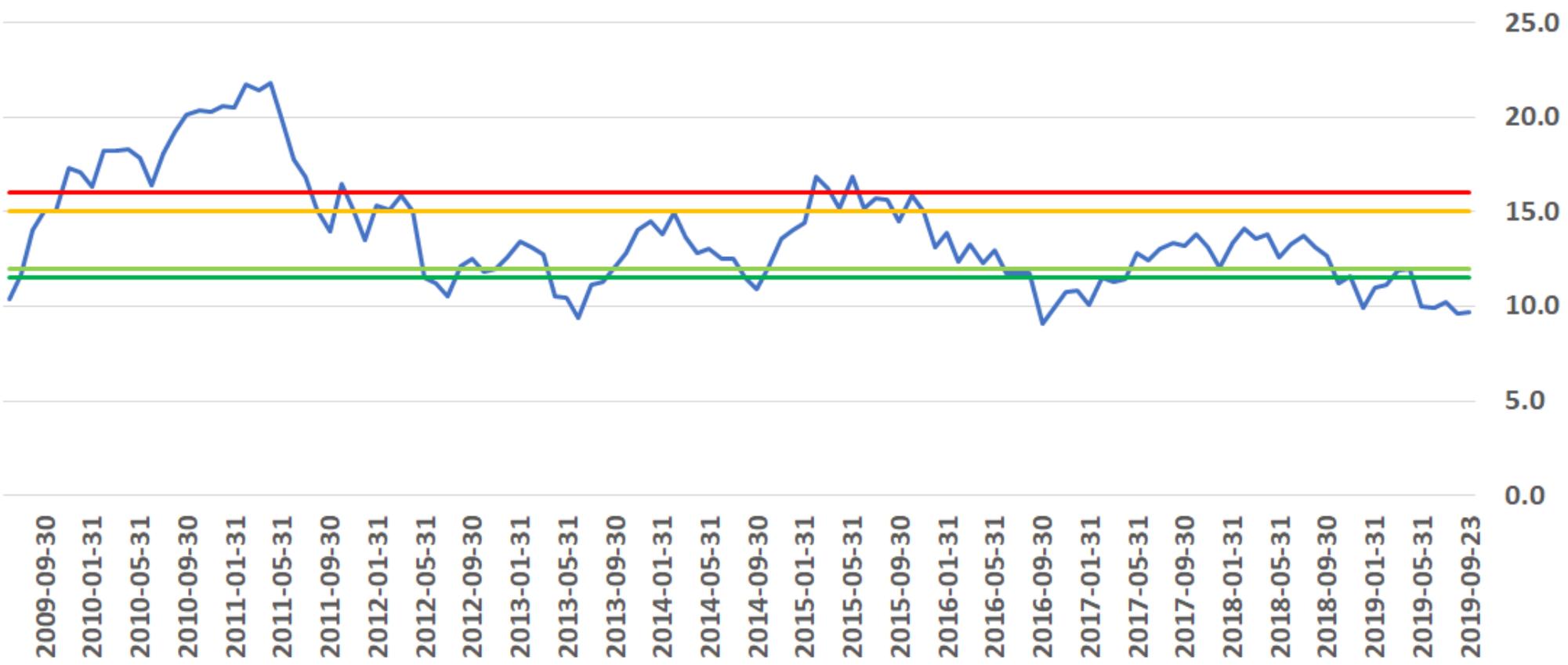
Price/Free Cash Flow



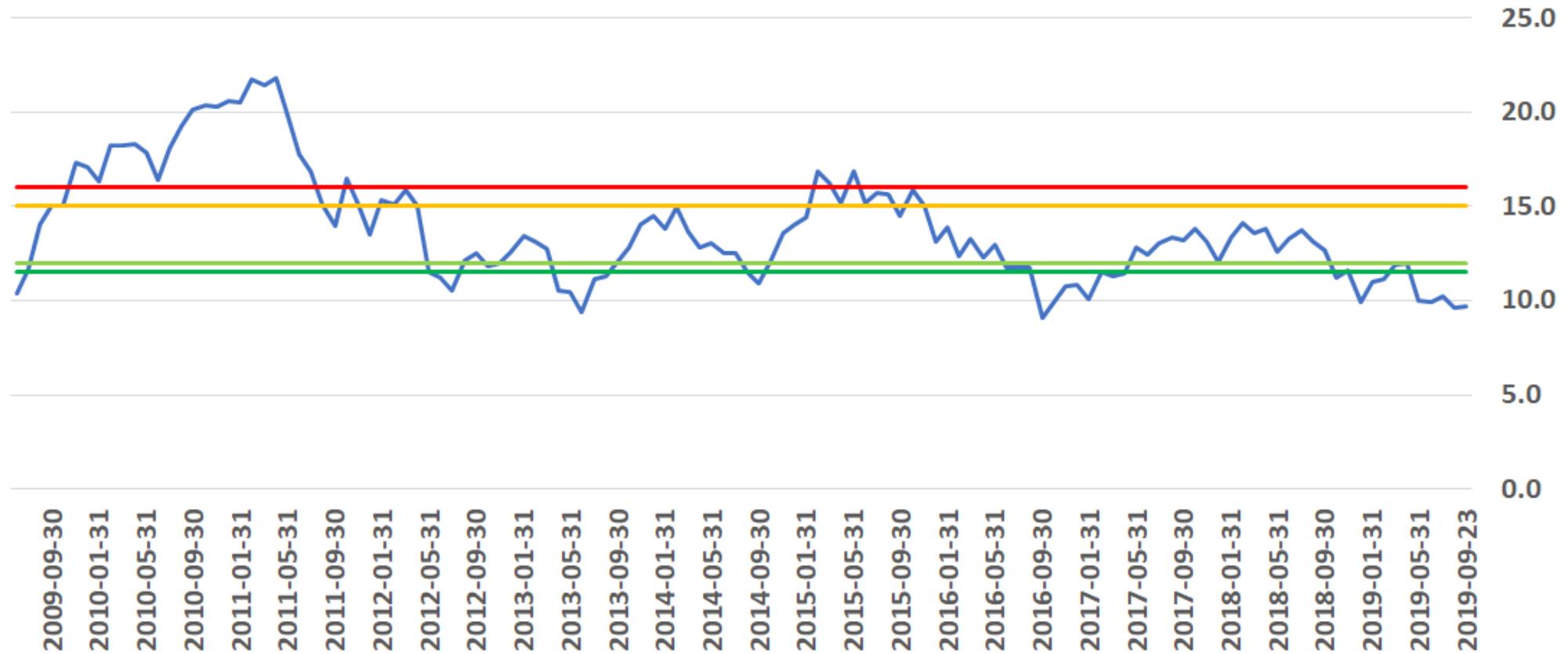
Enterprise Value/Revenue



Enterprise Value/EBITDA



Enterprise Value/EBIT



Discounted Cash Flows



DCF – Bearish Assumptions

Stage 1: Parameters

Earnings per Share (EPS)	\$3.61
Expected Growth Rate (10 Years)	8.50%
Terminal Growth Rate	4.00%
Years of Terminal Growth	10
Discount Rate	10.00

Stage 2: Results

Fair Value	\$48.31
Margin of Safety	-22.21%



DCF – Base Assumptions

Stage 1: Parameters

Earnings per Share (EPS)	\$3.61
Expected Growth Rate (10 Years)	12.50%
Terminal Growth Rate	4.00%
Years of Terminal Growth	10
Discount Rate	10.00%

Stage 2: Results

Fair Value	\$74.57
Margin of Safety	20.80%



DCF – Base Assumptions

Stage 1: Parameters

Earnings per Share (EPS)	\$3.61
Expected Growth Rate (10 Years)	15.00%
Terminal Growth Rate	4.00%
Years of Terminal Growth	10
Discount Rate	10.00%

Stage 2: Results

Fair Value	\$88.37
Margin of Safety	33.17%



DCF – Bullish Assumptions

Stage 1: Parameters

Earnings per Share (EPS)	\$3.99
Expected Growth Rate (10 Years)	20.00%
Terminal Growth Rate	4.00%
Years of Terminal Growth	10
Discount Rate	9.00%

Stage 2: Results

Fair Value	\$151.66
Margin of Safety	60.31%



Conscious Investor



10 Year Growth

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TTM	Years
EPS (\$)	0.890	1.190	1.430	1.720	2.020	2.350	2.650	2.560	2.530	3.600	3.990	10
SPS (\$)	5.52	7.56	10.1	10.72	12.92	14.88	18.09	19.57	25.19	24.95		10

HGROWTH	STAEGR
14.49%	88.72%
18.48%	94.85%



6 Year Growth

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TTM	Years
EPS (\$)	0.890	1.190	1.430	1.720	2.020	2.350	2.650	2.560	2.530	3.600	3.990	6
SPS (\$)	5.52	7.56	10.1	10.72	12.92	14.88	18.09	19.57	25.19	24.95		6

HGROWTH	STAEGR
9.29%	93.13%
17.06%	97.98%



4 Year Growth

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TTM	Years
EPS (\$)	0.890	1.190	1.430	1.720	2.020	2.350	2.650	2.560	2.530	3.600	3.990	4
SPS (\$)	5.52	7.56	10.1	10.72	12.92	14.88	18.09	19.57	25.19	24.95		4

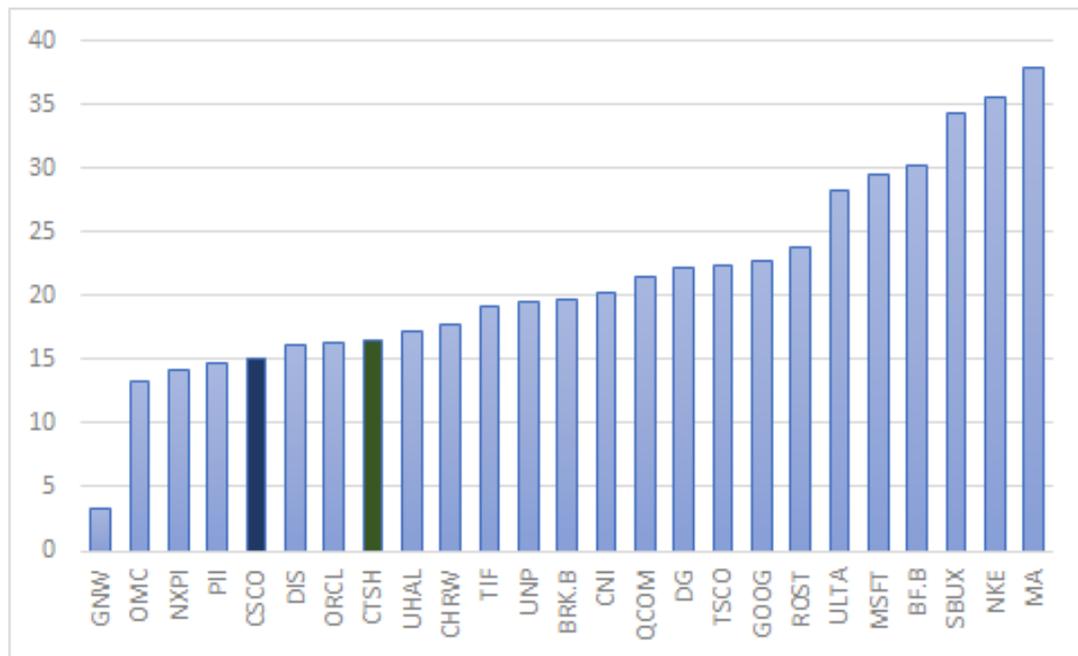
HGROWTH	STAEGR
9.54%	92.15%
16.61%	97.00%



Intraportfolio



Price/Earnings

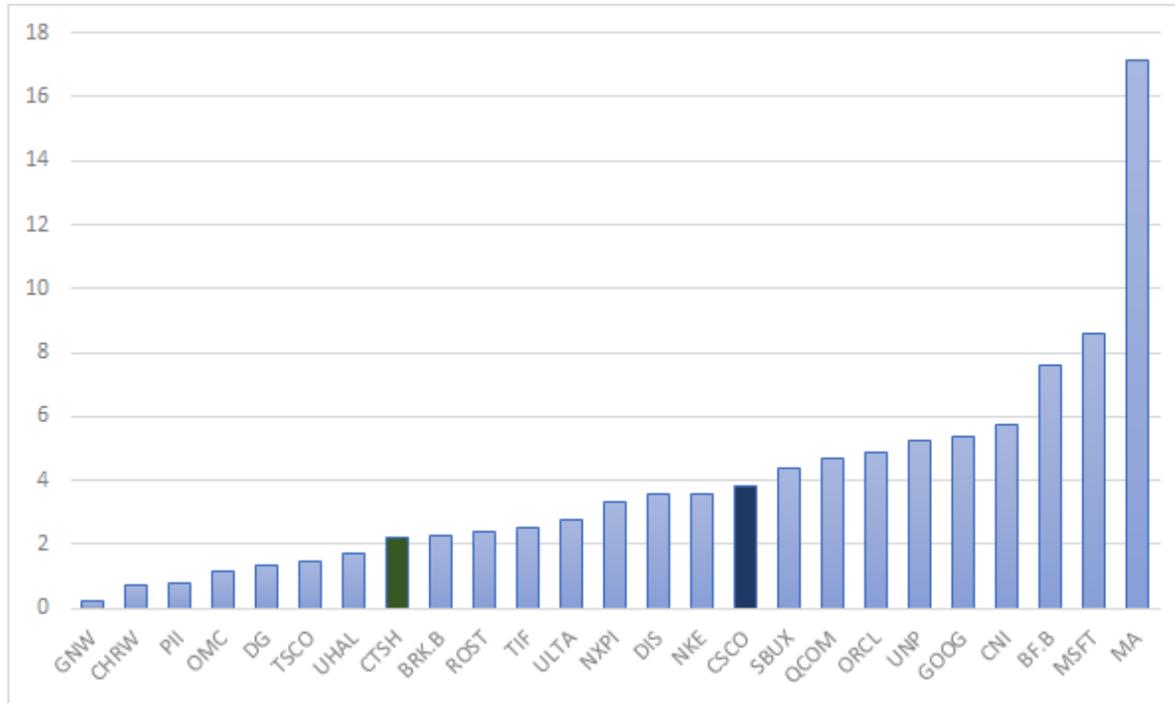


\$	P/E
GNW	3.342857
OMC	13.34167
NXPI	14.17895
PII	14.66508
CSCO	15
DIS	16.144
ORCL	16.33239
CTSH	16.53924
UHAL	17.22244
CHRW	17.81684
TIF	19.1898
UNP	19.51214
BRK.B	19.63861
CNI	20.17204
QCOM	21.46286
DG	22.18462
TSCO	22.39789

GOOG	22.66679
ROST	23.73556
ULTA	28.27765
MSFT	29.54737
BF.B	30.29189
SBUX	34.26596
NKE	35.58233
MA	37.8449



Price/Sales

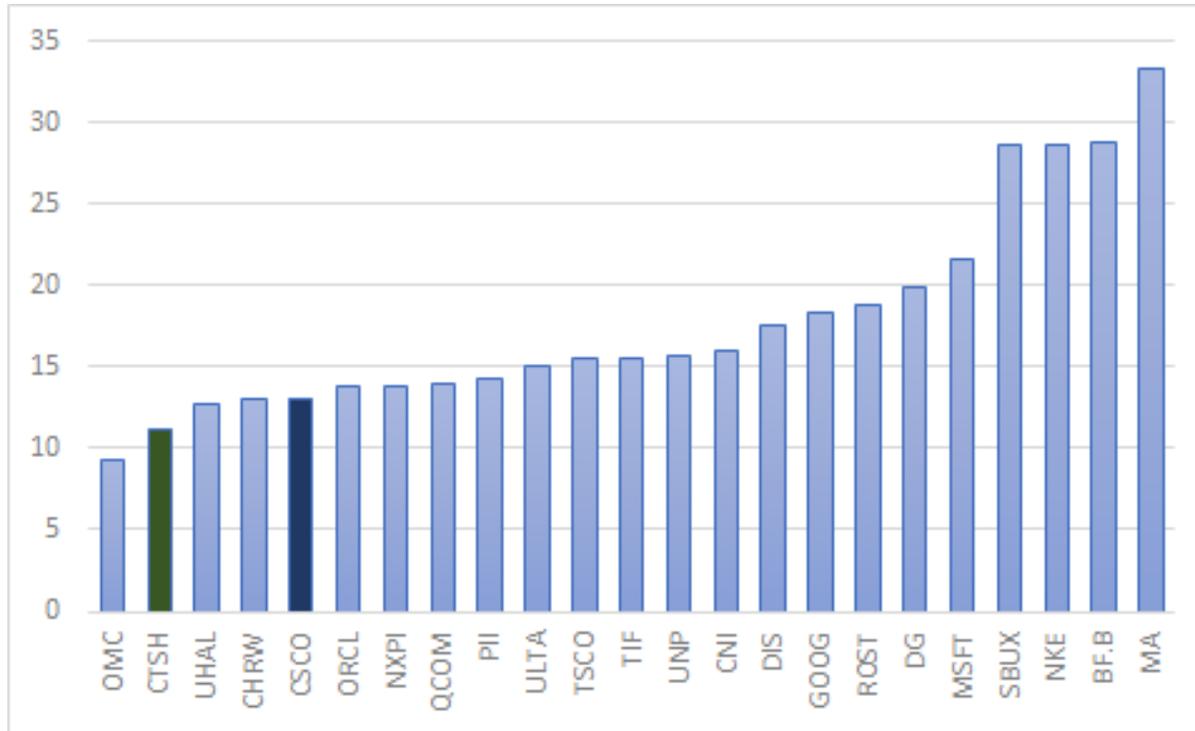


\$	P/S
GNW	0.226452
CHRW	0.748607
PII	0.81222
OMC	1.15429
DG	1.337042
TSCO	1.499507
UHAL	1.730686
CTSH	2.218336
BRK.B	2.303717
ROST	2.413785
TIF	2.517537
ULTA	2.763818
NXPI	3.357009
DIS	3.567172
NKE	3.576908
CSCO	3.82716
SBUX	4.362528

QCOM	4.709718
ORCL	4.884452
UNP	5.241615
GOOG	5.369713
CNI	5.719512
BF.B	7.572973
MSFT	8.57361
MA	17.11754



EV/EBIT

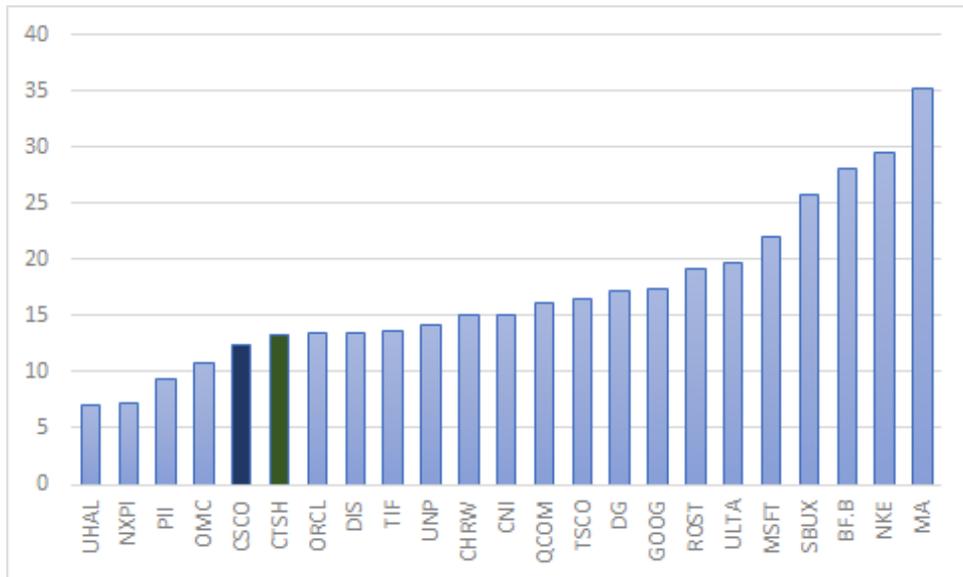


\$	EV/EBIT
OMC	9.23
CTSH	11.21
UHAL	12.74
CHRW	12.99
CSCO	13.08
ORCL	13.77
NXPI	13.84
QCOM	13.97
PII	14.24
ULTA	15.11
TSCO	15.45
TIF	15.54
UNP	15.62
CNI	15.94
DIS	17.57
GOOG	18.41
ROST	18.81

DG	19.91
MSFT	21.62
SBUX	28.58
NKE	28.58
BF.B	28.86
MA	33.31



Price/Free Cash Flow

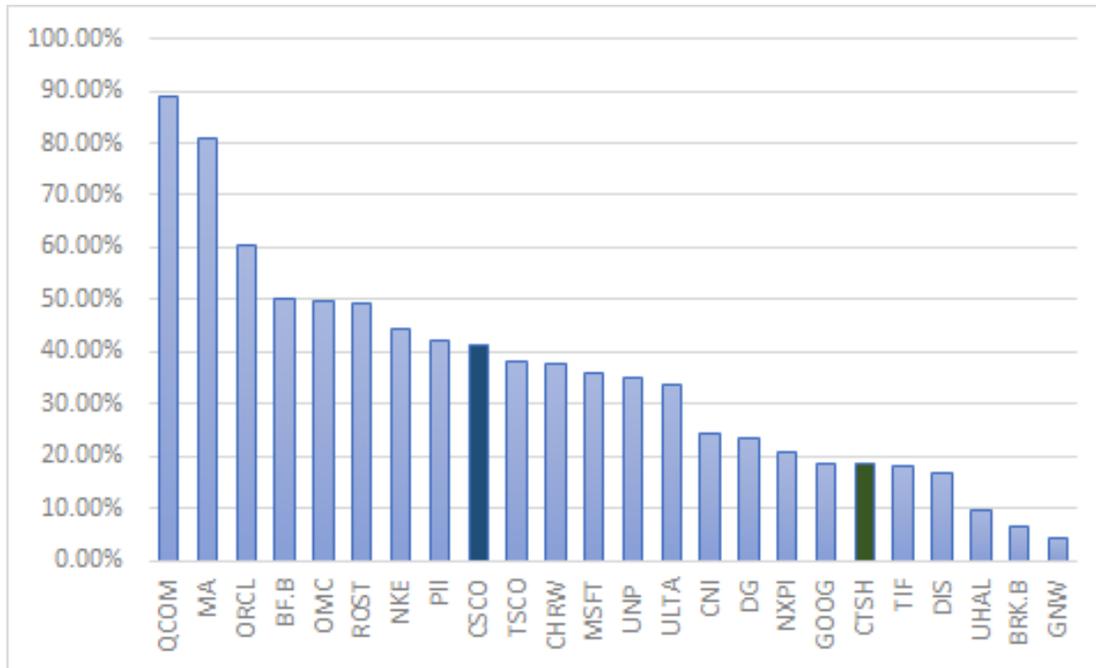


\$	P/FCF
UHAL	7.096683
NXPI	7.256566
PII	9.332323
OMC	10.74497
CSCO	12.4
CTSH	13.33265
ORCL	13.43224
DIS	13.45333
TIF	13.62754
UNP	14.12385
CHRW	15.1125
CNI	15.12903
QCOM	16.15484
TSCO	16.49457
DG	17.26946
GOOG	17.41493

ROST	19.24505
ULTA	19.75562
MSFT	22.10236
SBUX	25.768
BF.B	28.02
NKE	29.53333
MA	35.21013



Return on Equity

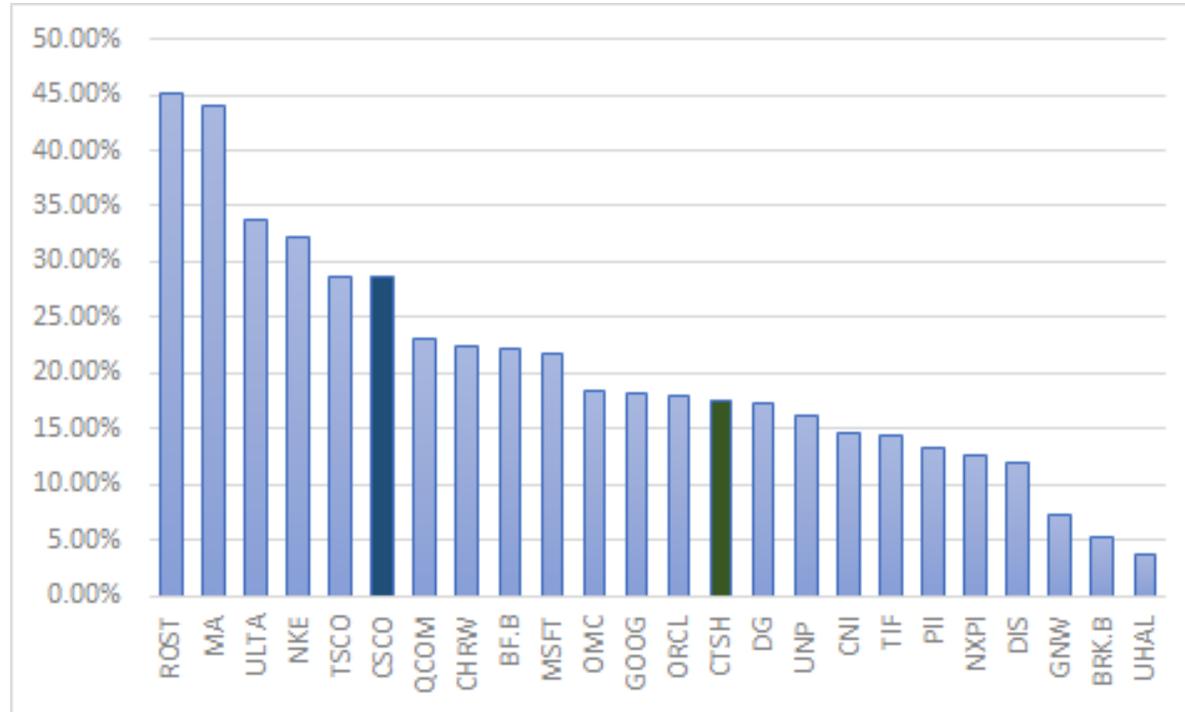


\$	ROE
QCOM	88.87%
MA	81.11%
ORCL	60.30%
BF.B	50.29%
OMC	49.81%
ROST	49.10%
NKE	44.57%
PII	42.16%
CSCO	41.07%

CHRW	37.57%
MSFT	35.99%
UNP	34.90%
ULTA	33.71%
CNI	24.10%
DG	23.26%
NXPI	20.90%
GOOG	18.42%
CTSH	18.39%
TIF	18.14%
DIS	16.54%
UHAL	9.78%
BRK.B	6.61%
GNW	4.04%



Return on Invested Capital



\$	ROIC
ROST	45.03%
MA	44.09%
ULTA	33.71%
NKE	32.22%
TSCO	28.75%
CSCO	28.70%
QCOM	23.17%
CHRW	22.39%
BF.B	22.28%
MSFT	21.79%
OMC	18.46%
GOOG	18.08%
ORCL	17.88%
CTSH	17.40%
DG	17.27%
UNP	16.10%
CNI	14.57%
TIF	14.41%
PII	13.33%
NXPI	12.67%
DIS	11.83%
GNW	7.16%
BRK.B	5.29%
UHAL	3.78%

NXPI	12.67%
DIS	11.83%
GNW	7.16%
BRK.B	5.29%
UHAL	3.78%



Conclusion

- Good business, moat stemming from switching costs and cost advantages
- Looks cheap relative to history and on a DCF basis
- Room for growth both abroad and domestically
- Cognizant's history of strategic acquisitions will help stem competitive pressure

Limit Order

\$58.00

200 shares

~2% of portfolio

Market Order

\$59.13

200 shares

~2% of portfolio



Questions?

