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# Cognizant

Cognizant Technology Solutions Corp.

**September 24<sup>th</sup>, 2019**

**Hunter Beaudoin  
McKenzie Shearon**

**Special Events Coordinator  
Performance Analyst**



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Investment Thesis	Geographic Breakdown
Company Overview and History	Financial Highlights
Leadership	Financial Guidance/Strategy
Company Strategy	SWOT Analysis
Competitive Landscape	Valuation/Models
Price History	Recommendation

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Transformation Office



Future Growth in Software Consulting



Customer Relationship Stickiness



Client, Industry, and Geographical Diversification



# Cognizant Consulting

## Cognizant Digital Business

- Reshapes business models, modernizes products, and enhances customer experience to drive growth
- Services: AI, Digital Product Engineering, Digital Strategy, Interactive, IoT

## Cognizant Digital Operations

- Reinvents and manages clients' most essential business processes with new ways of working
- Services: Enterprise Services, Industry and Platform Solutions, and Intelligent Process Automation

## Cognizant Digital Systems & Technology

- Simplifies, modernizes, and secures the IT infrastructure and applications that are the backbone of clients' business
- Services: Application Services, Cloud Enablement, Cognizant Infrastructure Services, Cognizant Security, Core Modernization, Digital Product Engineering, Enterprise Application Services, and Quality Engineering and Assurance



# Cognizant

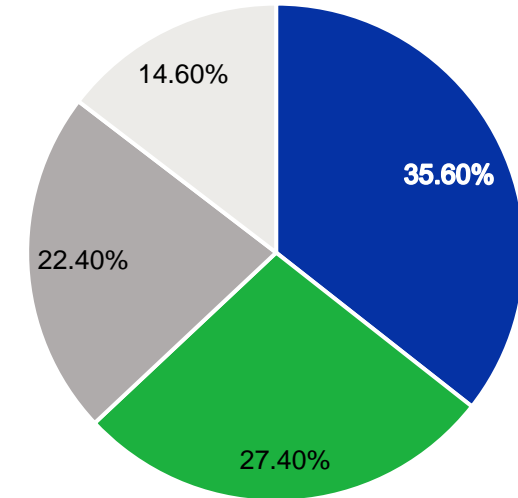
## Company Overview

School of Business  
Investment Program

### The client company we keep



### Revenue Segment Mix



- Financial Services
- Healthcare
- Products and Resources
- Communications, Media, and Technology



# Cognizant

Leadership

School of Business  
Investment Program



**Brian Humphries**  
Chief Executive Officer

- CEO of Vodafone Group '17-'19
- Previous experience at Dell and Hewlett-Packard
- Youngest CEO of any large IT service firm



**Karen McLoughlin**  
Chief Financial Officer

- Been with CTSH for 16 years (CFO for 7)
- Sits on Best Buy Board of Directors
- Financial management experience at Spherion and Ryder System



**Malcolm Frank**  
President of Cognizant  
Digital Business

- Been with CTSH for 14 years
- Author, entrepreneur, and well-known speaker
- Sits on FactSet Board of Directors



**Srinivasan  
Veeraraghavachary**  
Chief Operating Officer

- Been with CTSH for 21 years (COO for 3)
- Leadership roles in Product & Resources and Banking & Financial Services



# Cognizant

## Company Strategy

School of Business |  
Investment Program

### Invest in Digital Capabilities

- Align digital-related skills in business, operations, and systems & technology

### Expand into Global Markets

- Develop depth in existing industries and expand into underpenetrated markets

### Strategic Acquisitions

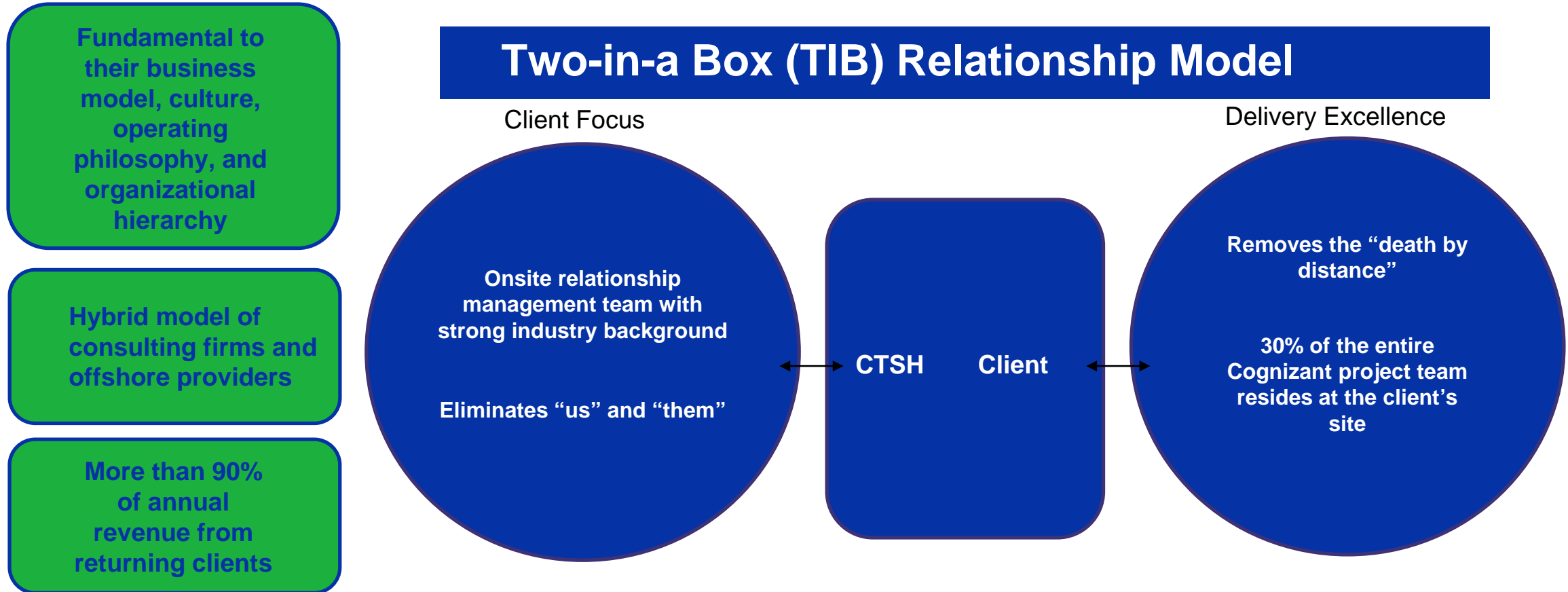
- Continue acquisitions to beef up its digitalization expertise and bolster its healthcare offerings

### Invest in their Talent Base

- Significant reinvestment into onshore and offshore senior leaders, industry experts, and MBA's











- **Founded in 1994 as the technology arm of The Dun & Bradstreet Corporation**
- **Conducted IPO in 1998, raising \$34 million**
- **Hit high growth in the 2000s and transitioned into a digitalization specialty**

### Transition to Digitization Through Acquisitions





# HCL

- Headquartered in New Delhi, India
- 143,900 employees
- Founded in 1976
- Software development, internet telephony, and component based object technologies

# Infosys

- Headquartered in Pune, India
- 231,000 employees
- Founded in 1981
- AI-powered core that prioritize the execution of change
- Agile digital solutions at scale from innovation ecosystem



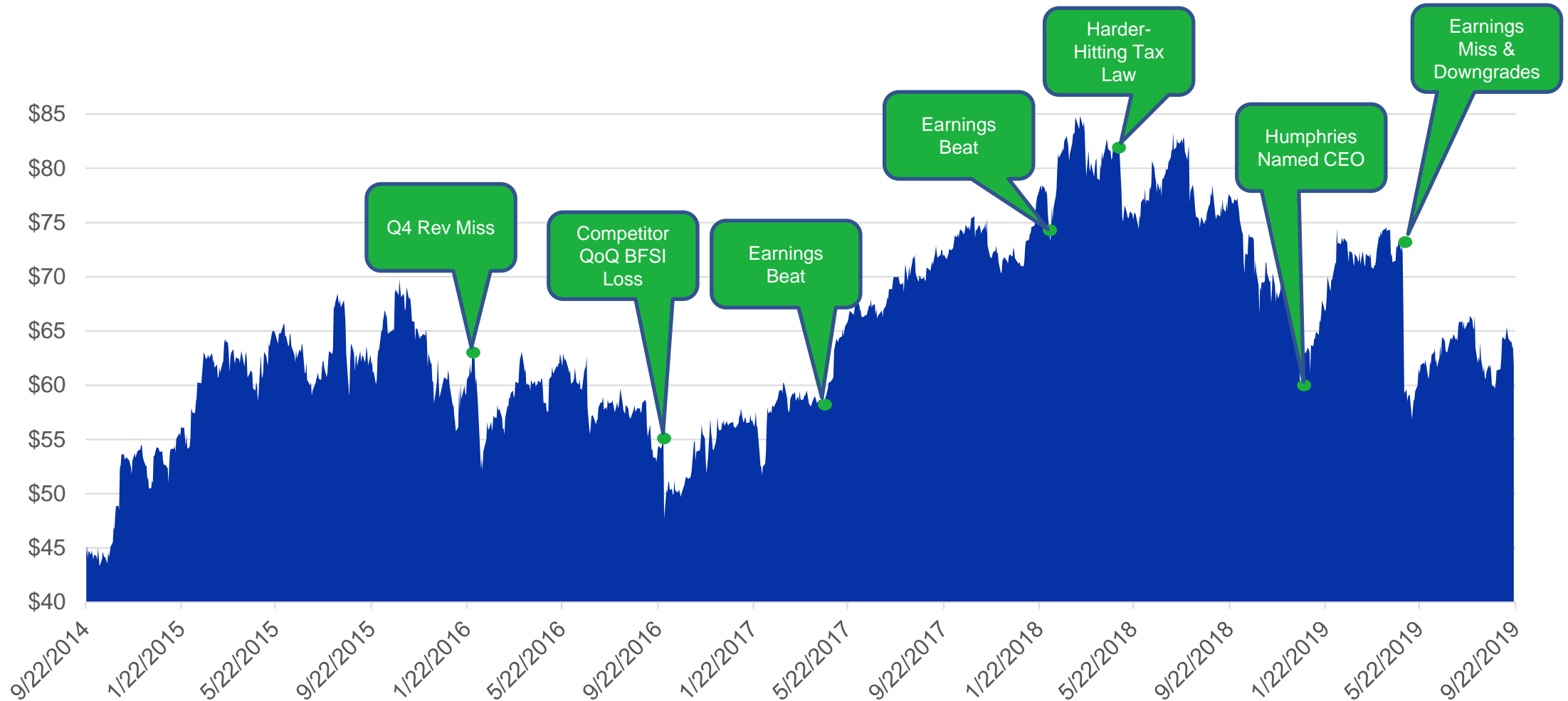
- Headquartered in Bengaluru, India
- Founded in 1945
- 195,000 employees
- Harness the power of cognitive computing, hyper-automation, robotics, cloud, analytics and emerging technologies



# Cognizant

## Price History

School of Business  
Investment Program

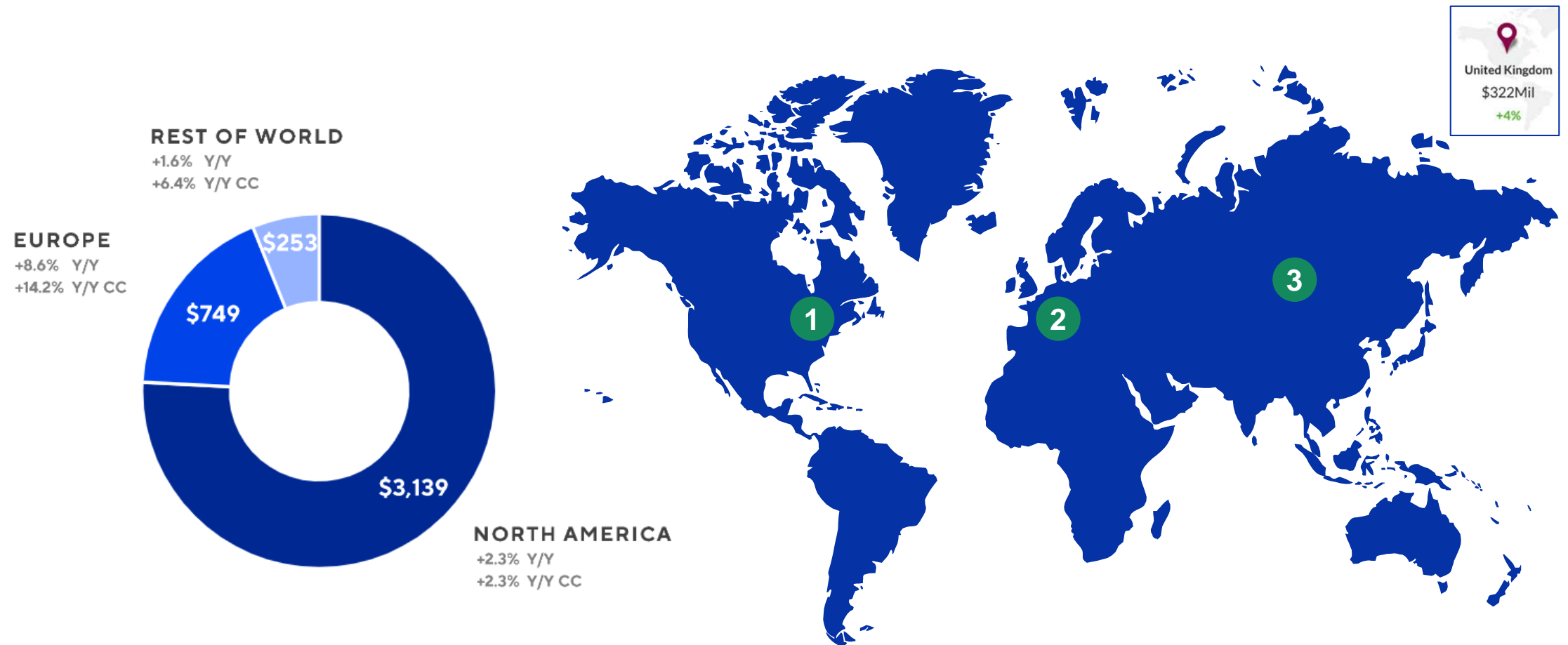




# Cognizant

## Geographic Revenue Breakdown

School of Business  
Investment Program

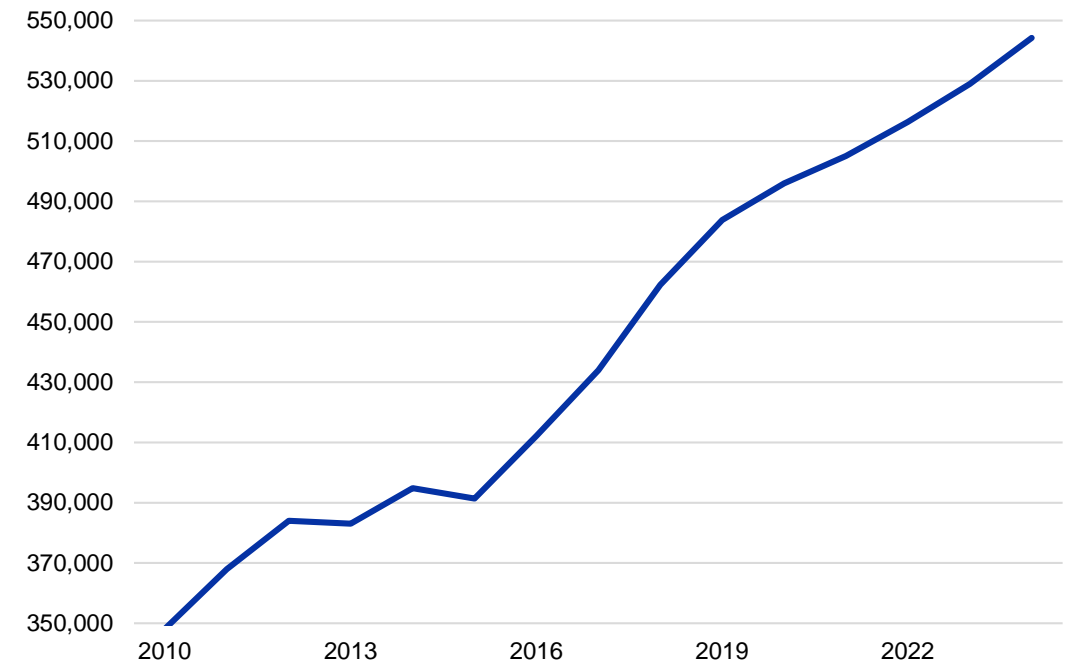




### Key Drivers in the Industry

- Strong corporate profit growth and constantly rising investment in computers and software
- Heightening security concerns
- One of the largest and most resilient industries in the US economy

### IT Services Revenue (\$ millions)

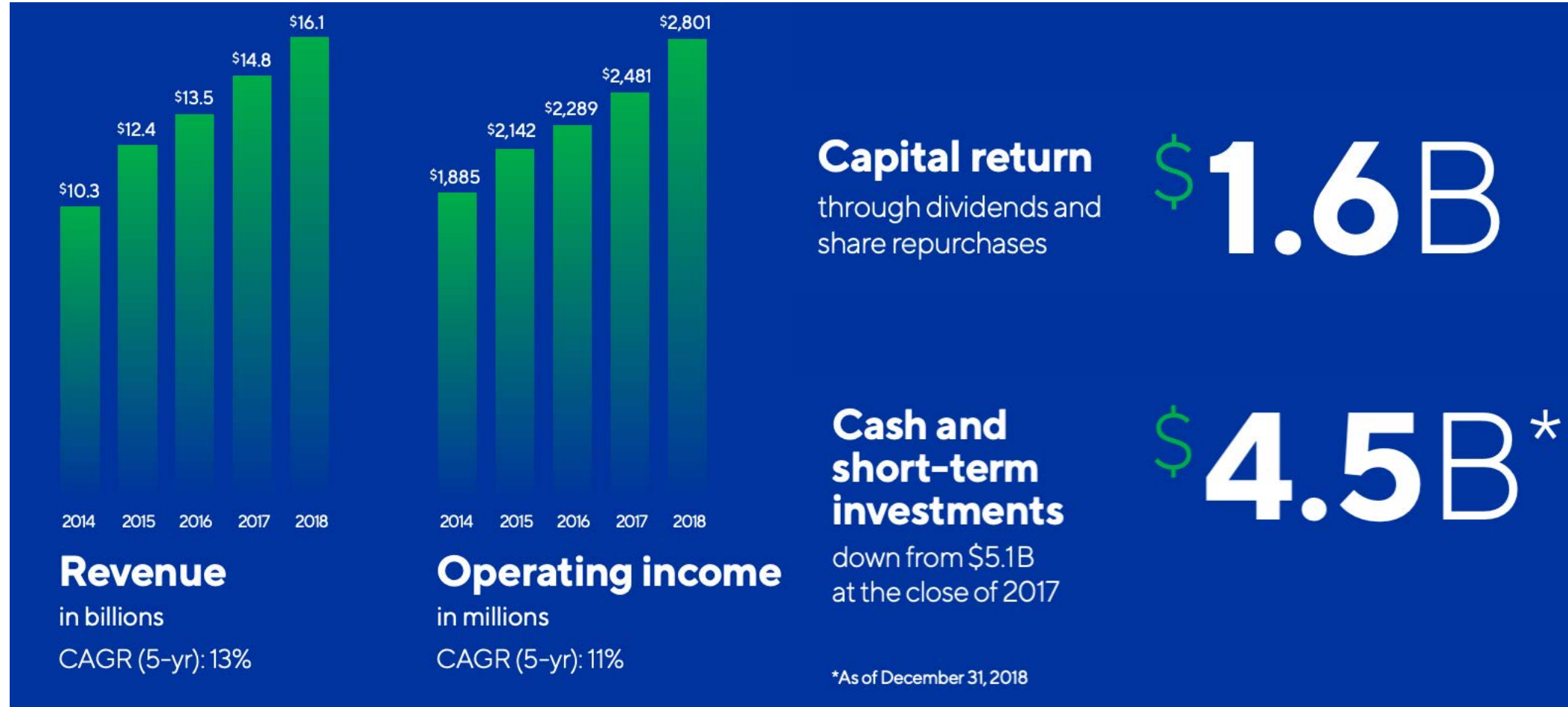




# Cognizant

## 2018 Financial Highlights

School of Business |  
Investment Program

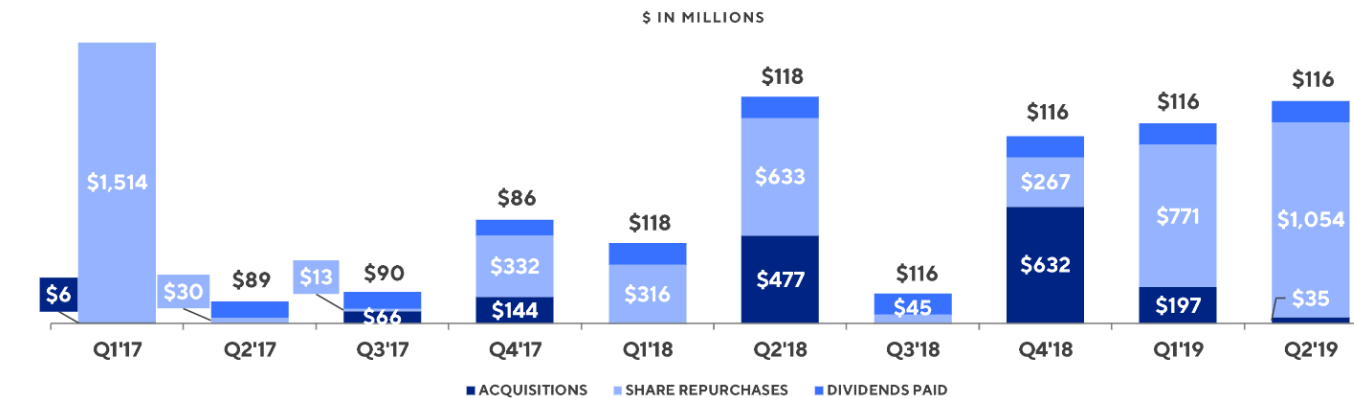




## Cash Flow & Capital Allocation

**1.30%**

CTSH Dividend Yield



**\$738M**

Share Value to be  
Repurchased

(\$ 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 <sup>1</sup>	\$211	\$461	\$695	\$756	\$292	\$549	\$768	\$606	\$163	\$479
CASH AND SHORT-TERM INVESTMENTS <sup>2,3</sup>	\$4,274	\$4,378	\$4,713	\$5,056	\$4,989	\$4,247	\$4,763	\$4,511	\$3,668	\$3,003

**Cognizant  
Softvision**

Digital product  
engineering

**SAASFOCUS**  
A Cognizant Company

Salesforce consulting,  
Asia-Pacific

**atg** advanced  
technology  
group  
A Cognizant Company

Salesforce  
Quote-to-Cash

**BOLDER**  
Healthcare Solutions  
A Cognizant Company

Healthcare revenue  
cycle management

**HEDERA**  
A Cognizant Company

Consulting and analytics,  
Europe





# Cognizant

## Q2 Financial Highlights

School of Business  
Investment Program

### Q2 Business Segment Performance

**\$4.14B**

Revenue

↑ +3%

**\$0.90**

GAAP EPS

↑ +15%

**\$509M**

Net Income

↑ +11%

**\$0.94**

Non-GAAP EPS

↓ -10%



Financial Services

→ +0.3%



Healthcare

→ -1.9%



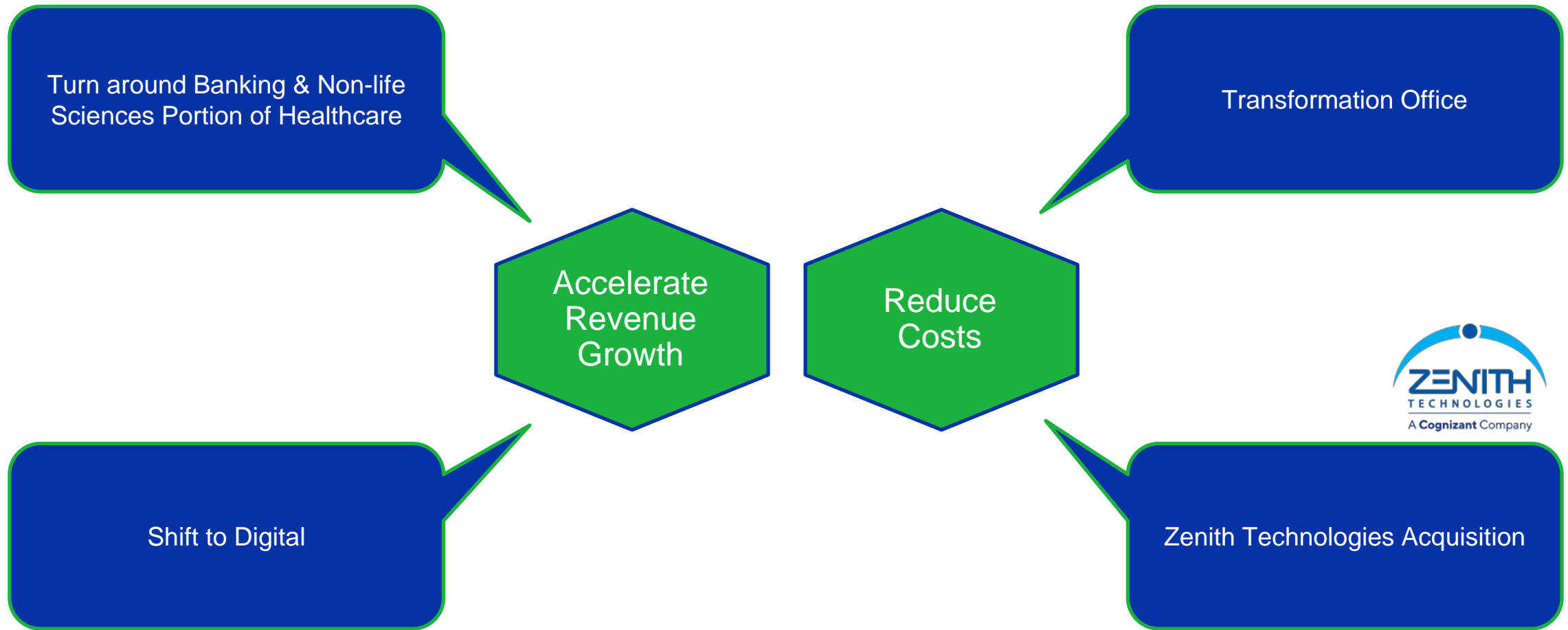
Products and Resources

→ +10.4%



Communications, Media, & Technology

+12%





Q3 Guidance	Full-Year Guidance	Long-Term Guidance
<ul style="list-style-type: none"><li>• Revenue growth 3.8-4.8% YoY</li><li>• Adjusted Diluted EPS ~\$3.95</li><li>• Align headcount growth with revenue growth (align with constant currency revenue guidance)</li><li>• Enhance oversight of subcontractors</li></ul>	<ul style="list-style-type: none"><li>• Revenue growth expected to 3.9-4.9% YoY</li><li>• Increased Adjusted Diluted EPS guidance to \$3.92-\$3.98</li><li>• Muted outlook for banking and healthcare</li><li>• Improved margins as cost structure is aligned with revenue expectations</li></ul>	<ul style="list-style-type: none"><li>• 65mm savings through actions at senior level to simplify operations</li><li>• Improve Cash Conversion</li><li>• Continue stock repurchase program</li></ul>



## Strengths

- Long-term Demand Environment
- Client Satisfaction
- Client Switching Costs
- Reinvestment Strategy

## Weaknesses

- Concentration of business in North American markets
- Employee Attrition
- Restricted depth and infrastructure in Management consulting business as compared to its peers

## Opportunities

- Emerging Technologies
- Geographical Expansion
- Transformation Office

## Threats

- Highly competitive marketplace
- May be a target of takeover by bigger firms like IBM, Accenture
- Earnings volatility due to foreign exchange movements



# Valuation Overview

School of Business  
Investment Program

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Assumptions</b>									
Sales (% growth)	N/A	8.6%	9.8%	8.9%	2.0%	4.0%	6.0%	9.0%	9.0%
COGS (% sales)	59.9%	60.1%	61.8%	61.0%	65.0%	65.0%	65.0%	60.0%	60.0%
SG&A (% sales)	20.2%	20.2%	18.2%	18.8%	25.0%	25.0%	20.0%	20.0%	20.0%
Depreciation & Amortization (% sales)	1.7%	1.7%	1.8%	1.6%	1.8%	1.8%	1.8%	1.8%	1.8%
Capital Expenditures (% sales)	(0.2%)	(0.3%)	(0.1%)	(0.4%)	(0.2%)	(0.5%)	(0.5%)	(0.2%)	(0.2%)
Tax Rate	23.9%	33.3%	42.8%	23.4%	26.0%	26.0%	25.0%	25.0%	25.0%
Working Capital (% sales)	N/A	-5.8%	-1.3%	-3.3%	7.6%	7.6%	7.6%	8.8%	8.8%

- Banking/Healthcare Revenue Segments
- Headcount Growth
- TCV on Legacy Programs
- Acquisitions
- Tax Guidance

Enterprise Value	
Cumulative Present Value of FCF	\$8,745.8
<b>Terminal Value</b>	
Terminal Year EBITDA (2023E)	\$4,308.5
Exit Multiple	10.3x
<b>Terminal Value</b>	<b>\$44,506.4</b>
Discount Factor	0.68
<b>Present Value of Terminal Value</b>	<b>\$30,176.6</b>
% of Enterprise Value	77.5%
	-
<b>Enterprise Value</b>	<b>\$38,922.5</b>

Implied Equity Value and Share Price	
Enterprise Value	\$38,922.5
Less: Total Debt	1,654.0
Less: Preferred Securities	-
Less: Noncontrolling Interest	-
Plus: Cash and Cash Equivalents	3,003.0
<b>Implied Equity Value</b>	<b>\$43,579.5</b>
Diluted Shares Outstanding	552.3
<b>Implied Share Price</b>	<b>\$78.91</b>



# Valuation Overview

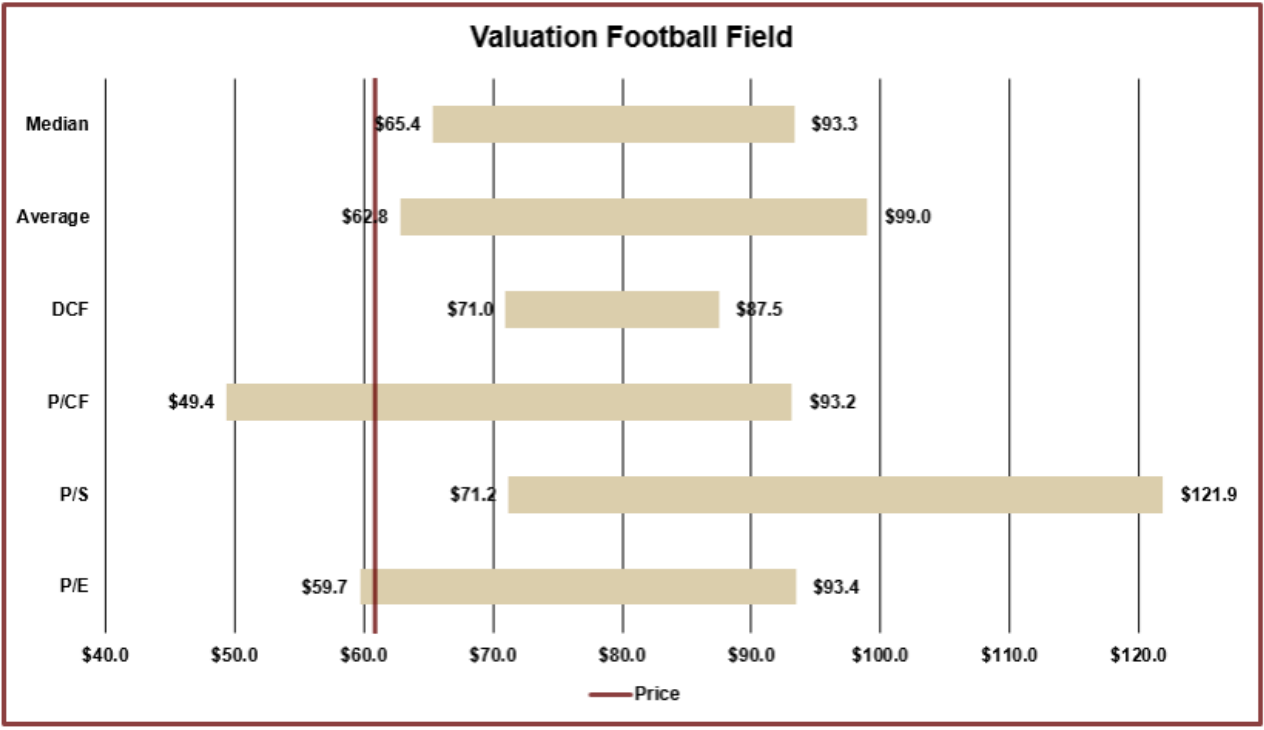
## Sensitivity Analysis

Enterprise Value						
		Exit Multiple				
		9.3x	9.8x	10.3x	10.8x	11.3x
WACC	7.1%	37,528	39,059	40,589	42,119	43,649
	7.6%	36,755	38,249	39,744	41,239	42,734
	8.1%	36,001	37,462	\$38,922	40,383	41,844
	8.6%	35,268	36,695	38,122	39,550	40,977
	9.1%	34,553	35,948	37,343	38,738	40,133

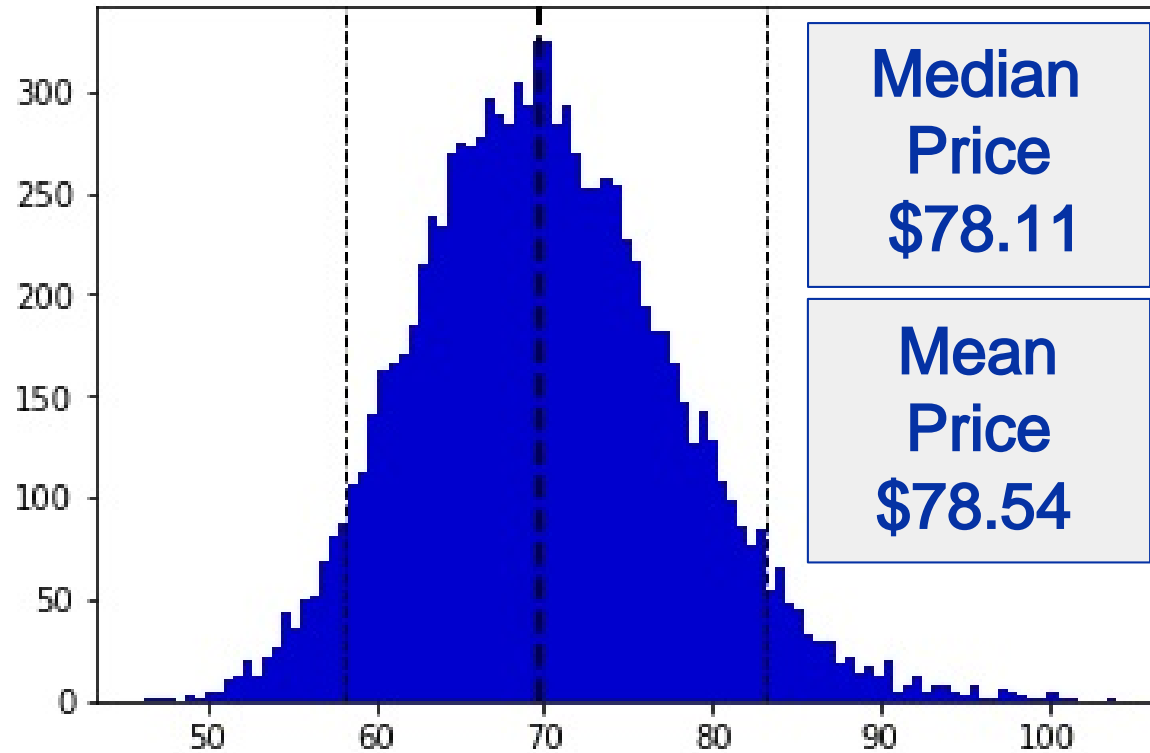
Implied Share Price						
		Exit Multiple				
		9.3x	9.8x	10.3x	10.8x	11.3x
WACC	7.1%	76.4	79.2	81.9	84.7	87.5
	7.6%	75.0	77.7	80.4	83.1	85.8
	8.1%	73.6	76.3	78.9	81.6	84.2
	8.6%	72.3	74.9	77.5	80.0	82.6
	9.1%	71.0	73.5	76.0	78.6	81.1

## Competitor Ratio Analysis





### Monte Carlo Simulation



### Portfolio VaR

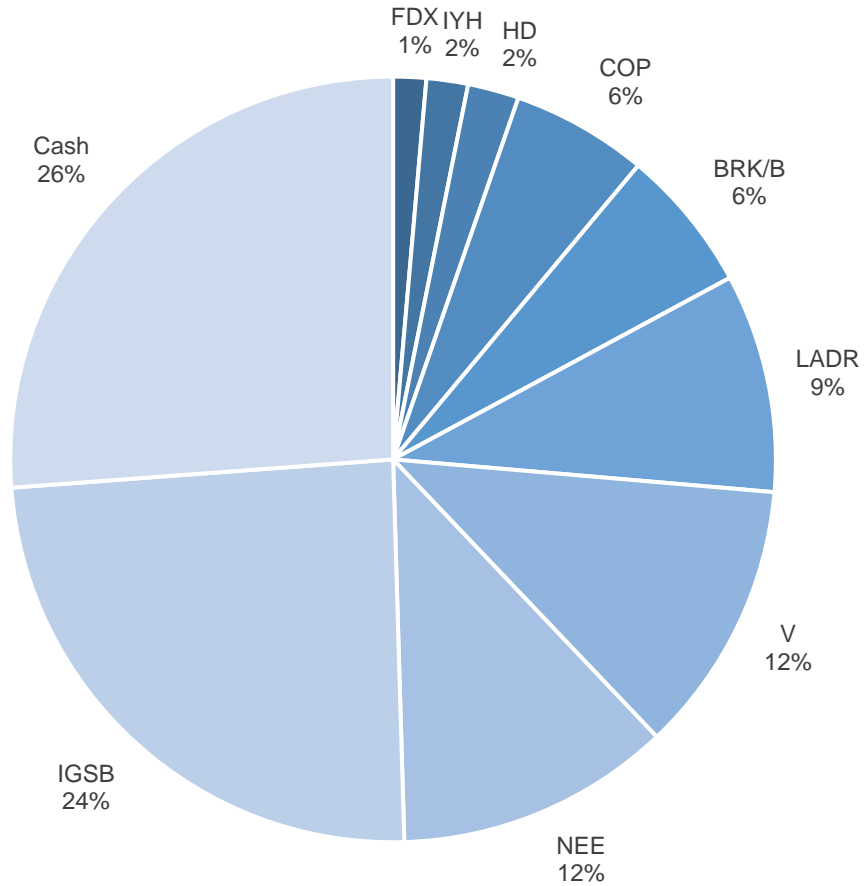
Excluding  
CTSH: 1.40%

Including  
CTSH: 1.44%

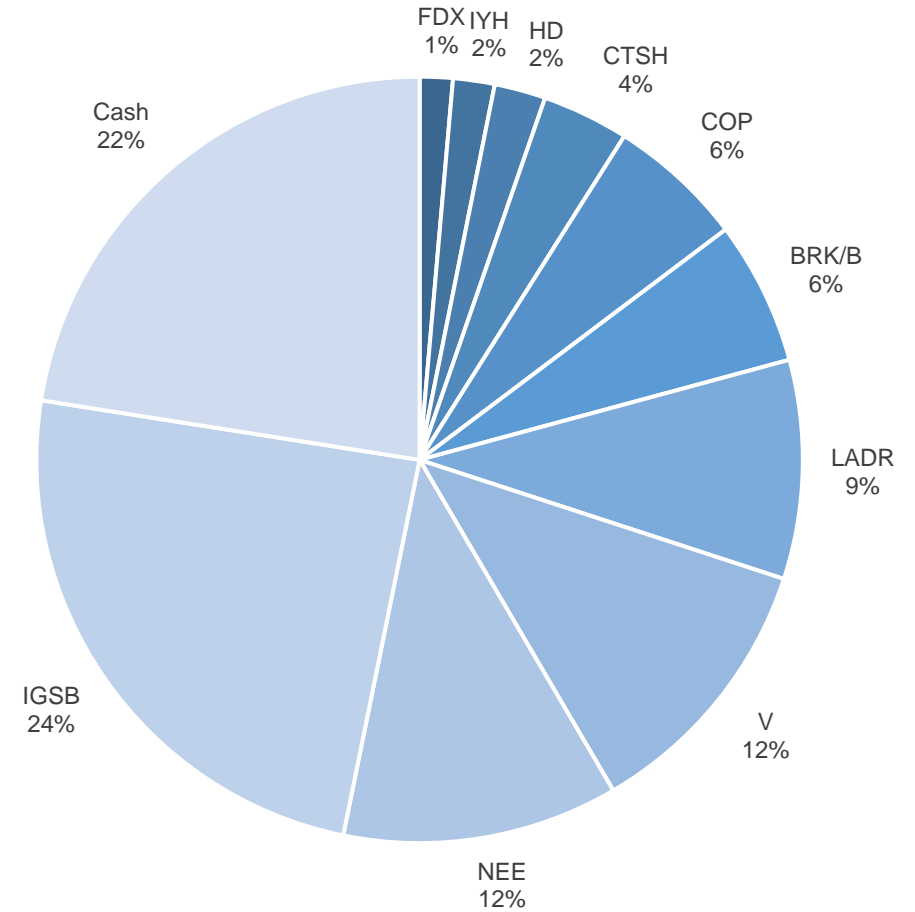




**Current Portfolio Allocation**



**Proposed Portfolio Allocation**





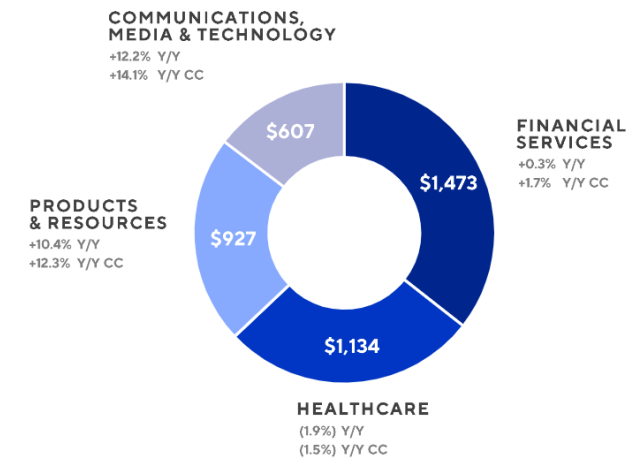
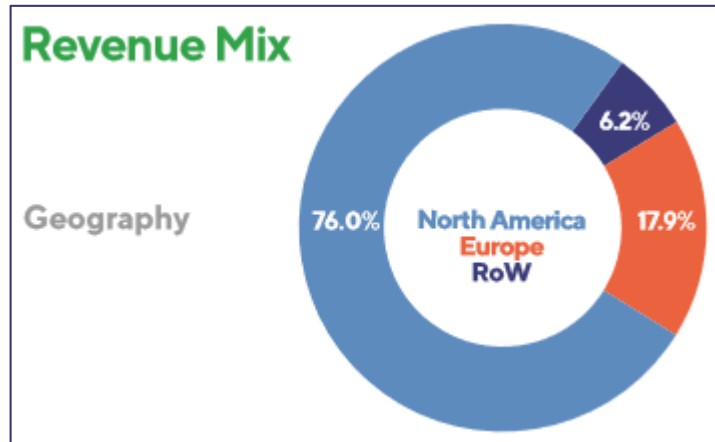
**Thank You!**



## Appendix



# Appendix



\$ IN MILLIONS EXCEPT PER SHARE AMOUNTS

