



COMPANY SPOTLIGHT:

Cognizant Technology Solutions Corp.

COMPANY DESCRIPTION

Cognizant Technology Solutions, a global IT services company, partners with clients worldwide to provide technology solutions to transform and modernize digital needs. Headquartered in Teaneck, NJ, Cognizant operates under four segments: financial services, healthcare, products and resources (retail, manufacturing, travel, energy); and communications, media, and technology.

Cognizant's new CEO, Brian Humphries, recently joined the company from Vodafone Business, where he also served as CEO.

COMPANY HIGHLIGHTS AND FINANCIALS

Cognizant Technology Solutions focuses on transforming the current and ongoing digital needs of their clients. Their global consulting team works closely with clients

to develop digital platforms and solutions to increase operational efficiencies, while securing and modernizing their businesses. Due to the integrated nature of their IT work, Cognizant rapidly becomes engrained in client operations, making the costs of switching to a competitor high, and facilitating enduring client relationships.

Over the last five years, Cognizant led the industry in revenue growth, averaging over 12% compared to single digit growth for primary competitors Accenture and Infosys. This high growth combined with solid client relationships expedited their becoming a large player in the global IT services and consulting arena.

VALUATION AND RISKS

Cognizant Technology Solutions is trading at a large discount compared to their historical operating performance. Investor concerns over the recent CEO leadership change, and slower near-term growth in their two largest segments (financial services and healthcare), weighed on shares. We feel this

KEY POINTS

- :: High switching costs allow for consistent operating performance
- :: Healthy balance sheet
- :: Diversified clientele with no one customer making up over 10% of revenue
- :: Consistent returns on capital and free cash flow generation
- :: Compelling valuations based on historical operating metrics and future growth projections

is a short-term issue and presents an opportunity as the company has proven to operate at a high level, producing consistent growth over the long-term. Even with modest growth assumptions over the next business cycle, the company is trading at roughly a 20% discount to our fair value calculation. If our assumptions are incorrect, we believe this provides a margin of safety.

Risks that we will monitor going forward include growth in the overall IT consulting market, and Cognizant's current upper management transition.

Weighing both potential rewards and risks, we are optimistic that Cognizant is a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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