Cognizant Technology Solutions Corp  CTSH (XNAS)

**Morningstar Rating** | **Last Price** | **Fair Value Estimate**
---|---|---
★★★★ | 66.61 USD | 85.00 USD
02 May 2019 | 02 May 2019 | 06 Feb 2019 | 21.47, UTC | 21.04, UTC

**Price/Fair Value** | **Trailing Dividend Yield %** | **Forward Dividend Yield %** | **Market Cap (Bil)** | **Industry** | **Stewardship**
---|---|---|---|---|---
0.78 | 1.11 | 1.20 | 37.92 | Information Technology Services | Standard
02 May 2019 | 02 May 2019 | 02 May 2019 | 02 May 2019 | 02 May 2019 | 02 May 2019

**Morningstar Pillars**
- Economic Moat: Undervalued
- Valuation: Narrow
- Quantitative: Wide
- Uncertainty: High
- Financial Health: Strong
- Analyst: Andrew Lange, Eq. Analyst

**Quantitative Valuation**
- CTSH
- Undervalued/ Fairly Valued/ Overvalued

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**We Think Cognizant Can Outperform the Overall Global IT Services Industry**

**Business Strategy and Outlook**
Andrew Lange, Eq. Analyst, 06 February 2019

Cognizant is a U.S.-headquartered IT services firm that has exemplified industry-leading growth for many years. With revenue growing at a significant rate over the past five years, Cognizant has become a notable competitor to industry incumbents. While we expect revenue growth to moderate from the heady days of five to 10 years ago, we think the firm can significantly outperform the overall global IT services industry, for which Gartner projects a 4%-5% five-year CAGR. Further investments in key industries, new geographies, global delivery, and social, mobile, analytics, and cloud technologies are expected to underlie such growth. In addition, the company has been successful in establishing close client relationships and is strategically well positioned via its digital business initiatives, which leads to a narrow economic moat and supports Cognizant’s long-term relevance in the market.

Cognizant’s client-first attitude has been the primary reason for its success. A differentiated balance between the consulting-centric incumbent operating model and the offshore industrial model that relies on lower-cost delivery allows the company to appear as either a U.S. or Indian firm as circumstances dictate. Furthermore, a digital business framework, which aligns Cognizant’s digital-related skills in business, operations, and systems & technology, provides clients with the appropriate tools and business partner to build out their long-term IT road map. We think this translates into significant customer switching costs.

We believe Cognizant will grow in excess of the overall IT services market (9% revenue CAGR over five years), given a number of opportunities. A focus on emerging digital technologies is expected to create opportunities as clients rethink how to interact with their customers. Geographic expansion is expected to provide Cognizant with the opportunity to enter underpenetrated markets. Finally, developing depth in existing industries and expanding into new industries such as the public sector will provide additional growth avenues.

**Analyst Note**

Andrew Lange, Eq. Analyst, 06 February 2019

While Cognizant’s fourth-quarter results were mostly in line with our expectations, the quarterly update was anything but boring. Most notably, the firm announced that CEO Francisco D’Souza and President Rajeev Mehta would step down from their respective roles. D’Souza, who co-founded Cognizant and has been CEO for 12 years, will remain on the board as vice chairman, while Mehta will pursue other options outside of the company. Vodafone Business CEO Brian Humphries will replace D’Souza effective April 1, 2019. Despite the managerial change, we don’t expect any drastic transformational approach at Cognizant and believe the firm’s existing competitive position and strategy is well placed versus other large IT services peers. In additional news, Cognizant changed some of its reporting structure, provided some better clarity around operating metrics, and issued full-year revenue guidance that was slightly below our expectations. After digesting the quarter, our long-term competitive view of the company remains unchanged, and we retain our narrow economic moat rating. However, we modestly raise our fair value estimate to $85 from $80 after accounting for the time value of money in our financial model. With shares recently surging back into 3-star territory, we now only view the firm as modestly undervalued. Still, the firm could appeal to investors looking to gain exposure to a high-quality, relatively high-growth IT services leader.

For the quarter, revenue increased 7.9% year over year to $4.13 billion (up 8.8% in constant currency). As we have been calling out for some time, the firm’s expansion into the European market remains a strong growth driver as revenue in the U.K. and Rest of Europe regions surged, 17.9% and 22.3% year over year, respectively. We continue to see these markets as ripe and think Cognizant will look to scale and expand its delivery centers across the continent.

**Economic Moat**
Andrew Lange, Eq. Analyst, 11 February 2019

We believe Cognizant has a narrow economic moat because of customer switching costs. The firm’s commitment to client satisfaction (through its...
Cognizant Technology Solutions Corp

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</table>

**Close Competitors**
- Wipro Ltd WPRO: INR - 1,763,417
- Accenture PLC AON: USD - 114,582
- Infosys Ltd INFY: USD - 47,404
- DXC Technology Co DXC: USD - 17,306

Cognizant (CTSH) (XNAS)

**Fair Value & Profit Drivers**
Andrew Lange, Eq. Analyst, 06 February 2019

After rolling our model forward one year and taking into consideration the time value of money, we raise our fair value estimate to $85 from $80 per share. Our fair value estimate implies forward fiscal-year price/earnings of 17 times, enterprise value/EBITDA of 12 times, and free cash flow yield of 5%. The long-term demand environment looks strong, and pricing is expected to be stable (balanced between newer digital growth and legacy workload exposure). We believe the firm’s competitive position remains attractive and think the company has a number of growth drivers. We expect it to generate a top-line CAGR in the high-single-digits over the next five years. We expect revenue growth to moderate from lofty historical levels as Cognizant becomes more mature and the law of larger numbers becomes apparent.

Growing demand from clients for cost rationalization, regulation, and compliance (particularly in the healthcare and financial services segments), and digital-related services will underlie healthy long-term growth. Additionally, Cognizant will push further into markets such as Latin America, continental Europe, and the public sector through both organic and acquisition-led endeavors. The company is looking to be more aggressive in terms of its M&A to build out its capabilities. We expect non-GAAP operating margins to hover around 21%-22% as the company targets 22% non-GAAP operating margins by fiscal 2019.

We expect the firm to reinvest all excess profits in capabilities such as onshore and offshore senior leaders, industry experts, MBAs, platforms, digital initiatives, and flexible resource allocation. We use an 8.9% cost of capital to discount our projected future cash flows.

**Risk & Uncertainty**
Andrew Lange, Eq. Analyst, 11 February 2019

The number-one risk for Cognizant is the highly competitive marketplace. To maintain its position and fend off marketplace irrelevancy, the company must continue to develop innovative solutions that keep it one step ahead of the competition, execute on contracts to maintain its reputation, and be able to attract (and retain) the right IT professionals to the organization. Additionally, with approximately 77% of revenue generated in North America, Cognizant is highly exposed to the economic well-being of the region. The firm also faces earnings volatility due to foreign exchange movements such as the Indian rupee versus the U.S. dollar. Finally, immigration reform remains a concern, although the exact terms of the reform and financial impact is an ongoing unknown. Detrimental immigration reform could affect the firm’s revenue growth and margins.

**Stewardship**
Andrew Lange, Eq. Analyst, 11 February 2019

We view Cognizant’s stewardship of capital as Standard. Francisco D’Souza was appointed group CEO in January 2007, and Rajeev Mehta was appointed president in September 2016, following the abrupt departure of Gordon Coburn on a foreign corrupt practices investigation. However, in February 2019, the firm announced that D’Souza and Mehta would step down. D’Souza, who co-founded Cognizant and has been CEO for 12 years, will remain on the board as vice chairman, while Mehta will pursue options outside of the company.

Vodafone Business CEO Brian Humphries will replace...
D’Souza effective April 1, 2019. Humphries will be the first outsider to lead the firm. Before Vodafone, Humphries held leadership roles at Dell and Hewlett-Packard. While we think Humphries will have big shoes to fill given how wildly successful Cognizant has been over D’Souza’s tenure, we think he’s a solid choice. Despite the managerial change, we don’t expect any drastic transformational approach at Cognizant and believe the firm's competitive position and strategy are well-placed versus other large IT services peers.

Collectively, all key insiders own approximately 1% of Cognizant’s outstanding shares, which isn’t particularly high. However, we think management has worked in shareholders’ best interests by generating excess economic returns. Recent calls to return greater cash back to shareholders has been heard from management and the company instigated a capital return plan in fiscal 2017, helping to alleviate growth-at-any-cost concerns from some high-profile investors. The company initiated a quarterly cash dividend in the second quarter of fiscal 2017 due to activist pressure, which rewards long-term shareholders, and the firm also aims to improve its non-GAAP operating margin from 19%-20% to 22% in fiscal 2019. Over the medium term, we think investors will benefit from meaningful earnings per share appreciation.

The company’s accelerated reinvestment strategy has been critical in growing its footprint and building a high-quality client experience. Management’s paranoia over complacency has been vital to its success and has fueled the firm’s high-growth trajectory. Cognizant is well aware that if it does not continue to innovate, it will become irrelevant. We think this shrewd approach will maintain the firm’s competitive advantage in the market and highlight the firm’s leading position in digital and cloud-related workloads as an example of its ability to shift to higher-value services in a timely way.

Over the past 10 years Cognizant has proved its ability to build depth in key industries, business consulting, global delivery, and digital transformation services. We expect Cognizant to become more aggressive in terms of M&A and assume the firm will look to build out its geographic capabilities, industry depth, intellectual property, and software-as-a-service platforms.
**Cognizant Technology Solutions Corp**  
**CTSH (XNAS)**

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**Analyst Notes Archive**

**Cognizant Reports in Line Quarter; CEO D’Souza to Step Down; Shares Modestly Undervalued**

Andrew Lange, Eq. Analyst, 06 February 2019

While Cognizant’s fourth-quarter results were mostly in line with our expectations, the quarterly update was anything but boring. Most notably, the firm announced that CEO Francisco D’Souza and President Rajeev Mehta would step down from their respective roles. D’Souza, who co-founded Cognizant and has been CEO for 12 years, will remain on the board as vice chairman, while Mehta will pursue other options outside of the company. Vodafone Business CEO Brian Humphries will replace D’Souza effective April 1, 2019. Despite the managerial change, we don’t expect any drastic transformational approach at Cognizant and believe the firm’s existing competitive position and strategy is well placed versus other large IT services peers. In additional news, Cognizant changed some of its reporting structure, provided some better clarity around operating metrics, and issued full-year revenue guidance that was slightly below our expectations. After digesting the quarter, our long-term competitive view of the company remains unchanged, and we retain our narrow economic moat rating. However, we modestly raise our fair value estimate to $85 from $80 after accounting for the time value of money in our financial model. With shares recently surging back into 3-star territory, we now only view the firm as modestly undervalued. Still, the firm could appeal to investors looking to gain exposure to a high-quality, relatively high-growth IT services leader.

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Cognizant Technology Solutions Corp A CTSH ★★★★ 02 May 2019 02:00 UTC

Market Cap 02 May 2019 $41,090.4 Mil

Price vs. Quantitative Fair Value

Price vs Quantitative Fair Value

Company Profile
Cognizant is an IT services provider with headquarters in Teaneck, New Jersey. The company was founded in 1994, employs close to 280,000 people, and provides such services as technology consulting, application outsourcing, systems integration, business process services, and cloud services. The firm generates approximately 77% of group revenue from the North American market and roughly 90% of group revenue from its three main industries: financial services, healthcare, and manufacturing, retail, and logistics.

Quantitative Scores

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<th>All</th>
<th>Rel Sector</th>
<th>Rel Country</th>
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Valuation

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<th>Price/Quant Fair Value</th>
<th>Current</th>
<th>5-Yr Avg</th>
<th>Sector Median</th>
<th>Country Median</th>
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<td>Price/Quant Fair Value</td>
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<td>Price/Cash Flow</td>
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<td>20.4</td>
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<td>Price/Free Cash Flow</td>
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<td>24.1</td>
<td>23.0</td>
<td>19.5</td>
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<td>Trailing Dividend Yield %</td>
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<td>1.89</td>
<td>2.36</td>
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<tr>
<td>Price/Book</td>
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<td>4.1</td>
<td>2.3</td>
<td>2.4</td>
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<tr>
<td>Price/Sales</td>
<td>2.6</td>
<td>3.1</td>
<td>1.7</td>
<td>2.4</td>
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Profitability

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<tr>
<th>Return on Equity %</th>
<th>Current</th>
<th>5-Yr Avg</th>
<th>Sector Median</th>
<th>Country Median</th>
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<tbody>
<tr>
<td>Return on Equity %</td>
<td>19.0</td>
<td>17.7</td>
<td>12.5</td>
<td>12.9</td>
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<tr>
<td>Return on Assets %</td>
<td>13.5</td>
<td>12.6</td>
<td>6.4</td>
<td>5.2</td>
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<tr>
<td>Revenue/Employee (K)</td>
<td>57.3</td>
<td>54.1</td>
<td>442.6</td>
<td>325.9</td>
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Financial Health

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<th>Distance to Default</th>
<th>Current</th>
<th>5-Yr Avg</th>
<th>Sector Median</th>
<th>Country Median</th>
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<tr>
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<td>Solvency Score</td>
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<td>1.7</td>
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<td>Long-Term Debt/Equity</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
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Growth Per Share

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<thead>
<tr>
<th>Revenue %</th>
<th>Current</th>
<th>5-Yr Avg</th>
<th>Sector Median</th>
<th>Country Median</th>
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<tbody>
<tr>
<td>Revenue %</td>
<td>8.9</td>
<td>9.1</td>
<td>12.8</td>
<td>12.3</td>
</tr>
<tr>
<td>Operating Income %</td>
<td>12.9</td>
<td>9.4</td>
<td>10.8</td>
<td>18.4</td>
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<tr>
<td>Earnings %</td>
<td>42.3</td>
<td>10.8</td>
<td>12.3</td>
<td>17.5</td>
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<tr>
<td>Dividends %</td>
<td>77.8</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Book Value %</td>
<td>9.1</td>
<td>9.1</td>
<td>14.4</td>
<td>19.4</td>
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<tr>
<td>Stock Total Return %</td>
<td>-17.2</td>
<td>5.3</td>
<td>6.6</td>
<td>18.5</td>
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</tbody>
</table>

Quarterly Revenue & EPS

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<tr>
<th>Revenue (Mil)</th>
<th>Mar</th>
<th>Jun</th>
<th>Sep</th>
<th>Dec</th>
<th>Total</th>
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<tbody>
<tr>
<td>2016</td>
<td>3,972.9</td>
<td>4,006.0</td>
<td>4,078.0</td>
<td>4,129.0</td>
<td>16,125.0</td>
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<tr>
<td>2017</td>
<td>3,546.0</td>
<td>3,670.0</td>
<td>3,766.0</td>
<td>3,828.0</td>
<td>14,810.0</td>
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<tr>
<td>2018</td>
<td>3,202.0</td>
<td>3,399.9</td>
<td>3,453.2</td>
<td>3,461.9</td>
<td>13,487.0</td>
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<td>2019</td>
<td>2,911.4</td>
<td>3,085.1</td>
<td>3,187.0</td>
<td>3,232.5</td>
<td>12,416.0</td>
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</tbody>
</table>

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Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company’s future cash flows, resulting from our analysts’ research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar’s equity research group (“we,” “our”) believes that a company’s intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm’s economic moat, (2) our estimate of the stock’s fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm’s long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm’s cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats:

- intangible assets, switching costs, network effect, cost advantage, and efficient scale.
- Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm’s cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm’s moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don’t anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar’s equity research department.

2. Estimated Fair Value
Combining our analysts’ financial forecasts with the firm’s economic moat helps us assess how long returns on invested capital are likely to exceed the firm’s cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBIT, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company’s return on new invested capital—the return on capital of the next dollar invested (RONIC)—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company’s economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBIT over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm’s cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company’s marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline in investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Morningstar Research Methodology for Valuing Companies

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3. Uncertainty Around That Fair Value Estimate
Morningstar’s Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analyst’s ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- Low—margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium—margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High—margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High—margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme—margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.
Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security’s Last Price and Morningstar’s quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar’s quantitative fair value estimate.
- **Fairly Valued:** Last Price is in line with Morningstar’s quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar’s quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor’s principal value will fluctuate so that, when redeemed, an investor’s shares may be worth more or less than their original cost. A security’s current investment performance may be lower or higher than the investment performance noted within the report. Morningstar’s Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.’s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.’s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.’s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar’s quantitative equity ratings consist of:

1. **Quantitative Fair Value Estimate**
2. **Quantitative Star Rating**
3. **Quantitative Uncertainty**
4. **Quantitative Economic Moat**
5. **Quantitative Financial Health**

(collectively the “Quantitative Ratings”).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company’s peers as determined by statistical algorithms. Morningstar, Inc. (“Morningstar,” “we,” “our”) calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company’s analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar’s estimate of the per share dollar amount that a company’s equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar’s equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar’s equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm’s competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a “Wide Moat” rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a “Wide Moat” rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a “Wide Moat” rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

- **★:** the stock is overvalued with a reasonable margin of safety.
- **★★:*** the stock is somewhat overvalued.
- **★★★:*** the stock is overvalued.
- **★★★★:*** the stock is slightly overvalued.
- **★★★★★:*** the stock is fairly overvalued.
- **★★★★★★:*** the stock is undervalued with a reasonable margin of safety.
- **★★★★★★★:*** the stock is somewhat undervalued.
- **★★★★★★★★:*** the stock is low.
- **★★★★★★★★★:*** the stock is undervalued.

Quantitative Uncertainty: Intended to represent Morningstar’s level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7
**Research Methodology for Valuing Companies**

**Other Definitions**

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This Report has not been made available to the issuer of the security prior to publication.

**Risk Warning**

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The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervision law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

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### Cognizant Technology Solutions Corp (CTSH (XNAS))

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