



End Session

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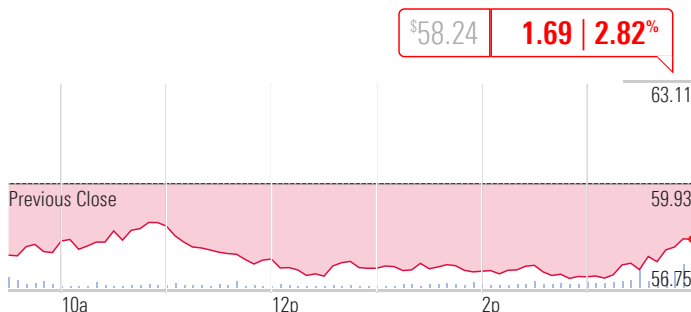
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[CTSH](#) [Analysis](#) [Price vs. Fair Value](#) [Trailing Returns](#) [Financials](#) [Valuation](#) [Operating Performance](#) [Dividends](#) [Ownership](#) [Executive](#) [Profile](#)

Cognizant Technology Solutions Corp A CTSH ★★★★★ Mar 06, 2020

Show Full Chart

Market Closed



Quote | Key Ratios | Short Interest | News

Bid/Size 56.55×1	Ask/Size 58.23×2	Day Range 57.01 – 58.85	Volume / Avg 5.4 Mil / 3.4 Mil
Year Range 56.73 – 74.85	Forward Div Yield 1.51%	Market Cap 31.9526 Bil	Investment Style Large Core
Price/Sales 1.94	Beta (5-Year) 0.90	Consensus Forward P/E 14.25	Price/Book 2.90

USD | NASDAQ | Last close prices updated as of Mar 06, 2020, 4:15 PM EST |
BATS BZX Real-Time Price

Morningstar's Analysis

Summary | Competitors | Bulls Say/Bears Say

Valuation Dec 17, 2019 Currency in USD

CTSH is Undervalued at a 19% Discount.

1-Star Price
> 97.20

Economic Moat
Narrow
Trend: Stable

5-Star Price
< 50.40

Stewardship
Standard

Cognizant's Aware of Its Potential and Can Implement IT

Julie Bhusal Sharma
Equity Analyst

Business Strategy and Outlook | by Julie Bhusal Sharma Updated Dec 17, 2019

Cognizant is one of the leading IT services providers in the world and was known as a growth darling for its revenue growth of 20%-40% during 2010-15. However, the company's double-digit growth days are over for the near future, in our view. Still, reacceleration in growth is not farfetched. We think Cognizant can deliver this via thoughtful investment in enhancing technical capabilities, more robust strategy consulting operations, and a more diversified client base. With such a focus, we think Cognizant has the potential to strengthen its already moaty business, which benefits from significant switching costs and intangible assets based in its technical expertise.

Cognizant has admitted that it is first and foremost perceived as a back-office enterprise outsourcer, but we think its existing technical capabilities are strong in more nuanced enterprise IT solutions, such as artificial intelligence services, which will help it become better known for digital transformation. While Cognizant has not lagged in its digital capabilities, we think there's more work to be done for the company to distinguish itself from competitors as a cutting-edge IT service provider. We believe Cognizant is well aware of this potential and has a healthy balance sheet to push forward in its technical capabilities. Still, a pipeline of work from in-house consultants could help bring down the costly activity of highlig

For these reasons, we think Cognizant's slow entrance into tra [Business Strategy and Outlook](#)
worthy cause in the long run. We think these efforts will be m

diversify its client base away from healthcare and financial services.

motion, we expect Cognizant to pick up the pace on its growth

services industry growth by 2022.

Economic Moat

Fair Value and Profit Drivers

Risk and Uncertainty

Stewardship

Economic Moat | by Julie Bhusal Sharma [Updated Dec 17, 2019](#)

We assign Cognizant a narrow moat rating stemming from its

switching costs associated with its services, which we find to be common moat sources across the IT services landscape.

Close Full Analysis

Cognizant operates under two service lines: consulting and technology services, and outsourcing. Under the former, Cognizant offers traditional enterprise consulting as well as application development, system integration, and software and application testing. Under its outsourcing division, Cognizant provides application maintenance and infrastructure and business process services. We think Cognizant exhibits switching costs, particularly in business process outsourcing as a service. Examples of BPaaS offerings include claims processing and healthcare plan administration. BPaaS is often a hearty extension of a company's operations that requires significant tailoring to a client's needs. BPaaS contracts tend to last several years, which we believe to be a function of the significant time it takes to adjust to a clients' wants and needs; these could differ significantly from even a competitor in the same vertical. In addition, we think application maintenance and infrastructure services exhibit high switching costs due to their mission-critical nature. If enterprise software experienced significant downtime or suffered a poor software release, or if a company's servers were not properly maintained or well balanced in terms of loads, a company could bear immense costs. Cognizant ranks highly among competitors when it comes to infrastructure and cloud services offerings, ranking number three in HFS Research's rankings based on execution, innovation, and adapting to customers' needs. The greater the deal size, the more friction there will be in switching infrastructure service providers. We therefore take Cognizant's large deal size to be indicative of the high switching costs among the company's clients.

Spanning both its outsourcing and consulting business, Cognizant reports that more than 90% of overall revenue each year is derived from existing customers at the beginning of the year. With less than 10% revenue growth in recent years, that leaves dollar renewals each year at least growing minutely, which we think supports our switching cost argument. We think that the costs of even shorter-term projects under Cognizant's consulting and technology services umbrella bear switching costs because of the high costs of failure if software implementation does not go as planned or if quality assurance testers fail to detect software vulnerabilities. This makes familiarity with Cognizant a friction in switching IT services for the next project.

However, we think switching costs are not as high as at some of its competitors' consulting arms, like Accenture, because very little of Cognizant's consulting business is traditional consulting, which we think brings the most uncertainty in project outcomes, making familiarity with an IT service provider even more important in deciding whom to hire for the next short-term project. We think traditional consulting, which would compete with the likes of Deloitte and Accenture, makes up only a small portion of revenue, given that only about 2% of Cognizant's employee base works in its traditional consulting arm. On the other hand, larger contributors to consulting revenue, like systems integration, are less ambiguous tasks to contract out, in our opinion.

We think Cognizant benefits from intangible assets as a moat source due to its technical expertise gained from putting enterprise solutions to work across hundreds of companies and refining its solutions with every new deployment--a benefit we find often across the IT services industry. An example of Cognizant's technical expertise is its strong artificial intelligence services, which are in the leader category, according to IDC and Forrester. We think specialized

knowledge is compounded by Cognizant's vertical focus. For example, Cognizant is considered the top healthcare IT services provider by HFS Research, with Accenture and Optum ranked two and three, respectively. Cognizant has been able to achieve higher revenue growth in the healthcare and communication, media, and telecom verticals compared with some of its other IT services peers due to such specialization. However, we think Cognizant has lower returns on invested capital than some of its peers, given its greater specialization in industries compared with other IT services companies. For example, Cognizant relies heavily on the healthcare and financial-services industry compared with its peers. We think this leads to lower returns on invested capital, as we think such specialization results in a mix toward more offerings spread across fewer companies, meaning less scaling effect per offering. This effect is magnified with consolidation in such specialized verticals, especially in healthcare. Despite lower returns on invested capital than peers, we think Cognizant's still healthy returns due to technical and industry expertise will endure over the next 10 years.

Fair Value and Profit Drivers | by Julie Bhusal Sharma [Updated Feb 07, 2020](#)

Our fair value estimate is \$72 per share. This implies a fiscal 2020 enterprise value/EBITDA of nearly 11 times. We think Cognizant can reaccelerate top-line growth, given increased investments in the cutting edge of enterprise digital IT and a gradual expansion of its strategic consulting business. As a result, we expect a five-year compound annual revenue growth rate of 6%.

We think Cognizant will keep a close eye on selling, general, and administrative costs, so that revenue grows at a faster pace than operating expenses. In turn, we expect that SG&A as a percentage of revenue will decline from 17.7% in 2019 to approximately 17.4% by 2024. Our confidence in the reduction is due to Cognizant's restructuring of its organizational layers in its 2020 Fit for Growth plan. We think the goals are achievable, as Cognizant claims that its managers have half the direct reports of the average IT servicer and 1.5 times the tiers of a typical firm, and maximum bench time (the time consultants go without projects) will be cut from 60 days to 35. With the company's operating leverage, we expect gross margin to increase by 140 basis points over the next five years as the company looks to overhaul its pricing structure. In total, we believe that operating margin will increase from 16% in 2019 nearly 18% by 2024.

Risk and Uncertainty | by Julie Bhusal Sharma [Updated Dec 17, 2019](#)

We think Cognizant is subject to medium fair value uncertainty given the increasing complexity of enterprise IT and the risks of falling behind in such capabilities, as well as perception risk that could cause distrust in the company's offerings. On the latter, Cognizant has been the subject of a bribery case in which it bribed officials to receive permits for new offices in India from 2014 to 2016. Given that outsourcing is an act of trust, it's possible that perceptions cast by such cases could stunt Cognizant's business. Cognizant is also at risk of an overcast perception in its outsourcing projects that it takes on simply because no one else will. For example, the company was the primary provider of Facebook's content moderation operations, in which Cognizant employees filtered content coming into Facebook that was flagged as inappropriate. Cognizant announced its departure from the content moderation business after news outlets recounted the conditions Cognizant employees endured as they sifted through extremely unsettling content from Facebook.

We think Cognizant is also subject to risk from vertical specialization. Further consolidation in the industries in which the company operates, such as healthcare, could give Cognizant less leverage in its margins and make the company more vulnerable if a competitor were to suddenly take major share of a vertical.

Like most IT servicers, Cognizant is at risk of attrition. Increased attrition could cause wear on Cognizant's intangible assets, as less technical and industry expertise would remain in the firm. A common risk in the industry is increasing H-1B visa denials for employees whom Cognizant brings on site to client offices outside global delivery centers. Approximately 30% of Cognizant's employees work on client premises.

Stewardship | by Julie Bhusal Sharma [Updated Dec 17, 2019](#)

We view stewardship of capital as Standard. CEO Brian Humphries joined the company in April 2019 after his tenure as CEO of Vodafone Business. He replaced cofounder and CEO of 12 years Francisco D'Souza. Humphries has made it clear that Cognizant's investment in further digital capabilities is crucial to the business. We see no reason new management would change the company's overall ability to keep shareholder interest top of mind with responsible strategies to maintain relevance in the enterprise IT landscape. While Cognizant's reported five-year total shareholder return (ended December 2018) was below that of the S&P 500 as well as its self-reported peer group, we don't think such returns signal irresponsible stewardship. Cognizant is acquiring digital transformation consultancies to help bulk up traditional consulting, which we think is a wise use of acquisition dollars.

Cognizant's history of capital stewardship is one marked by a sharp strategy pivot. After taking a 4% stake in the company in 2016, activist investor Elliott Management pressured Cognizant to significantly increase its share repurchases and start issuing dividends. As a result, over the last five years, Cognizant has repurchased over \$3.5 billion in stock, with 75% of the buybacks coming in the last two fiscal years. Also covering the last two years is Cognizant's average dividend payout ratio of 20%, which spans the history of Cognizant's dividends. In retrospect, Cognizant has claimed that the pressures were distractions, deterring it from its growth trajectory. Now, with Elliott having exited its position in 2018, we think Cognizant will return to its growth focus by moderating its share repurchases but still increasing its dividend year after year, in an attempt to center its position before and during the activist pressures. We think this is a wise middle ground that will keep investors happy while freeing up cash to bring about more operational efficiencies to free cash for heavy reinvestment in the business.

Close Full Analysis

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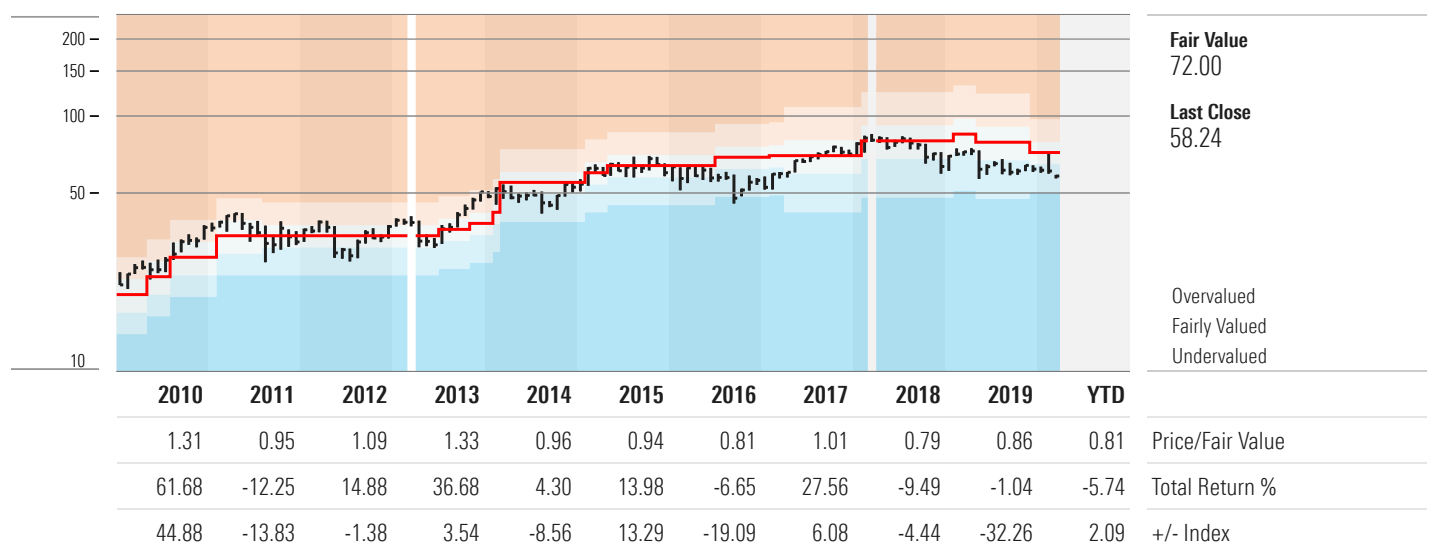
Price vs. Fair Value

Advanced

Basic

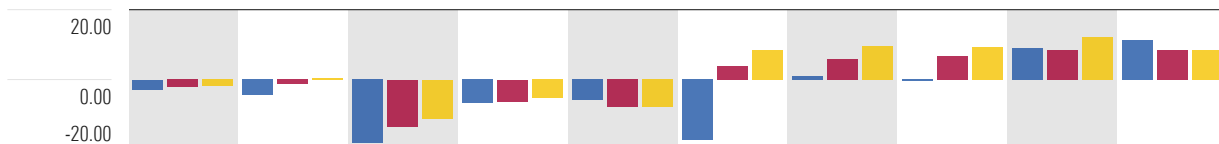
Logarithmic

Linear



Trailing Returns

Daily Monthly Quarterly



Total Return %	1-Day	1-Week	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
CTSH	-2.82	-4.41	-18.15	-6.70	-5.74	-17.35	0.94	-0.36	9.10	11.29
Information Technology Services	-2.01	-1.37	-13.42	-6.25	-7.85	3.81	5.73	6.73	8.38	8.42
Morningstar US Market TR USD	-1.77	0.36	-11.13	-5.37	-7.83	8.39	9.49	9.27	12.26	8.53
+/-Information Technology Services	-0.81	-3.04	-4.72	-0.45	2.11	-21.16	-4.78	-7.09	0.72	2.87
+/-Morningstar US Market TR USD	-1.05	-4.78	-7.01	-1.34	2.09	-25.74	-8.55	-9.63	-3.17	2.76

As of Mar 06, 2020 | Sector: Information Technology Services | Index: Morningstar US Market TR USD

Financials

Valuation

Price/Book	Price/Cash Flow	Price/Sales	Price/Earnings
2.90	13.05	1.94	17.70

As of Mar 05, 2020

Growth (3-Year Annualized)

Revenue %	Operating Income %	Net Income %	Diluted EPS %
7.56	5.27	5.85	8.86

As of Dec 30, 2019

Financial Health

Quick Ratio	Current Ratio	Interest Coverage	Debt/Equity
2.24	2.55	98.81	0.15

As of Dec 30, 2019

Profitability

Return on Assets %	Return on Equity %	Return on Invested Capital %	Net Margin %
11.47	16.41	13.91	10.98

As of Dec 30, 2019

Annual Quarterly As Originally Reported Restated

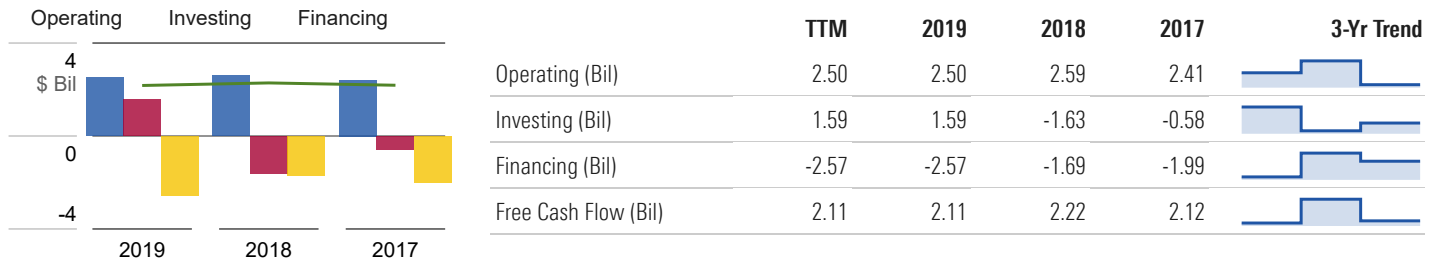
Income Statement

Revenue	Net Income	TTM	2019	2018	2017	3-Yr Trend
Revenue (Bil)		16.78	16.78	16.13	14.81	
Operating Income (Bil)		2.67	2.67	2.80	2.48	
Net Income (Bil)		1.84	1.84	2.10	1.50	
Diluted EPS		3.29	3.29	3.60	2.53	
Normalized Diluted EPS		3.67	3.67	3.80	2.46	

Balance Sheet

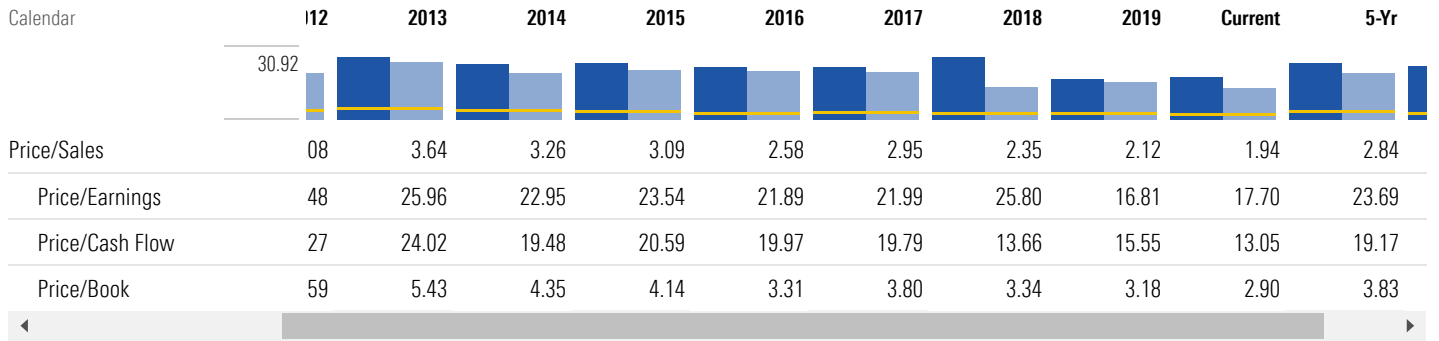
Assets	Debt	Debt/Assets	Q4 2019	2019	2018	2017	3-Yr Trend
Total Assets (Bil)			16.20	16.20	15.91	15.22	
Total Liabilities (Bil)			5.18	5.18	4.49	4.55	
Total Debt (Bil)			1.69	1.69	0.75	0.87	
Total Equity (Bil)			11.02	11.02	11.42	10.67	
Cash, Cash Equivalents and Short Term Investments (Bil)			3.42	3.42	4.51	5.06	

Cash Flow



Fiscal year ends in Dec 31 | USD in Bil except per share data

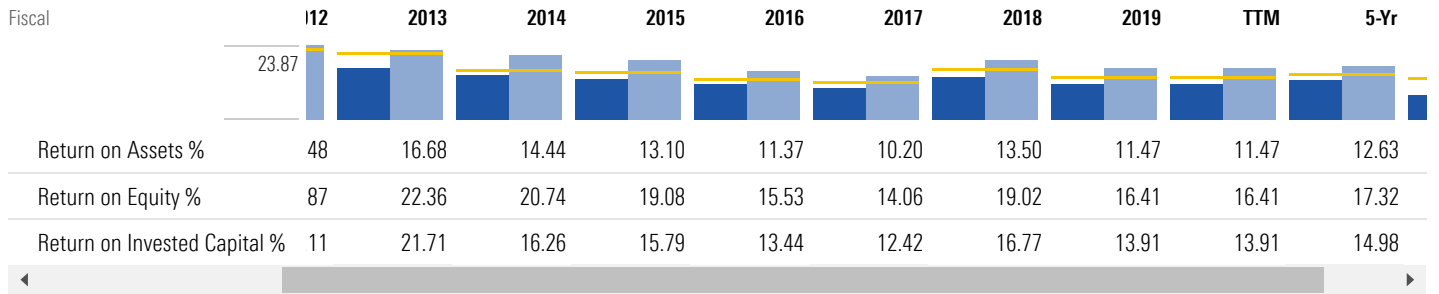
Valuation



USD | As of Mar 06, 2020 | Index: Morningstar US Market TR USD

[More Valuation Data](#)

Operating Performance

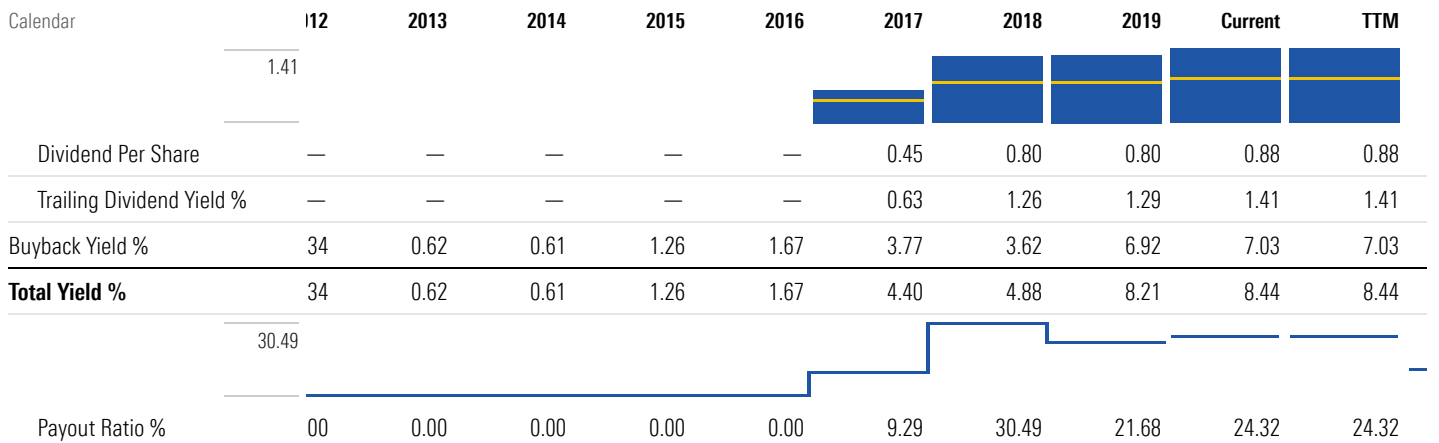


USD | Index: Morningstar US Market TR USD

[More Operating Performance Data](#)

Dividends & Splits

Dividends | Splits



Ex-Dividend Date	Record Date	Payable Date	Dividend Type
▼ 2019			
Nov 18, 2019	Nov 19, 2019	Nov 29, 2019	Cash Dividend
Aug 21, 2019	Aug 22, 2019	Aug 30, 2019	Cash Dividend
May 21, 2019	May 22, 2019	May 31, 2019	Cash Dividend
Feb 20, 2019	Feb 21, 2019	Feb 28, 2019	Cash Dividend
▶ 2018			
▶ 2017			
▶ 2020			

Dividend Yield (TTM) 1.41% **Div Reinvestment Plan** No

USD | As of Mar 06, 2020

Ownership

- Major
- Concentrated
- Buying
- Selling
- Funds
- Institutions

Name	Morningstar Rating	% Total Shares Held	% Total Assets	Total Ownership			
				Trend Prev. 8 Qtrs	Current Shares	Change Amount	(
Vanguard Total Stock Mkt Idx Inv	★★★★	2.81	0.10		15,493,252	58,443	(
Vanguard 500 Index Investor	★★★★	2.00	0.12		11,071,884	131,896	(
Dodge & Cox Stock	★★★★	1.93	0.88		10,638,400	0	(
SPDR® S&P 500 ETF Trust	★★★★★	1.06	0.14		5,842,838	50,995	(
Invesco QQQ Trust	★★★★★	0.99	0.40		5,455,632	12,540	(
Total (for Top 5)		8.78			48,502,006	126,804	(

More Ownership Data

Executive Team

- Key Executives
- Board of Directors
- Committees
- Transaction History

Name	Title	Age	Compensation USD			
			2014	2015	2016	(
▶ Brian Humphries	Chief Executive Officer and Director	46	—	—	—	(
▶ Karen McLoughlin	Chief Financial Officer	55	3,278,226	3,705,728	2,599,417	4,000,000
▶ Malcolm Frank	Executive Vice President and President, Cognizant Digital Business	53	3,245,006	3,547,184	597,895	(
▶ Dharmendra Kumar Sinha	Executive Vice President and President, North America	57	—	—	3,008,867	2,800,000
▶ Santosh Thomas	Executive Vice President and President, Global Growth Markets	51	—	—	—	(
▶ Compensation for all Key Executives			6,523,232	7,252,912	6,206,179	13,800,000

More Executive Team Data

Company Profile

Business Description Cognizant is a global IT services provider, offering consulting and outsourcing services to some of the	Contact 500 Frank W. Burr Boulevard Glenpointe Centre West, Teaneck, NJ	Sector Technology	Industry Information Technology Services
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world's largest enterprises spanning the financial services, media and communications, healthcare, natural resources, and consumer products industries. Cognizant employs nearly 300,000 people globally, roughly 70% of whom are in India, although the company's headquarters are in Teaneck, New Jersey.

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Most Recent Earnings
Dec 31, 2019

Stock Type
Classic Growth

Fiscal Year End
Dec 31, 2020

Employees
292,500.00
As of Dec 30, 2019

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