

COMPANY PROFILE

Cognizant Technology Solutions Corp

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TABLE OF CONTENTS

Company Overview 3
Key Facts 3
SWOT Analysis 4

COMPANY OVERVIEW

Cognizant Technology Solutions Corp (CTS) is a leading provider of information technology (IT), consulting and business process outsourcing (BPO) services. The company offers business, process, operations and technology consulting; application development and systems integration; enterprise information management; application testing; application maintenance; information technology (IT) infrastructure services; and business process services. The company provides its services to various industries including banking and financial services, communications, consumer goods, education, energy and utilities, healthcare, information services, insurance, life sciences, manufacturing, media and entertainment, retail, technology, transportation and logistics, and travel and hospitality industries. The company operates in North America, Latin America Europe, the Middle East, and Asia Pacific. CTS is headquartered in Teaneck, New Jersey, the US.

The company reported revenues of (US Dollars) US\$14,810 million for the fiscal year ended December 2017 (FY2017), an increase of 9.8% over FY2016. In FY2017, the company's operating margin was 16.8%, compared to an operating margin of 17% in FY2016. In FY2017, the company recorded a net margin of 10.2%, compared to a net margin of 11.5% in FY2016.

The company reported revenues of US\$3,912.0 million for the first quarter ended March 2018, an increase of 2.2% over the previous quarter.

KEY FACTS

Head Office	Cognizant Technology Solutions Corp 500 Frank W Burr Blvd Teaneck New Jersey Teaneck New Jersey USA
Phone	1 201 8010233
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Web Address	www.cognizant.com
Revenue / turnover (USD Mn)	14,810.0
Financial Year End	December
Employees	261,400
NASDAQ Ticker	CTSH

SWOT ANALYSIS

Cognizant Technology Solutions Corp (CTS) is a leading provider of information technology (IT), consulting and business process outsourcing (BPO) services. Robust business model, business partnerships, and growth in revenue are the major strengths of the company, whereas reliance on North America and Europe for major portion of revenue and declining profitability remain as cause for concern. Positive outlook for big data market, cloud computing market, enterprise mobility market and strategic acquisition are likely to provide new growth opportunities for the company. However, intense competition, anti-outsourcing legislation and foreign exchange fluctuations could affect business operations.

<p>Strength</p> <p>Business partnerships Robust Business Model Financial Performance</p>	<p>Weakness</p> <p>Reliance on North America and Europe Increases Regional Specific Risks Declining Profitability</p>
<p>Opportunity</p> <p>Emerging Opportunities in Cloud Based Solutions Big Data Presents Growth Opportunity Strategic Acquisitions</p>	<p>Threat</p> <p>Anti-Outsourcing Legislation Could Impact Revenues and Profitability Foreign Currency Exchange Risk Intense Competition</p>

Strength

Business partnerships

CTS form strategic partnerships with the reputed entities around the world across various domains. These partnerships help the company to expand its product and service offerings and deliver comprehensive solutions to its customers. The company serves customers in various domains including banking and financial services, communications, consumer goods, education, energy and utilities, healthcare, insurance, life sciences, manufacturing, media and entertainment, retail, technology, transportation and logistics, and travel and hospitality industries. Some of the major partners of the company include Actuate, Adobe Solution partner, alphabet, AWS, CISCO, CoreLogic, Dell Technologies, demandware, Genesys, HP, Hitachi, IBM, infonova, infor, kony, Microsoft, Microsoft Azure, Oracle, PEGA, Pivotal, neolane, NetSuite, Simenes, SuccessFactors, SunTec, SAP, Verizon, VMware, Veritas, and WorldPlay among others. Strategic partnership enables the company to provide innovative and comprehensive solutions addressing the complex IT challenges to its customers.

Robust Business Model

The company follows a robust business model of rethink, reinvent and rewire to offer comprehensive solutions to its clients. As part of this business model, the company's dedicated employees offer strategic

insights, technological expertise and industry experience to clients. CTS leverages global delivery network model to help large organizations respond to the challenges of the Future of Work with virtual, flexible, scalable and efficient operations. The company's Global Delivery model consists of its delivery centers around the world that helps in responding to the customers with high-quality services. The company focuses on helping organizations rethink their business models to change the ways they interact with their customers, employees and partners and further help them reshape their operations and processes to increase productivity and gain competitive advantage. Cognizant helps in reinventing the client's workforces to reflect the millennial mindset and its flexible, open and inclusive approach to work and help companies adopt new tools to enable knowledge sharing and drive productivity and innovation. The company assists in rewiring client's operations enabling clients to use social networks, mobile devices, big data analytics, and cloud computing technologies to find new ways to increase operational flexibility, lower costs and decrease time to market.

Financial Performance

The company's financial performance increased during last four years. Strong financial performance enables the company in providing higher returns to its shareholders, thereby attracts further investments. In FY2017, the company's revenue increased by 9.8% to US\$14,810 million from US\$13,487 million in FY2016. Revenue growth was contributed by 17.7% increase in the Communications, Media and Technology segment. It was due to increase in the revenue from the communication and media; and technology customers, which represented 9.6% growth over previous year. Growth in Communications, Media and Technology segment revenue was driven by the increased adoption of digital technologies, digital content operations, services that helps the customers in rationalizing the costs as well as expanding range of services such as business process services. There was also 14.3% increase in the Products and Resources segment due to acquisition of the new strategic customers, which represented US\$85 million, an increase of 22.4% YoY. Revenue from the Healthcare segment increased by 10.1%, resulted from the addition of new customer in the healthcare and life sciences, which was driven by growing demand for a broader range of services, including business process services, advanced data analytics and solutions that span multiple service lines while leveraging cloud technologies and platforms.

Weakness

Reliance on North America and Europe Increases Regional Specific Risks

CTS is dependent on the North America and Europe for significant portion of its revenues. CTS derived 77.3% of its total revenue from North America in FY2017. During the same period, revenues from the Europe accounted for 16.2% of total revenues. If the economic conditions of the US or Europe are to become weak, it could depress the company's services pricing or reduce the country's technology spending. This in turn could lower the demand of CTS service and negatively affect its business operations and financial performance.

Declining Profitability

Although CTS revenue increased in FY2017 from previous fiscal year but its profitability declined during FY2017. CTS operating margin was 16.7% in FY2017, as compared to 16.9% in the FY2016. Weak

operating performance indicates the company's lack of focus towards cost management. The company's operating cost as percentage of sales increased from 83% in FY2016 to 83.2% in FY2017. Similarly, its net profit margin declined from 11.5% in FY2016 to 10.1% in FY2017. Declining profitability reduces the company's ability to provide adequate returns to its shareholders.

Opportunity

Emerging Opportunities in Cloud Based Solutions

Cloud-based operations enable enterprises to scale their operations instantly, handle demand fluctuations, and access systems and services over a variety of devices at a lower cost. According to in-house report, the global cloud computing market is expected to grow at a CAGR of 28.3% to reach US\$69,929.6 million by 2022 from US\$18,687.2 million in 2017. During 2017-2022 forecast period, in terms of variants of cloud, Software-as-a-Service (SaaS) is expected to be the major contributor with market share of 53.2%, followed by Infrastructure-as-a-Service (IaaS) with 24.3%, and Platform-as-a-Service with 22.5% respectively. The US is expected to account for 58.3% market share, followed by Europe (19.6%), Asia-Pacific (12.8%), Rest of the World (9.2%), and the Middle East (0.2%) during 2017-2022.

The company has been focusing on cloud as part of its social, mobile, analytics and cloud (SMAC) business strategy. SMAC is a part of the company's strategy to develop new service delivery models to address the changing dynamics of clients' businesses. In May 2017, CTS collaborated with Pivotal to accelerate the adoption of enterprise scale cloud applications. The company's focus on cloud computing services coupled with robustly growing end market is expected to enhance the demand for its services, thus boosting its topline.

Big Data Presents Growth Opportunity

The positive outlook for the big data market would provide the company an opportunity to gain market share in the future. Big data, which is a primary contributor to the pace of overall data growth, refers to the large repositories of corporate and external data, including unstructured information created by new applications including medical, entertainment, energy and geophysical, social media and other web repositories. It also refers to the new analytics and other technologies that are available to help people do things with the significant amount of enterprise and external data. According to in-house report, the global big data market is expected to grow from \$28.6 billion in 2016 to \$66.8 billion by 2021. CTS will benefit from the big data opportunity. In future, many large and medium organizations are expected to be more data driven and infuse analytics into every business decision. CTS carry out its big data initiatives through Enterprise Analytics practices. Through Enterprise Analytics approach, the company significantly invested in developing big data solutions that would deliver business value to its clients.

Strategic Acquisitions

In March 2018, CTS acquired Bolder Healthcare Solutions, a provider of revenue cycle management (RCM) solutions in the US to expand its healthcare consulting, IT and business process services into more hospitals, physician practices, and other specialty care providers by leveraging Bolders RCM

offerings. In October 2017, the company acquired Netcentric, a provider of digital experience and marketing solutions. This acquisition would enhance the CTS ability to deliver digital business solutions for clients in Europe and worldwide by leveraging approximately 380 digital marketing specialists from Netcentric. In the same month, CTS acquired Zone, an independent full-service digital agencies specializing in customer experience, digital strategy, technology and content creation based in the UK. This acquisition could enhance its digital interactive expertise in experience design, human science-driven insights, and analytics by leveraging Zone's expertise in application development, user experience and content strategy. In August 2017, it acquired TMG Health, provider of business process services to the Medicare Advantage, Medicare Part D and Managed Medicaid markets in the US. This acquisition could further expand its healthcare business by providing new digital business models to healthcare organizations.

Threat

Anti-Outsourcing Legislation Could Impact Revenues and Profitability

The issue of companies outsourcing services to organizations operating in other countries is a topic of political discussion in many countries, including the US, which is CTS' largest market. For example, measures aimed at limiting or restricting outsourcing by the US companies are periodically considered in the US Congress and in numerous state legislatures to address concerns over the perceived association between offshore outsourcing and the loss of jobs domestically. If enacted, such measures may broaden existing restrictions on outsourcing by federal and state government agencies and on government contracts with firms that outsource services directly or indirectly, or impact private industry with measures that include, but are not limited to, tax disincentives, fees or penalties, intellectual property transfer restrictions, mandatory government audit requirements, and new standards that have the effect of restricting the use of certain business and/or work visas. Existing and future legislative and administrative/regulatory policies restricting the performance of business process services from an offshore location in jurisdictions in Europe, the Asia Pacific or any other region in which the company has clients could also have a material adverse effect on CTS' business, results of operations and financial condition. Given the ongoing debate over outsourcing, the introduction and consideration of other restrictive legislation or regulations is possible. If enacted, such measures may broaden existing restrictions on outsourcing by federal and state government agencies and could affect the company's business, results of operations and financial condition. Such restrictions could force IT outsourcing companies such as CTS to change its business model which in turn could significantly impact revenues and profitability.

Foreign Currency Exchange Risk

The company operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies, as it conducts business operations worldwide. Significant part of its revenue is also denominated in other currencies such as European Euro, Indian Rupee, British pound, and other. Major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2017, the company reported a gain of US\$111 million

from foreign currency translation adjustments as compared to loss of US\$59 million in FY2016 and US\$55 million. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging activities by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

Intense Competition

The company operates in intensely competitive industry that experiences rapid technological developments. The intensely competitive IT, consulting and BPO professional services markets include a large number of participants and are subject to rapid change. The market includes participants from a variety of market segments, including systems integration firms; contract programming companies; application software companies; large or traditional consulting firms; professional services groups of computer equipment companies; and facilities management and outsourcing companies. The company's direct competitors include Accenture, Atos Origin, Capgemini, Computer Sciences Corporation, Deloitte Digital, Genpact, HCL Technologies, HP Enterprise, IBM Global Services, Infosys Technologies, Tata Consultancy Services, and Wipro. Many of these competitors have significantly greater financial, technical and marketing resources and greater name recognition and, therefore, may be better able to compete for new work and skilled professionals. Additionally, the company competes with numerous smaller local competitors in various geographic markets. These local players may be able to provide services and solutions at lower costs or on terms more attractive to clients. Moreover, CTS faces competition from companies that increase in size or scope as the result of strategic mergers or acquisitions. These transactions may include consolidation activity among hardware manufacturers, software companies and vendors, and service providers. The result of any such vertical integration may be greater integration of products and services that were once offered separately by independent vendors. The company's access to such products and services may be reduced as a result of such an industry trend, which could adversely impact its competitive position.

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