

## Blyth Fund

### Cognizant Technology Solutions Corp.

Date: November 5, 2006

Proposal: Sell Proposal

Ticker: CTSH

Current Price: 73.34

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Profile: Cognizant Technology Solutions Corporation provides custom information technology (IT) consulting and technology services in North America, Europe, and Asia. Its services include technology strategy consulting, complex systems development, enterprise software package implementation and maintenance, data warehousing and business intelligence, application testing, application maintenance, and infrastructure management. The company also offers outsourcing services, which include application maintenance, IT infrastructure outsourcing, and business process outsourcing. Its IT consulting and technology services comprise business process consulting; IT strategy consulting; technology consulting; software testing services; and application design, development, integration, and re-engineering. Cognizant Technology primarily offers its services to the companies in the financial, healthcare, retail, telecommunications, and information services industries. The company was founded in 1994 and is headquartered in Teaneck, New Jersey.

*From Yahoo! Finance*

#### The Numbers:

<b>Shares Outstanding:</b>	140.90M	<b>Market Cap:</b>	\$10.47B
<b>P/E / Forward P/E</b>	56.0 / 51.0	<b>PEG Ratio</b>	1.45
<b>EPS Growth – 1 Year</b>	60.96%	<b>EPS Growth - 5 years</b>	50.73%
<b>EPS Growth – Projected Mean Rate</b>	33.10%		
<b>P/book</b>	12.1	<b>P/sales</b>	9.5
<b>Operating Margins</b>	19.01%	<b>Net Margins</b>	18.0%
<b>Cash Now / November 2005</b>	468.20M /	<b>Debt/Equity</b>	N/A
<b>ROE</b>	22.9%	<b>ROA</b>	19.2%
<b>Dividend</b>	N/A	<b>Dividend Yield</b>	N/A

<b>Growth Rates</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
<b>Sales %</b>	50.99	56.96	45.25
<b>EPS %</b>	60.96	60.98	50.73
<b>Dividend %</b>	N/A	N/A	N/A



*From Morningstar.com*

#### Sector Analysis:

Cognizant is one of several technology outsourcers sending development, application maintenance, and IT infrastructure to India. Cognizant and other offshore service firms are attracted to Indian because of the large number (300,000) of high quality, English speaking engineers annually. Software professionals earn less than a third of the pay that their counterparts in the developed world make. There is obviously much more room left to grow in the sector, and Cognizant regularly earns returns on capital of 30%. However, the factors that have driven this growth are beginning to change. Because of the immense demand for IT professionals, (a competitor, Infosys, plans to hire 12,000 people this year), companies are having to recruit from lesser known universities. Base salaries are rising as much as 20% annually, and companies are paying larger bonuses and even stock to retain talent. The mounting supply constraints, coupled with associated costs, are a major concern given Cognizant's already expensive multiple.

#### Reasons to Sell:

- Cognizant is extremely overpriced
  - Currently trades at a PE of 56, forward PE of 51
  - Morningstar Fair value estimate of \$30.00
- Macro Trends Suggest slowed growth ahead
  - Projected Mean EPS of 33.10% vs 60.96%ttm
  - Slowing growth makes it hard to justify such a rich multiple

- Cognizant faces growing competition from top-tier Indian offshore firms with better name recognition and a more global reach, such as Infosys and Accenture
- The Fund has made a great appreciation with Cognizant, and it would be worthwhile to liquidate the position in order to explore new opportunities

## Income Statement

Get **Income Statement** for:

 

View: **Annual Data** | [Quarterly Data](#)

All numbers in thousands

PERIOD ENDING	31-Dec-05	31-Dec-04	31-Dec-03
<b>Total Revenue</b>	<b>885,830</b>	<b>586,673</b>	<b>368,231</b>
Cost of Revenue	479,915	319,810	199,724
<b>Gross Profit</b>	<b>405,915</b>	<b>266,863</b>	<b>168,507</b>
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	206,899	132,796	84,259
Non Recurring	-	-	-
Others	21,400	16,447	11,936
Total Operating Expenses	-	-	-
<b>Operating Income or Loss</b>	<b>177,616</b>	<b>117,620</b>	<b>72,312</b>
Income from Continuing Operations			
Total Other Income/Expenses Net	7,656	4,475	(81)
Earnings Before Interest And Taxes	185,272	122,095	72,231
Interest Expense	-	-	-
Income Before Tax	185,272	122,095	72,231
Income Tax Expense	19,006	21,852	14,866
Minority Interest	-	-	-
Net Income From Continuing Ops	166,266	100,243	57,365
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-

Effect Of Accounting Changes	-	-	-
Other Items	-	-	-

<b>Net Income</b>	<b>166,266</b>	<b>100,243</b>	<b>57,365</b>
Preferred Stock And Other Adjustments	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$166,266</b>	<b>\$100,243</b>	<b>\$57,365</b>

## Balance Sheet

Get **Balance Sheet** for:

View: **Annual Data** | [Quarterly Data](#)

All numbers in thousands

PERIOD ENDING	31-Dec-05	31-Dec-04	31-Dec-03
<b>Assets</b>			
Current Assets			
Cash And Cash Equivalents	196,938	293,446	194,221
Short Term Investments	227,063	21,315	-
Net Receivables	219,448	127,332	75,862
Inventory	-	-	-
Other Current Assets	19,974	11,904	8,414
<b>Total Current Assets</b>	<b>663,423</b>	<b>453,997</b>	<b>278,497</b>
Long Term Investments	-	-	-
Property Plant and Equipment	146,982	90,705	58,438
Goodwill	18,223	9,701	4,477
Intangible Assets	16,277	12,126	16,436
Accumulated Amortization	-	-	-
Other Assets	7,741	6,216	2,741
Deferred Long Term Asset Charges	17,247	-	-
<b>Total Assets</b>	<b>869,893</b>	<b>572,745</b>	<b>360,589</b>
<b>Liabilities</b>			
Current Liabilities			
Accounts Payable	155,748	90,450	62,636
Short/Current Long Term Debt	-	-	-

Other Current Liabilities	-	24,610	-
<b>Total Current Liabilities</b>	<b>155,748</b>	<b>115,060</b>	<b>62,636</b>
Long Term Debt	-	-	-
Other Liabilities	-	-	-
Deferred Long Term Liability Charges	-	4,156	23,883
Minority Interest	-	-	-
Negative Goodwill	-	-	-
<b>Total Liabilities</b>	<b>155,748</b>	<b>119,216</b>	<b>86,519</b>
<b>Stockholders' Equity</b>			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	1,393	1,342	643
Retained Earnings	417,482	251,216	150,973
Treasury Stock	-	-	-
Capital Surplus	293,149	191,322	118,454
Other Stockholder Equity	2,121	9,649	4,000
<b>Total Stockholder Equity</b>	<b>714,145</b>	<b>453,529</b>	<b>274,070</b>
<b>Net Tangible Assets</b>	<b>\$679,645</b>	<b>\$431,702</b>	<b>\$253,157</b>

## Cash Flow

Get Cash Flow for:

View: [Annual Data](#) | [Quarterly Data](#)

All numbers in thousands

PERIOD ENDING	31-Dec-05	31-Dec-04	31-Dec-03
<b>Net Income</b>	<b>166,266</b>	<b>100,243</b>	<b>57,365</b>
<b>Operating Activities, Cash Flows Provided By or Used In</b>			
Depreciation	21,400	16,447	11,936
Adjustments To Net Income	3,991	15,000	23,787
Changes In Accounts Receivables	(55,827)	(42,739)	(13,442)
Changes In Liabilities	40,563	50,170	17,420
Changes In Inventories	-	-	-
Changes In Other Operating Activities	(16,633)	(11,788)	(17,204)
<b>Total Cash Flow From Operating Activities</b>	<b>159,760</b>	<b>127,333</b>	<b>79,862</b>

<b>Investing Activities, Cash Flows Provided By or Used In</b>			
Capital Expenditures	(71,770)	(46,581)	(29,991)
Investments	(112,965)	(20,318)	-
Other Cashflows from Investing Activities	(19,811)	(1,495)	(7,823)
<b>Total Cash Flows From Investing Activities</b>	<b>(204,546)</b>	<b>(68,394)</b>	<b>(37,814)</b>
<b>Financing Activities, Cash Flows Provided By or Used In</b>			
Dividends Paid	-	-	-
Sale Purchase of Stock	47,451	36,768	24,740
Net Borrowings	-	-	-
Other Cash Flows from Financing Activities	-	-	(2,963)
<b>Total Cash Flows From Financing Activities</b>	<b>47,451</b>	<b>36,768</b>	<b>21,777</b>
Effect Of Exchange Rate Changes	(5,023)	3,518	4,185
<b>Change In Cash and Cash Equivalents</b>	<b>(\$2,358)</b>	<b>\$99,225</b>	<b>\$68,010</b>

*Balance Sheet, Cash Flow, and Income Statement from Yahoo! Finance*