

Cognizant Technology Solutions Corporation

Recommendation **HOLD** ★ ★ ★ ★ ★

Price
USD 62.58 (as of Aug 06, 2019 4:00 PM ET)

12-Mo. Target Price
USD 72.00

Report Currency
USD

Investment Style
Large-Cap Value

Equity Analyst David Holt

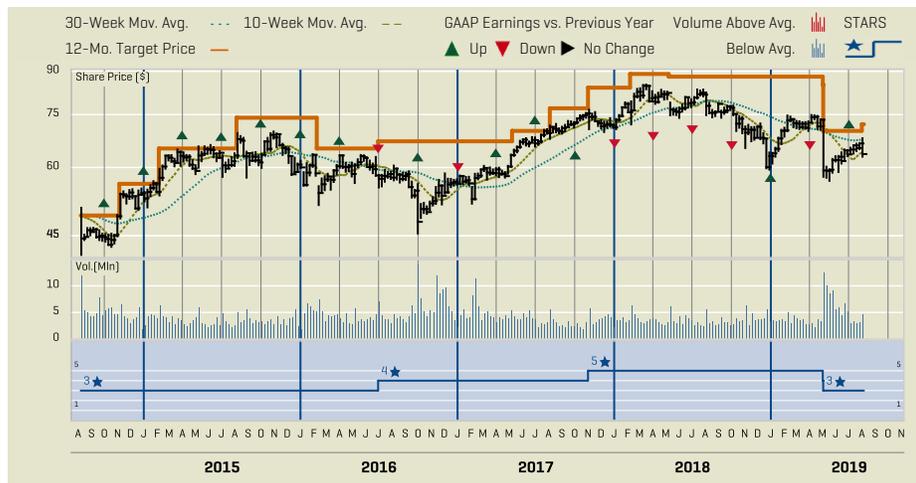
GICS Sector Information Technology
Sub-Industry IT Consulting & Other Services

Summary This company offers full life-cycle solutions to complex software development and maintenance problems.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	USD 78.83 - 56.73	Oper. EPS 2019E	USD 3.92	Market Capitalization(B)	USD 34.56	Beta	1.02
Trailing 12-Month EPS	USD 3.61	Oper. EPS 2020E	USD 4.38	Yield (%)	1.28	3-Yr Proj. EPS CAGR(%)	10
Trailing 12-Month P/E	17.17	P/E on Oper. EPS 2019E	15.83	Dividend Rate/Share	USD 0.80	SPGMI's Quality Ranking	A-
\$10K Invested 5 Yrs Ago	\$13,183	Common Shares Outstg.(M)	552.29	Institutional Ownership (%)	98		

Price Performance



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst David Holt on Aug 06, 2019 04:01 PM, when the stock traded at USD 62.04.

Highlights

- An improving IT spending backdrop drove revenue growth of 9% in 2018, as enterprise demand for digitized workflows fueled growth in Consulting and Technology. Although CTSH's deep ties to data and analytics and its low base of digital-related revenues (~35%) have the potential to drive a long runway of future growth, company-specific execution issues and isolated industry weakness in Financial Services and Health Care make any chance of a top-line recovery a 2020 story at best. We see a revenue increase of 3.5% in 2019, following CTSH's revised outlook earlier in the year, which remains disappointing at best.
- On a go-forward basis, CTSH will include stock-based compensation expense and acquisition-related charges in its operating margin measure. As such, we see a 2019 operating margin of ~16.5%, which outpaces the IT Consulting space (mean of ~14%), but materially below initial estimates of ~19%. We expect CTSH to pull levers in second half 2019 to align its cost structure with the revised top-line expectations.
- CTSH's balance sheet remains solid with \$3.0B in cash (debt-to-EBITDA of less than 1x). FCF remains robust (~\$2.0B expected in '19).

Investment Rationale/Risk

- Following the recent recovery in price, we think the shares are fairly valued, reflected in our Hold rating. The reduced outlook earlier in '19 remains perplexing at best, given CTSH issued its growth and margin outlook in late '18 (Analyst Day), which was reiterated in early '19. This chain of events altered our investment thesis, leading to our downgrade. Looking ahead, we think progress is needed to restore investor confidence, specifically around pain points (banking, which makes up three of five largest clients, and health care). This remains a tall task, in our view, given CTSH will need to balance attrition (up to 23% in Q2) while delicately balancing investments to reinvigorate growth simultaneously.
- Risks to our opinion include lower IT spend, likely induced by specific events (Brexit) or macro deterioration. A failure to acquire (and retain) digital talent or properly remix workflows to address new demand could also adversely affect the stock.
- Our 12-month target of \$72, 16.4x our 2020 EPS estimate, is below CTSH's closest peers at 22x, warranted by execution issues, in our view.

Analyst's Risk Assessment

LOW	MEDIUM	HIGH
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Our risk assessment reflects what we see as CTSH's strong balance sheet and steady cash flows, which is offset by isolated industry vertical weakness (Financial Services) and emerging competition from more nimble and innovative IT services peers.

Revenue/Earnings Data

Revenue (Million USD)	1Q	2Q	3Q	4Q	Year
2019	4,110	4,141	--	--	--
2018	3,912	4,006	4,078	4,129	16,125
2017	3,546	3,670	3,766	3,828	14,810
2016	3,202	3,370	3,453	3,462	13,487
2015	2,911	3,085	3,187	3,233	12,416
2014	2,422	2,517	2,581	2,742	10,263

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2020	E 0.99	E 1.04	E 1.15	E 1.20	E 4.38
2019	0.77	0.90	E 1.02	E 1.05	E 3.92
2018	0.88	0.78	0.82	1.12	3.60
2017	0.92	0.80	0.84	-0.03	2.53
2016	0.72	0.41	0.73	0.68	2.55
2015	0.62	0.68	0.65	0.69	2.65

Fiscal year ended Dec 31. Next earnings report expected: Late Oct. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

No cash dividends have been paid in the last year.

Cognizant Technology Solutions Corporation

Business Summary February 11, 2019

CORPORATE OVERVIEW. Cognizant Technology Solutions began operations in 1994 as an in-house technology development center for Dun & Bradstreet Corp. and its operating units. In its June 1998 IPO, 2,917,000 common shares were sold at \$10 each.

The company's objective is to be a leading provider of full life-cycle e-business and application development projects, take full responsibility for ongoing management of a client's software systems, and help clients move legacy transformation projects through to completion. The company's solutions include application development and integration, application management, and re-engineering services.

Applications development services are provided using a full life-cycle application development approach in which the company assumes total start to finish responsibility and accountability for analysis, design, implementation, testing and integration of systems, or through cooperative development, in which CTSH employees work with the customer's in-house IT personnel. In either case, the company's on-site team members work closely with end users of the application to develop specifications and define requirements.

CTSH applications management services seeks to ensure that a customer's core operational systems are free of defects and responsive to end-users' changing needs. The company is often able to introduce product and process enhancements and improve service levels.

Through its re-engineering services, the company works with customers to migrate systems based on legacy computing environments to newer, open systems-based platforms and client/server architectures, often in response to the more stringent demands of e-business. CTSH's re-engineering tools automate many processes required to implement advanced client/server technologies.

CORPORATE STRATEGY. CTSH's business strategy includes developing long-term customer relationships and strategic alliances; extending service offerings and solutions; enhancing processes, methodologies and productivity toolsets; expanding its domestic and international geographic presence; and pursuing selective strategic acquisitions.

MARKET PROFILE. The global market for IT services is large, with many diverse services being offered. IDC, a technology research consultant, estimates that the total market was more than \$906.2 billion in 2015, and it expects the market to expand at a compound annual growth rate of 3.9% through 2020.

We think that the trend toward outsourcing work to areas of the world with low labor costs will become more common, and that the Indian outsourcers are in a position to continue to profit from this shift, due to the country's large supply of highly educated, low cost workers. We note, however, that labor costs have been rising in India, as demand for workers increases, not only from Indian employers, such as rival Infosys (INFY 17**), but also from multinational corporations, which have opened bases of operation to take advantage of the labor force. In the near term, we think that wage inflation will not limit the growth of companies operating in the area. Longer term, however, we think that rising wages will begin to erode operating margins.

COMPETITIVE LANDSCAPE. We think that barriers to entry are relatively high in the IT services sector. In our opinion, a large infrastructure is needed to process what is typically a varied group of needs with worthwhile cost savings to a diverse customer base. Since companies in this sector tend to have steady, predictable cash flow and a large amount of cash on their balance sheets, we see an acquisition period ahead, where industry leaders will acquire smaller players. We think the purchases typically help the acquiring company in two ways. First, they allow the company to offer a more varied line of products, and second, they add to the company's labor force. We think the latter issue is important, particularly in India, because as more companies begin operations there, the demand for labor is increasing dramatically.

FINANCIAL TRENDS. IT service providers tend to have steady cash inflows, a consequence of the long-term contracts that they generally enter into with their clients. Accordingly, these companies often have what we view as strong balance sheets. As of the end of 2013, CTSH had \$3.7 billion in cash and short-term investments, and no debt. As of the end of 2017, the company has \$5.1 billion in cash and short-term investments and \$773 million in debt, following larger acquisitions (TriZetto).

Corporate Information

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Officers

Chairman

M. Patsalos-Fox

CEO & Director

B. Humphries

Executive VP, General Counsel, Chief Corporate Affairs Officer & Secretary

M. W. Friedrich

Executive VP & Chief Operating Officer

S. Veeraraghavachary

Chief Financial Officer

K. A. McLoughlin

Board Members

B. Humphries

F. D'Souza

J. C. Chadwick

J. E. Klein

J. M. Dineen

J. M. Velli

J. N. Fox

L. S. Mackay

M. A. Breakiron-Evans

M. Patsalos-Fox

S. S. Wijnberg

Z. Abdalla

Domicile

Delaware

Founded

1994

Employees

281,600

Auditor

PricewaterhouseCoopers LLP

Cognizant Technology Solutions Corporation

Quantitative Evaluations	
Fair Value Rank	<div style="display: flex; justify-content: space-between; align-items: center;"> 3 <div style="display: flex; gap: 5px;"> 1 2 3 4 5 </div> </div> <p style="font-size: small; margin-top: 5px;">LOWEST HIGHEST Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].</p>
Fair Value Calculation	<p>USD 72.06</p> <p>Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that CTSH is slightly undervalued by USD 9.48 or 15.1%.</p>
Volatility	<div style="display: flex; justify-content: space-around; border: 1px solid black; padding: 2px;"> LOW AVERAGE HIGH </div>
Technical Evaluation	<p>NEUTRAL</p> <p>Since August, 2019, the technical indicators for CTSH have been NEUTRAL.</p>
Insider Activity	<div style="display: flex; justify-content: space-around; border: 1px solid black; padding: 2px;"> UNFAVORABLE NEUTRAL FAVORABLE </div>

Expanded Ratio Analysis		2018	2017	2016	2015
Price/Sales		2.30	2.85	2.53	2.96
Price/EBITDA		11.17	13.94	12.68	14.88
Price/Pretax Income		10.91	14.00	12.33	14.93
P/E Ratio		17.63	28.07	21.97	22.65
Avg. Diluted Shares Outsg. (M)		584	595	610	613

Figures based on fiscal year-end price

Key Growth Rates and Averages		1 Year	3 Years	5 Years
Past Growth Rate [%]				
Sales		8.88	9.10	12.77
Net Income		39.69	8.96	11.33
Ratio Analysis [Annual Avg.]				
Net Margin [%]		NM	NM	NM
% LT Debt to Capitalization		6.02	NA	NA
Return on Equity [%]		19.02	NA	NA

Company Financials Fiscal year ending Dec. 31

Per Share Data (USD)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tangible Book Value	11.77	11.88	11.88	9.87	7.18	9.15	7.39	5.88	5.39	4.01
Free Cash Flow	3.81	3.58	2.22	3.14	2.07	1.92	1.39	0.97	0.96	1.02
Earnings	3.60	2.53	2.55	2.65	2.35	2.02	1.72	1.43	1.19	0.89
Earnings (Normalized)	3.04	2.91	2.44	2.21	1.96	1.73	1.42	1.18	0.89	0.66
Dividends	0.80	0.45	NA	0.03	NA	NA	NA	NA	NA	NA
Payout Ratio [%]	22	18	NA	NA	NA	NA	NA	NA	NA	NA
Prices: High	85.10	76.51	63.43	69.80	54.89	50.56	NA	41.74	37.40	23.30
Prices: Low	59.47	51.52	45.44	50.71	41.51	30.46	NA	26.77	21.04	8.63
P/E Ratio: High	33.6	25.5	24.8	28.1	53.2	51.9	NA	70.0	68.6	55.0
P/E Ratio: Low	22.0	20.2	19.2	22.2	19.4	34.5	NA	41.0	49.7	24.1

Income Statement Analysis (Million USD)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenue	16,125	14,810	13,487	12,416	10,263	8,843	7,346	6,121	4,592	3,279
Operating Income	2,836	2,589	2,316	2,142	1,885	1,678	1,361	1,136	862	618
Depreciation + Amortization	484	443	379	330	208	180	157	124	110	89
Interest Expense	27.0	23.0	19.0	18.0	3.0	NA	NA	NA	NA	NA
Pretax Income	2,799	2,657	2,358	2,164	1,924	1,688	1,388	1,169	879	637
Effective Tax Rate	24.9	43.4	34.1	25.0	25.2	27.2	24.2	24.4	16.5	16.0
Net Income	2,101	1,504	1,553	1,624	1,439	1,229	1,051	884	734	535
Net Income (Normalized)	1,774	1,729	1,488	1,352	1,201	1,054	866	730	549	398

Balance Sheet and Other Financial Data (Million USD)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Cash	4,511	5,056	5,169	4,949	3,775	3,747	2,864	2,432	2,226	1,399
Current Assets	8,677	9,111	8,600	7,909	6,421	6,148	4,814	4,086	3,518	2,308
Total Assets	15,913	15,221	14,262	13,061	11,479	8,135	6,522	5,508	4,583	3,338
Current Liabilities	2,777	2,839	2,418	2,714	2,592	1,775	1,377	1,210	931	647
Long Term Debt	736	698	797	877	938	NA	NA	NA	NA	NA
Total Capital	12,230	11,542	11,606	10,561	9,378	6,136	4,854	3,953	3,584	2,653
Capital Expenditures	377	284	300	273	212	262	334	288	186	77
Cash from Operations	2,592	2,407	1,645	2,187	1,473	1,424	1,173	875	765	672
Current Ratio	3.12	3.21	3.56	2.91	2.48	3.46	3.50	3.38	3.78	3.57
% Long Term Debt of Capitalization	6.02	6.05	6.87	8.30	10.00	NA	NA	NA	NA	NA
% Net Income of Revenue	13.0	10.2	11.5	13.1	14.0	13.9	14.3	14.4	16.0	16.3
% Return on Assets	11.4	11.0	10.6	10.9	12.0	14.3	14.1	14.1	13.6	13.5
% Return on Equity	19.0	14.1	15.5	19.1	20.7	22.4	23.9	23.4	23.5	23.2

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Cognizant Technology Solutions Corporation

Sub-Industry Outlook

We have a positive fundamental outlook for the IT Consulting & Other Services sub-industry. A relatively soft macroeconomic backdrop and overseas uncertainty (i.e. Brexit) largely constrained client IT spending in 2016 and 2017. For 2018, clients started to resume previously delayed IT projects, which resulted in spending levels more in line with historical levels (~4.5% in 2018).

Looking to 2019, we think IT services spend remains resilient [we see 3.5%], as newer digital project-oriented workflows [consulting and application development] mask traditional managed services [outsourcing]. Per IDC, a provider of data, worldwide IT services is expected to increase at a compound annual growth rate of 3.9% between 2018 and 2023. IDC sees outsized strength in business consulting (CAGR of 8.1%) and application development and management (CAGR of 5.3% and 6.2%, respectively).

Demand for digitized workflows remain a key driver, as properly aligned companies capture client demand and generate strong growth [15%+]. We think this extends beyond 2019, but we think execution becomes increasingly important, as clients favor business improvements over innovative concepts not ready for mainstream.

As the catch-all 'digital' work drives higher levels of benefit at clients, we think this transcends through companies in the sub-industry, as new winners and losers emerge. The correct makeup of human capital becomes increasingly vital, in our view, as it empowers companies with the correct DNA to internally build, scale and deliver workflows, instead of heavily leaning on inorganic strategies.

A real-world example highlighting the importance of talent is having the correct product development and operations (e.g., DevOps) team to build cloud-native applications, opposed to

redeveloping single-purposed workloads tucked away on centralized servers, which constrain usability for clients.

New pricing strategies have also gained momentum, such as a transition to shorter-duration contracts and outcome-based pricing [from more commoditized structures] -- aiding in opportunities to improve margins and overall return on investment [ROI].

In the government IT marketplace, we view the recent bump in spending on IT-related defense and homeland security initiatives as a tailwind. Procurement of awards have largely improved, which will see little change in FY 20, as the U.S. Intelligence Budget currently implies a 6% rise. The step-change in sentiment towards the need for full-spectrum cyber and IT modernization remain longer-term positives, in our view.

Potential reverberations of Brexit remain a macroeconomic uncertainty, given Theresa May's recent resignation as Prime Minister. While future outcomes [Hard Brexit or No Brexit scenario] have now been largely established, odds for each decision largely hinge on succession plans, in our view. Acknowledging this could remain an overhang on the sub-industry, we see a scenario where this could drive clients to seek consultancy as they brace for economic volatility to exploit operational redundancies and direct spend towards projects that drive tangible business outcomes.

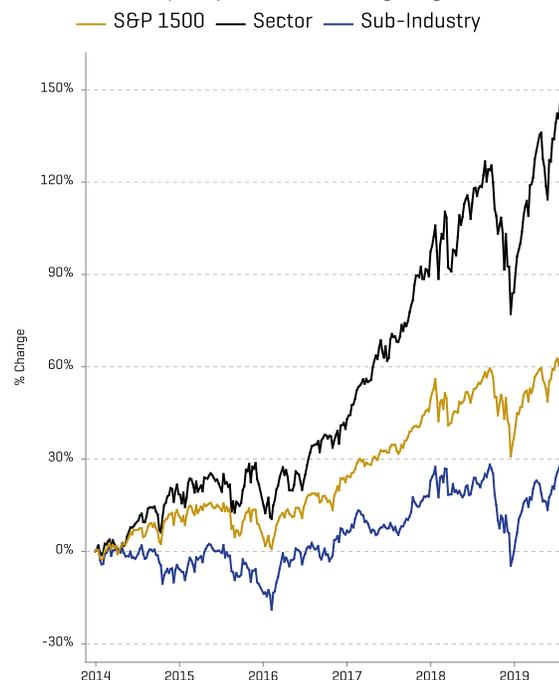
The S&P 1500 IT Consulting & Services Index rose 19.8% through June 7, 2019, compared with a 14.4% increase for the S&P 1500. In 2018, the sub-industry index declined 17.3%, versus a drop from the S&P 1500 of 7.6%, largely driven by absent execution on strategic priorities across select companies.

/David Holt

Industry Performance

GICS Sector: Information Technology Sub-Industry: IT Consulting & Other Services

Based on S&P 1500 Indexes
Five-Year market price performance through Aug 06, 2019



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: S&P Global Market Intelligence

Sub-Industry: IT Consulting & Other Services Peer Group*: IT Consulting & Other Services

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
Cognizant Technology Solutions Corporation	CTSH	NasdaqGS	USD	62.58	34,562	-3.3	-20.3	17	72.06	1.3	19.0	6.0
CGI Inc.	GIB.A	TSX	CAD	99.85	26,816	-1.5	20.6	23	101.08	Nil	17.7	17.4
Cappgemini SE	CGEM.Y	OTCPK	USD	24.33	20,113	-5.7	-3.1	23	NA	1.6	10.0	29.8
DXC Technology Company	DXC	NYSE	USD	49.65	13,229	-12.1	-42.9	11	147.13	1.7	9.6	25.2
EPAM Systems, Inc.	EPAM	NYSE	USD	179.91	9,829	-0.1	40.6	43	191.09	Nil	21.5	1.9
Fujitsu Limited	FJTS.Y	OTCPK	USD	15.32	15,536	6.8	12.5	4	NA	1.8	15.1	15.6
Gartner, Inc.	IT	NYSE	USD	128.44	11,577	-24.0	-8.3	54	116.99	Nil	13.4	67.6
Infosys Limited	INFY	NYSE	USD	11.00	46,339	2.9	6.8	10	NA	2.2	24.1	NA
Leidos Holdings, Inc.	LDOS	NYSE	USD	80.04	11,510	-2.4	14.9	18	149.26	1.7	17.4	47.7
NTT DATA Corporation	NTDT.Y	OTCPK	USD	12.42	17,423	-9.2	0.9	33	NA	1.2	7.2	32.7
Nomura Research Institute, Ltd.	NRIL.Y	OTCPK	USD	17.87	12,522	9.7	13.4	35	NA	1.5	12.8	6.7

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Cognizant Technology Solutions Corporation**Analyst Research Notes and other Company News****August 01, 2019**

12:39 pm ET... CFRA Maintains Hold Opinion on Cognizant Technology Solutions Corporation [67.03***]: We lift our 12-month target by \$2 to \$72 on 16.4x our '20 EPS estimate, below CTSH's closest peers, justified by recent company-specific issues, in our view. We keep our '19 EPS estimate of \$3.92 and '20's EPS of \$4.38. CTSH reports Q2 adjusted EPS of \$0.94 vs. \$1.19, \$0.02 better than consensus. Q2 revenues were up 3.4% to \$4.14B, outpacing the \$4.13B consensus on a step-up in digital (now 35% of mix), which rose around 25%. By industry, prior weakness in Financial Services (banking softness) and Healthcare (client attrition from M&A) saw improvement, but we still think CTSH needs to see further recovery in the back-half of '19 to fully regain investor confidence. Backfilling attrition and deploying investments, while trying to align with revenue growth (which was once a strength at CTSH) will likely be a longer-term endeavor. More progress toward fully addressing recent execution woes could be needed for multiple expansion to occur after the recent recovery in shares, in our view. /David Holt

May 13, 2019

09:59 am ET... CFRA Adds Procter and Gamble to the High-Quality Capital Appreciation Portfolio [105.5****]: We like the defensive nature of the name and recent organic sales momentum (expecting 4% for FY 19), led by PG's Beauty segment, which, in our view, has plenty of runway ahead in both developed and emerging markets. We think high top- and bottom-line growth can continue, especially with PG's organizational change (effective July 1, 2019) which should help streamline business units from ten to six, increasing focus, efficiency and management accountability. While shares currently trade at a premium to their five-year forward average (22.3x vs 20.9x) we think this is warranted by PG's ability to drive category growth with limited exposure to China. The 3% dividend yield adds to total return potential, in our view. PG replaces Cognizant (CTSH) in the High-Quality Capital Appreciation Portfolio, following CTSH's recent downgrade. The sharp change in narrative around revenue and margin growth on weakness in key industry verticals (Health Care and Financial Services) led to our downgrade. David Holt

May 03, 2019

12:32 pm ET... CFRA Lowers Opinion on Cognizant Technology Solutions Corp. to Hold from Buy [59.57***]: We reduce our 12-month target to \$70 from \$85, 17.9x our '19 EPS estimate, below CTSH's closest peers, warranted by recent execution issues, in our view. We cut our '19 EPS estimate to \$3.92 from \$4.48 and '20's EPS to \$4.38 from \$5.05. CTSH prints Q1 EPS of \$0.91 vs. \$1.06, missing consensus by \$0.13 on operating margin pressure (contracted 430 bps to 16%). Revenues of \$4.11B rose 5.1%, but missed consensus of \$4.16B, as larger-than-expected shortfalls in Financial Services and Healthcare drove the miss. The severity of the reduced outlook remains perplexing, in our view, given the client-specific pain points in Banking (3 of 5 large clients) and Healthcare were widely conveyed in late '18 (Analyst Day) and early '19 (Q4 '18 call), implying the accelerated deterioration happened over the last couple months. While much of the bad news is likely priced into shares after recent pressure, our lack of confidence in management and validity around a near-term recovery leads to our downgrade. /David Holt

May 02, 2019

02:52 pm ET... CFRA Lowers Opinion on Cognizant Technology Solutions to Buy from Strong Buy [71.98****]: We reduce our 12-month target by \$3 to \$85, 19x our '19 EPS estimate, below CTSH's closest comparable IT services peers, despite comparable growth profiles (high-single digits for revenues) and balance sheet flexibility (\$3.8B in net cash). We trim our '19 EPS estimate to \$4.48 from \$4.55, but keep '20's EPS at \$5.05. Our target and rating revision reflect our risk first, fundamental-driven approach. We still believe CTSH remains a top-tier IT consulting company, rivaled by few in the space given its deep ties to data and analytics (digital growth at 25%+ rates), which we think allow for solid organic growth in out-years. Still, chances for emerging risk largely out of CTSH's control, including overseas uncertainty (e.g., Brexit) preventing a sustained recovery in banking (two out of its largest five clients). While the temporary lull in CTSH's Healthcare vertical in store for Q1 is widely conveyed, we remain wary of the second half recovery expected to follow. /David Holt

February 06, 2019

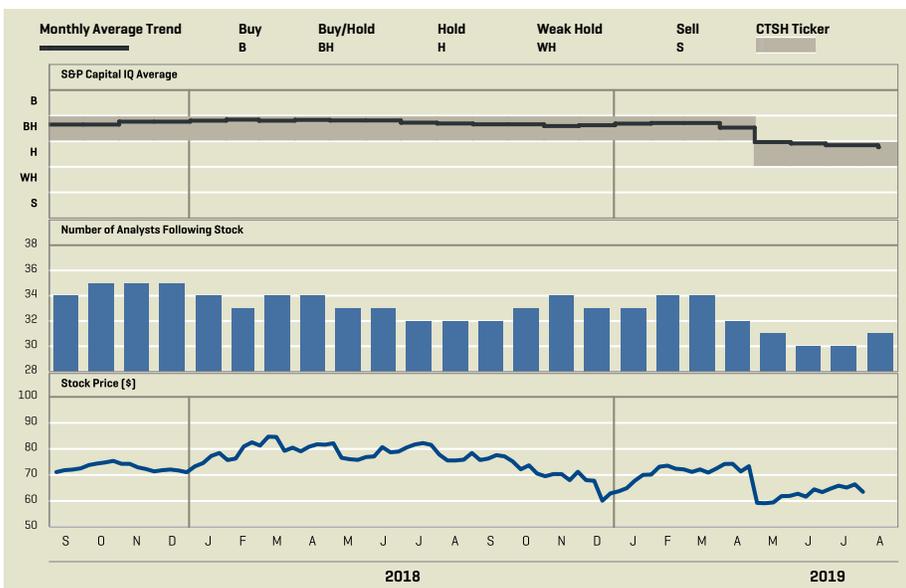
03:46 pm ET... CFRA Maintains Strong Buy Opinion on Shares of Cognizant Technology Solutions [74.27****]: We keep our 12-month target of \$88, 19.3x our '19 EPS estimate, below CTSH's closest peers, despite a comparable growth profile, ample free cash flow (\$2.2B in '18) and a clean balance sheet (\$3.8B in net cash). We revise our '19 EPS estimate to \$4.55 from \$5.17 and set '20's EPS at \$5.05, reflecting the inclusion of stock-based comp expense (still 10%+ EPS growth on adjusted base). CTSH posts Q4 EPS of \$1.13 vs. \$1.03, beating consensus by \$0.07, helped by a lower tax rate. Revenues rose 7.9% to \$4.13B, better than consensus of \$4.11B, as strong demand in Communications and Media (up 18.4%) offset Banking and Financial Services (up 2.8%). CTSH's lower attrition rate (declined 300 bps q/q), likely helps curb fears around margin impacts (wage inflation) and overall talent retention needed for digital workflows. Momentum in digital growth (up 25% in Q4) and towards a recovery in Financial Services suggest current revenue expectations for 2019 (7%-9%) could remain modest, in our view. /David Holt

October 31, 2018

02:11 pm ET... CFRA MAINTAINS STRONG BUY OPINION ON SHARES OF COGNIZANT TECHNOLOGY SOLUTIONS [69.28****]: Our 12-month target remains unchanged at \$88, 17X our '19 EPS estimate. We think near-sighted pessimism around top-line FX impacts (100 bps) and EPS (tax higher by 200 bps) for Q4 has created a wide valuation gap compared to its closest peers, despite a comparable growth profile, leading industry margins (20%+ vs. 14.5%) and ample financial flexibility (FCF of \$768M in Q3). We keep our '18 EPS estimate of \$4.50 and '19's EPS of \$5.17. CTSH reported Q3 EPS of \$1.19 vs. \$0.98 the year prior, better than the \$1.13 consensus, on strong operating margin expansion (110 bps to 21.1%). Revenues rose 8.3% to \$4.08B, consensus in line, as solid digital growth (20%+) was pressured by isolated results within Banking and Financial Services (up 2.6%). We think this pressure gradually dissipates as clients fully transition to digital channels of work and absorb legacy IT banking declines, in our view. We look forward to CTSH's analyst day, which will be held on November 16, 2018. /David Holt

Cognizant Technology Solutions Corporation

Analysts' Recommendations



Wall Street Consensus Opinion

HOLD

Wall Street Consensus vs. Performance

For fiscal year 2019, analysts estimate that CTSH will earn USD \$3.94. For the 2nd quarter of fiscal year 2019, CTSH announced earnings per share of USD \$0.90, representing 22.8% of the total revenue estimate. For fiscal year 2020, analysts estimate that CTSH's earnings per share will grow by 10% to USD \$4.32.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	4	13	4	6
Buy/Hold	4	13	4	4
Hold	19	61	19	18
Weak Hold	2	6	2	2
Sell	1	3	0	0
No Opinion	1	3	1	1
Total	31	100	30	31

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2020	4.32	4.64	4.01	27	14.5
2019	3.94	4.00	3.69	28	15.9
2020 vs. 2019	▲10%	▲16%	▲9%	▼-4%	▼-9%
Q3'20	1.12	1.23	1.02	17	55.8
Q3'19	1.05	1.07	1.02	25	59.6
Q3'20 vs. Q3'19	▲7%	▲15%	0%	▼-32%	▼-6%

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Cognizant Technology Solutions Corporation

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index [S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index]), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
 CAPEX - Capital Expenditures
 CY - Calendar Year
 DCF - Discounted Cash Flow
 DDM - Dividend Discount Model
 EBIT - Earnings Before Interest and Taxes
 EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
 EPS - Earnings Per Share
 EV - Enterprise Value
 FCF - Free Cash Flow
 FFO - Funds From Operations

FY - Fiscal Year
 P/E - Price/Earnings
 P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
 R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
 ROI - Return on Investment
 ROIC - Return on Invested Capital
 ROA - Return on Assets
 SG&A - Selling, General & Administrative Expenses
 SOTP - Sum-of-The-Parts
 WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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STARS Stock Reports:

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of March 31, 2019

Ranking	North America	Europe	Asia	Global
Buy	35.5%	32.4%	39.4%	35.4%
Hold	54.8%	54.4%	41.7%	53.2%
Sell	9.7%	13.2%	18.9%	11.3%
Total	100.0%	100.0%	100.0%	100.0%

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