**Cognizant (CTSH) Q4 Earnings Beat Estimates, Revenues Up Y/Y**

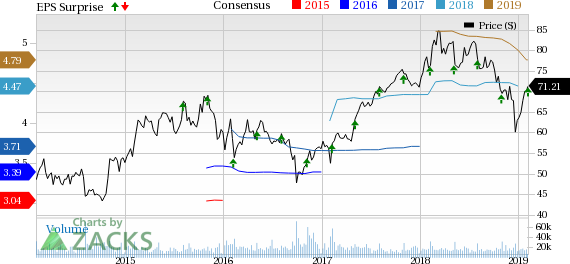
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**Zacks Equity Research**

[Zacks](http://www.zacks.com/)•February 6, 2019

**Cognizant Technology Solutions Corp.** CTSH reported fourth-quarter 2018 non-GAAP earnings of $1.13 per share that beat the Zacks Consensus Estimate of $1.05. The figure increased 9.7% from the year-ago quarter and was also better than management’s earnings expectation of at least $1.05 per share.  
  
Revenues of $4.129 billion comfortably surpassed the consensus mark of $4.114 billion. The figure improved 8.8% at constant currency (cc) year over year, driven by growth in all four domains. The figure was almost in line with the higher end of the guided range of $4.09-$4.13 billion.  
  
**Quarter Details**  
Segment-wise, Financial services (35.1% of revenues), which includes insurance, banking and transaction processing, grew 2.8% year over year to $1.45 billion. The company witnessed strong growth among insurance customers. Clients focused on cost optimization, regulatory compliance, and the adoption and integration of digital technologies.  
  
Healthcare (29.1% of revenues) grew 7% year over year to $1.20 billion. Per management, compliance, integrated health management, claims investigative services, claims processing, enrollment, membership and billing were the primary focus of clients.  
  
Products and Resources (21.6% of revenues) continued its growth momentum and improved 15.4% year over year to $891 million, driven by growth in energy and utilities customers as well as manufacturing and logistics customers.

**Cognizant Technology Solutions Corporation Price, Consensus and EPS Surprise**



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Communications, Media and Technology (14.2% of revenues) were $585 million, up 20.1% from the year-ago quarter.  
  
Digital revenues grew almost 25% on a year-over-year basis and accounted for 30% of total revenues in the reported quarter.  
  
Further, Consulting & Technology services accounted for 58.2% of revenues. Moreover, outsourcing services contributed 41.8% of revenues. Additionally, roughly 36.6% of Cognizant’s revenues were from fixed price contracts.  
  
Region-wise, revenues from North America increased 6.5% year over year and represented 76.1% of total revenues.  
  
Revenues from Europe increased 20.3% from the year-ago quarter and accounted for 17.9% of total revenues. Revenues from the United Kingdom jumped 17.9% and accounted for 8% of total revenues. Rest of Europe revenues increased 22.3% and accounted for 9.9% of total revenues.  
  
Rest of the World revenues rose 4.7% and represented 5.9% of total revenues. Asia Pacific continued to be negatively impacted by lower spending from certain large banking customers.  
  
**Operating Details**  
Selling, general & administrative (SG&A) expenses, as a percentage of revenues, increased 50 basis points (bps) from the year-ago quarter to 18.8%.  
  
Headcount increased 7,400 sequentially and 21,600 year over year. Quarterly annualized attrition was 19%, up 1% year over year.  
  
Cognizant reported non-GAAP operating margin of 19.5%, which contracted 20 bps from the year-ago quarter.  
  
**Balance Sheet**  
As of Dec 31, 2018, cash and cash equivalents (and short-term investments) were $4.51 billion, down from $4.76 billion as of Sep 30, 2018.  
  
Cognizant generated $702 million in cash from operations. The company bought back 3.6 million shares in the reported quarter.  
  
Cognizant declared a quarterly cash dividend of 20 cents per share payable on Feb 21, 2019.  
  
**Guidance**  
For the first quarter of 2019, Cognizant expects revenues to grow between 7.5% and 8.5% at cc. The Zacks Consensus Estimate for revenues is currently pegged at $4.22 billion that indicates year-over-year growth of 7.9%.  
  
For 2019, revenues are projected to grow between 7% and 9% year over year at cc. The consensus mark for revenues is currently pegged at $17.38 billion that indicates year-over-year growth of 7.9%.  
  
Non-GAAP operating margin is expected to be roughly 19%. Non-GAAP earnings are projected to be at least $4.40 per share.  
  
The Zacks Consensus Estimate for earnings is currently pegged at $4.80 per share.  
  
Cognizant expects to utilize almost 50% of its global free cash flow annually for dividends and share repurchases. Management expects to maintain a dividend payout ratio of roughly 20%. Moreover, the company plans to reduce outstanding share count by almost 1% annually.  
  
Moreover, Cognizant plans to use roughly 25% of free cash flow for acquisitions.  
  
**Zacks Rank & Stocks to Consider**  
Cognizant currently has a Zacks Rank #3 (Hold).