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



**Zacks Equity Research**

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**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**



Cognizant Technology Solutions Corporation Price, Consensus and EPS Surprise | Cognizant Technology Solutions Corporation Quote

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).