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ANALYST QUICK NOTES

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Cognizant Technology Solutions Corp. (NGS: CTSH: BUY)
Target Price: $78
Jim Kelleher, CFA
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Thesis

CTSH helps companies navigate significant technology transitions.

- Fast-growing IT outsourcing company is benefiting from tightly focused vertical approach.
- Cloud, big data, mobile enterprise, and "everything as a service" disrupt traditional on-premises IT models.
- Additionally, companies pursuing global growth are simultaneously seeking to address a range of complex regulatory requirements.

3Q15 Results

- Revenue of $3.19 billion, non-GAAP EPS of $0.76.
- Organic revenue (ex TriZetto) was high-teens.
  - Revenue growth 23%, EPS growth 15%.
  - Beat consensus of $3.16 billion.
  - Matched consensus EPS of $0.76.

4Q15 Guidance

- Forecast revenue of $3.23 billion, non-GAAP EPS of $0.77.
  - Forecast revenue growth 18%, q/q growth 1.3%.
  - Forecast EPS growth 15%.
  - Matched consensus on EPS.
- Revenue about $10 mm below consensus; in 4Q, 4% fewer billing day.

General Commentary On Results

- CEO D'Souza: booking environment remains strong.
- Relative weakness in communications segment appears transitory.
- Pricing environment in spots more competitive, based on unrealistic assumptions about technology-driven productivity.
- Expect overall pricing to remain consistent.

Healthcare

- Major concerns after Health Net agreed to be acquired by Centene (July).
    - Cognizant signed a seven-year, $520 million contract with Centene that began in mid-2015.
- Healthcare remains fastest-growing vertical; 43% growth in 3Q15.
    - Win with New England Healthcare Exchange Network (55 hospitals).
    - Cognizant doing business with Centene while adding new business with other providers.

Cognizant Model

- Grow topline via organic business development and niche acquisitions.
- Expand margins by managing expenses and improving the business mix.
- We look for good growth ahead.
    - Modeling 22% revenue growth and 17% EPS growth in 2015.
    - Mid-teens sales and EPS growth forecast for 2016.

Cognizant vs. Accenture

- CTSH: 5-yr EPS CAGR of 17%, vs. 9% for Accenture.
- Trading at similar 2-year-forward P/E as Accenture, despite faster growth.
- CTSH is growing faster, has better margins and is cheaper than Accenture.

Conclusion

- Pure-play IT services companies are better positioned than diversified technology companies (IBM, HPQ).
- Value: trading at 1.25-times relative P/E (S&P 500) on avg. 2015 & 2016 EPS vs. historical 5-year relative P/E of 1.38-times.
- DFCF valuation indicated in the high-$70s.
- BUY CTSH to $78.