



ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

Cognizant Technology Solutions Corp. (NGS: CTSH: BUY)

Target Price: \$78

Jim Kelleher, CFA

11/11/2015

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.
-

DISCLAIMER

This Note reflects the current thinking of an Argus analyst anticipating or responding to corporate earnings reports or other news relevant to covered companies. This Note may be an initial, real-time response to developments that are expected to impact stocks under coverage; as such, it does not imply that the information in it is correct as of any time after its preparation or that there has been no change in the business, financial condition, prospects, creditworthiness or status of a covered company. The views or opinions expressed in this Note are subject to change pending further analysis. This Note is produced and copyrighted by Argus, and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This Note is not an offer to sell or a solicitation of an offer to buy any security. The information presented in this Note is for general information only and does not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this Note. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this Note constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions and opinions than those represented in this Note, and all opinions are reflective of judgments made on the original date of publication. Those reports may reflect the different assumptions, views and analytical methods of the analysts who prepared them and Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this Note or to update or keep current the information contained in other reports so that such information is consistent with, or not contrary to, the information contained in this Note. Argus Research is an independent investment research provider and is not a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. None of our research is attributable to Argus Investors' Counsel, a registered investment adviser and the asset management arm of Argus Research. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.
