

Ticker:

**CTSH**

**Company Snapshot**



**COGNIZANT TECHNOLOGY SOLUTIONS CORP**  
 Bloomberg Rating: IG1 Sector: Information Technology Industry: IT Services Sub-Industry: IT Consulting & Other Services FY End: December 2020 EPS

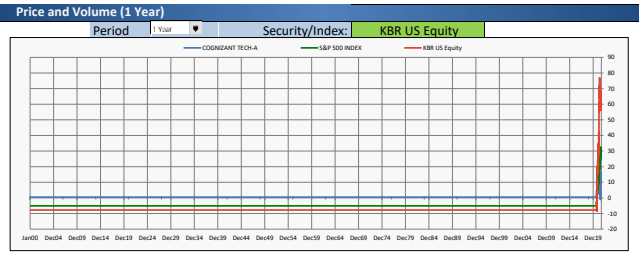
Description	Key Statistics	
Cognizant Technology Solutions Corporation provides custom information technology (IT) consulting and technology services, as well as outsourcing services. The Company focuses on technology strategy consulting, complex systems development, enterprise software package implementation and maintenance, data warehousing, and business intelligence.	52-Week Range	66.19 - 82.73
	Avg Daily Vol (3 Mo)	2,854,915
	Market Value	39,561.7
	Current Enterprise	-
	Shares Outstanding	525.60 M
	Dividend Yield	1.3%
	Float %	99.7%
	Institutional %	99.5%
	Analyst Coverage	24 Analysts
	Target Price	-
LT Growth Rate	-	
Consensus Rating	3.79	
Return on Equity	15.2%	

Business Segments (FY: Dec-20)	Revenue
Financial Services	5,621.00
Healthcare	4,852.00
Products and Resources	3,696.00
Communications, Media and Techn	2,483.00
Unallocated Costs	-

Actual and Estimate Data	LTM	12/2021	12/2022
Revenue	17,413.00	18,448.65	19,693.75
% change y/y	-	10.8%	6.7%
EBITDA	3,005.00	3,386.11	3,671.78
% Margin	-	14.9%	8.4%
EPS	3.294826	4.042	4.459
% change y/y	-	18.2%	10.3%
EV/Sales	2.1x	2.0x	1.8x
EV/EBITDA	12.1x	11.3x	10.5x
P/Sales	2.3x	2.1x	2.0x
P/Earnings	22.8x	18.6x	16.9x
P/Book	3.5x	3.3x	2.9x

Relative Comps	Mkt Cap	PE (NTM)
Cognizant Technology Sol	39.56 B	17.8x
HCL Technologies Ltd	3456.53 B	25.0x
Tata Consultancy Service	13798.20 B	34.2x
Wipro Ltd	3487.11 B	29.4x
Infosys Ltd	7095.66 B	31.4x

Measure:	2019	2020	2021	2022
Q1 Mar	4110.00	4225.00	4401.00	4743.71
Q2 Jun	4141.00	4000.00	4585.00	4886.43
Q3 Sep	4248.00	4243.00	4724.00	4991.69
Q4 Dec	4284.00	4184.00	4752.83	5038.77
Year	16783.00	16652.00	18448.65	19693.75
Cal Yr	16783.00	16652.00	18448.65	19693.75



YTD Change	Prices/Volume
6 Month Change	-8.15%
3 Month Change	-6.19%
1 Year Change	29.7%
Daily Volume	2,395,737
Average Volume 30 Day	2,451,832
Average Volume 3 Month	2,854,915
Average Volume 6 Month	3,401,431
Dividend Yld	1.2%
52 Week Beta	0.68

**Recommendation**  
 We view Cognizant (CTSH) shares as an advantageous buy opportunity based on consistent growth in revenues, earnings, and cash flows. Additionally, the company appears to be undervalued when compared to competitors within the industry, as well as Cognizant's historical valuations. Given its relatively strong growth in recent quarters, Cognizant is likely to return to historical valuations as the company and economy recovers from the pandemic, offering an opportunity of substantial upside for investors.

**Fundamentals / Catalysts**  
 Cognizant has experienced strong YoY EPS and revenue growth in the most recent two fiscal quarters after experiencing declines for the FY19 and FY20. However, this strong rebound in growth is expected to persist for the remainder of FY21, FY22, and the foreseeable future. Following these strong reports, Cognizant raised their financial guidance for FY21. We believe this new guidance remains too conservative allowing for continued fiscal surprises in upcoming quarters. The company faces multiple catalytic events that may further support this growth. Cognizant is currently met with the opportunity to expand its IT services, Digital Business Operations (DBO), and cloud-related revenue given the market's current adaptation to more hybrid business models due to the pandemic. With this shift towards digital business models, Cognizant has established many new strategic alliances furthering its client momentum throughout its wide array of business segments. Some of these partnerships include: Phillips, John Hopkins HealthCare, and Qualcomm Technologies. Cognizant has also vastly expanded its IT services, DBO, and cloud-based capabilities through substantial M&A within recent years, seven of which being cloud-related. Fueled by this growth in cloud related capabilities, Cognizant now has three cloud-focused business groups specifically for Microsoft, AWS Amazon, and Google respectively.

Measure:	2019	2020	2021	2022
Q1 Mar	0.77	0.67	0.95	1.05
Q2 Jun	0.90	0.67	0.97	1.08
Q3 Sep	0.90	0.64	1.04	1.14
Q4 Dec	0.72	0.59	1.02	1.14
Year	3.29	2.57	3.99	4.43
Cal Yr	3.29	2.57	3.99	4.43

Performance	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg
Price Change	14.9%	36.7%	4.3%	14.0%	-6.6%	26.8%	-10.6%	-2.3%	32.1%	7.9%
S&P 500 INDEX	13.4%	29.6%	11.4%	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	13.6%
Industry (INDU INDEX)	7.3%	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	12.5%
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	1.3%	1.3%	1.1%	0.9%

Growth Rate (CAGR) Summary	1Yr	3Yr	5Yr	10Yr
Sales	-0.8%	4.0%	6.0%	13.7%
EBIT	-13.8%	-5.2%	-0.3%	9.4%
EBITDA	-8.2%	0.4%	3.7%	11.8%
Net Income	-24.4%	-2.5%	-3.0%	6.6%
EPS (Diluted)	-21.9%	0.5%	-0.6%	8.0%
Dividends	10.0%	25.1%	-	-
BVPS	1.7%	4.1%	6.1%	13.2%
Free Cash Flow	42.5%	14.5%	11.3%	18.8%

Financials	12/12 Y	12/13 Y	12/14 Y	12/15 Y	12/16 Y	12/17 Y	12/18 Y	12/19 Y	12/20 Y	5 Yr CAGR
Sales	7,346.5	8,843.2	10,263.0	12,416.0	13,487.0	14,810.0	16,125.0	16,783.0	16,652.0	6.0%
EBITDA	1,518.1	1,857.8	2,093.0	2,472.0	2,668.0	2,924.0	3,299.0	3,225.0	2,961.0	3.7%
EBIT	1,361.5	1,677.9	1,885.0	2,142.0	2,289.0	2,481.0	2,801.0	2,453.0	2,114.0	-0.3%
Net Income	1,051.3	1,228.6	1,439.0	1,624.0	1,553.0	1,504.0	2,101.0	1,842.0	1,392.0	-3.0%

Valuation Summary	12/31/2020	High	Low	Avg
P/E (LTM)	27.8x	27.8x	16.5x	20.6x
P/E (NTM)	17.3x	20.7x	13.3x	16.3x
PEG (NTM)	1.4x	2.1x	1.0x	1.4x
P/Bk	4.0x	4.0x	3.1x	3.5x
P/CF	13.4x	20.7x	12.3x	15.3x
P/Sales	2.7x	2.8x	2.1x	2.5x
EV/EBITDA	14.3x	14.3x	10.0x	11.7x
EV/Sales	2.6x	2.6x	1.9x	2.3x
Div Yield	1.1%	1.3%	0.0%	0.9%

Ratios	12/12 Y	12/15 Y	12/14 Y	12/15 Y	12/16 Y	12/17 Y	12/18 Y	12/19 Y	12/20 Y	5 Yr Avg
Gross Margin	41.8%	40.5%	40.2%	40.1%	39.9%	38.2%	39.0%	36.6%	35.9%	37.9%
EBITDA Margin	20.7%	21.0%	20.4%	19.9%	19.8%	19.7%	20.5%	19.2%	17.8%	19.4%
EBIT Margin	18.5%	19.0%	18.4%	17.3%	17.0%	16.8%	17.4%	14.6%	12.7%	15.7%
Profit Margin	14.3%	13.9%	14.0%	13.1%	11.5%	10.2%	13.0%	11.0%	8.4%	10.8%

**Balance Sheet/ Cash Flow**  
 Cognizant has a reassuring balance sheet, with net debt decreasing significantly every year since 2016 when it was at roughly \$4.2b, to today where it sits at \$944m, giving them a debt/capital ratio of 8.01%. It also has steady free cash flow generation since 2017, sitting consistently around 2.2b, which has also been greater than or almost equal to their reported net income. Much of this free cash flow has gone towards share repurchases (4 million shares for a total of \$36m in their second quarter, ending July 2021), as well as funding their several recent acquisitions of other companies with a focus on technology.

**Valuation**  
 Currently trading at \$75.06 per share, Cognizant is undervalued in the information technology sector, trading at a 19x P/E ratio, which represents at 24% discount when compared to its peers who sit at an average of 23.4x. This is also extremely low for their historical average which peaked at 95x in the early 2000s, however it is fairly midrange when looking only at the last 5 years. This undervaluation when compared to others in the information technology sector continues when looking at EV/EBITDA and Free Cash Flow Yield. Given this valuation, it makes sense that Cognizant has an opportunity to expand their valuation multiples if they can continue on the path they're on and successfully profit from their recent acquisitions.

**Risks**  
 Cognizant has recently struggled with high attrition rates. With the current labor shortages and wage pressure, Cognizant could continue to face issues finding and retaining skilled IT talent. Given the company's recent focus on mergers and acquisitions, Cognizant could face issues with integration, stunting expected growth and margin trends.