



Cognizant Technology Solutions (CTSH)

Updated August 14th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	8.7%	Market Cap:	\$36.3 B
Fair Value Price:	\$75	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	8/20/2024
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	8/28/2024
Dividend Yield:	1.6%	5 Year Price Target	\$105	Years Of Dividend Growth:	5
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Cognizant Technology Solutions is a 30-year-old company that provides information technology, consulting and business process outsourcing services in North America, Europe, and other regions. It has a market capitalization of \$36.3 billion and nearly 340,000 employees. More than 200,000 employees are highly skilled but have low salaries and are based in India. This keeps operational costs at a minimum. The company operates in four segments: financial services, healthcare, products & resources and communications, media & technology.

In late July, Cognizant reported (7/31/24) financial results for the second quarter of fiscal 2024. The currency-neutral revenue dipped -0.5% over the prior year's quarter but adjusted earnings-per-share grew 6%, from \$1.10 to \$1.17, and exceeded the analysts' consensus by \$0.05 thanks to lower operating expenses and share repurchases. Bookings grew 4% over the prior year's quarter, to \$26.2 billion (~1.4 times annual sales). As business momentum has somewhat improved, management raised its guidance for 2024. It still expects essentially flat revenues and a modest expansion of operating margin but it raised its guidance for adjusted earnings-per-share from \$4.50-\$4.68 to \$4.62-\$4.70. Accordingly, we have raised our forecast from \$4.60 to \$4.66.

We also reiterate that the change in the CEO position in mid-2019 is a sustained negative factor, as the previous CEO was a co-founder who had achieved exceptional growth during his tenure, with impressive consistency. We are also concerned over the focus of new management on boosting earnings-per-share with share repurchases and the high attrition rate of the work force. Management claims that it has improved the attrition rate but the latter remains excessive, as it has been hovering above 10% for several consecutive quarters.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.61	\$3.06	\$3.39	\$3.77	\$4.57	\$3.99	\$3.42	\$4.12	\$4.40	\$4.55	\$4.66	\$6.54
DPS	---	---	---	\$0.45	\$0.80	\$0.80	\$0.88	\$0.96	\$1.08	\$1.16	\$1.20	\$1.76
Shares¹	609.4	609.0	608.0	588.0	579.0	548.0	534.0	526.0	513.0	501.0	490.0	450.0

Cognizant has an exceptional growth record. It grew its earnings at a double-digit rate for more than 10 consecutive years, until 2018. Such a consistent record is a testament to the strength of its business model and the quality of its (previous) management. In the last five years, the company has failed to grow its earnings-per-share. Given the increased uncertainty that results from the ongoing transformation of the company in the aftermath of the exit of its founder, but also the low comparison base due to the stagnation in the last five years, we expect 7% annual earnings-per-share growth over the next five years, slightly above the 9-year average annual growth rate of 6.4%.

Cognizant is poised to continue to grow via an increasing number of customers, modest margin expansion, and tuck-in acquisitions. The company has made a long series of tuck-in acquisitions, such as the acquisition of Belcan, an engineering R&D services provider, for \$1.3 billion. The acquisition is expected to add scale and help Cognizant establish a leadership position in technological services in the aerospace and defense industry.

¹ In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.8	20.3	16.9	17.5	16.7	16.2	18.6	18.6	16.4	14.4	15.9	16.0
Avg. Yld.	---	---	---	0.7%	1.0%	1.2%	1.4%	1.3%	1.5%	1.8%	1.6%	1.7%

Thanks to its exceptional growth record, Cognizant has traded at an average price-to-earnings ratio of 17.4 over the last decade. The stock is currently trading at a price-to-earnings ratio of 15.9, which is almost equal to our assumed fair level of 16.0. If the stock trades at our fair valuation level in five years, it will enjoy a 0.2% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

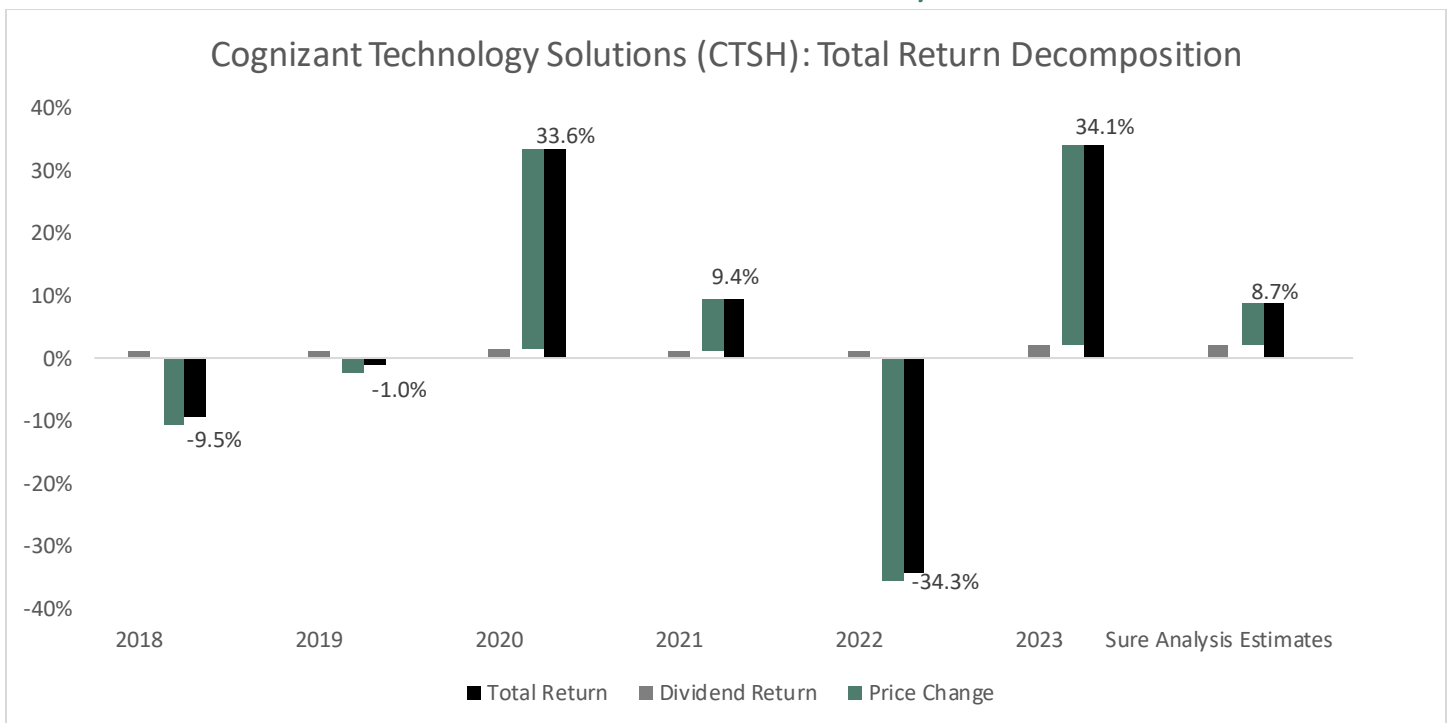
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	11.9%	17.5%	20.1%	25.7%	23.3%	24.5%	25.5%	25.8%	27.0%

Cognizant signs long-term contracts with its clients and thus they become strongly dependent on the company. This is a significant competitive advantage. Moreover, Cognizant exhibited impressive resilience during the Great Recession. While most companies saw their earnings plunge, Cognizant grew its earnings-per-share by 53%, from \$0.58 in 2007 to \$0.89 in 2009. As Cognizant was in high-growth mode back then, investors should not expect similar performance whenever the next recession shows up. On the other hand, Cognizant proved fairly resilient in the downturn caused by the pandemic. Moreover, Cognizant has a rock-solid balance sheet.

Final Thoughts & Recommendation

Cognizant has stalled in the last five years but it is likely to improve its performance in the upcoming years. The stock has gained 9% since our last research report, in May, thanks to improved business performance, but it could still offer an 8.7% average annual return over the next five years thanks to 7.0% earnings-per-share growth, its 1.6% dividend and a 0.2% valuation gain. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10,263	12,416	13,487	14,810	16,125	16,783	16,652	18,507	19,428	19,353
Gross Profit	4,122	4,976	5,379	5,658	6,287	6,149	5,981	6,903	6,980	6,689
Gross Margin	40.2%	40.1%	39.9%	38.2%	39.0%	36.6%	35.9%	37.3%	35.9%	34.6%
SG&A Exp.	2,037	2,509	2,731	2,697	3,007	2,972	3,100	3,503	3,443	3,252
D&A Exp.	208	330	379	443	498	526	559	574	569	555
Operating Profit	1,885	2,142	2,289	2,553	2,820	2,670	2,329	2,826	2,968	2,918
Operating Margin	18.4%	17.3%	17.0%	17.2%	17.5%	15.9%	14.0%	15.3%	15.3%	15.1%
Net Profit	1,439	1,624	1,553	1,504	2,101	1,842	1,392	2,137	2,290	2,126
Net Margin	14.0%	13.1%	11.5%	10.2%	13.0%	11.0%	8.4%	11.5%	11.8%	11.0%
Free Cash Flow	1,261	1,914	1,345	2,123	2,215	2,107	2,901	2,216	2,236	2,013
Income Tax	485	540	805	1,153	698	643	704	693	730	668

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,479	13,061	14,262	15,221	15,846	16,204	16,923	17,852	17,852	18,483
Cash & Equivalents	2,010	2,125	2,034	1,925	1,161	2,645	2,680	1,792	2,191	2,621
Accounts Receivable	1,969	2,253	2,556	2,865	3,190	3,256	3,087	3,557	3,796	3,849
Goodwill & Int. Ass.	3,367	3,269	3,505	3,685	4,631	5,020	6,077	6,838	6,878	7,234
Total Liabilities	3,739	3,783	3,534	4,552	4,422	5,182	6,087	5,861	5,543	5,256
Accounts Payable	146	165	175	210	215	239	389	361	360	337
Long-Term Debt	1,638	1,283	878	873	745	738	701	664	646	639
Shareholder's Equity	7,740	9,278	10,728	10,669	11,424	11,022	10,836	11,991	12,309	13,227
LTD/E Ratio	0.21	0.14	0.08	0.08	0.07	0.07	0.06	0.06	0.05	0.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	14.7%	13.2%	11.4%	10.2%	13.5%	11.5%	8.4%	12.3%	12.8%	11.7%
Return on Equity	20.7%	19.1%	15.5%	14.1%	19.0%	16.4%	12.7%	18.7%	18.8%	16.7%
ROIC	18.6%	16.3%	14.0%	13.0%	17.7%	15.4%	12.0%	17.7%	17.9%	15.9%
Shares Out.	609.4	609.0	608.0	588.0	579.0	548.0	534.0	526.0	519	505
Revenue/Share	16.74	20.25	22.11	24.89	27.61	29.97	30.78	35.05	37.43	38.32
FCF/Share	2.06	3.12	2.20	3.57	3.79	3.76	5.36	4.20	4.31	3.99

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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