

Cognizant Technology Solutions

4Q results likely in-line as focus turns to 2024

Reiterate Rating: UNDERPERFORM | PO: 66.00 USD | Price: 76.88 USD

Risk/reward on print skews modestly to downside

CTSH will report 4Q results after-hours on 2/6. While we view 4Q revs/adj. EPS ests as safe given management's ongoing conservatism, investor focus will largely be on initial '24 revs guidance and demand commentary. Given the recent move in shares (no longer cheap at 16.5x C24 P/E), more crowded positioning, potential risk to 1Q revs guide, and likely deceleration in bookings growth, we think risk/reward is skewed modestly to the downside on the print. In our view, broader questions remain surrounding post-'23 top-line growth, and this plus valuation leads us to maintain our Underperform rating.

'24 consensus appears reasonable; 1Q may have some risk

Given visibility on the pace of discretionary spending improvement remains limited, we anticipate CTSH will likely guide '24 revs in-line with BofAe/Street at 1.9% y/y growth, skewed towards 2H. Given typical seasonality and ongoing end market choppiness, we believe consensus 1Q q/q revs growth of +0.4% could be a little high (BofAe = -0.1%). We expect CTSH to reiterate '24 adj. EBIT margin expansion guidance of 20-40bps.

CTSH likely faces bookings headwinds in '24

Following solid LTM bookings growth of 16% in 3Q, we anticipate more moderate trends in 4Q, as CTSH laps the \$1B 4Q22 bookings contribution from CoreLogic. In '24 CTSH is also expected to lap the TCV growth benefit from longer duration deals signed in 2023, posing a headwind to reported bookings growth. Expect relative strength in cost-related outsourcing initiatives vs. shorter-cycle consulting to persist.

Spotlight on '24 client budgeting plans

Commentary from comps suggest visibility into '24 budgeting plans remains limited, particularly for more discretionary initiatives. That said, in our view, signs of improvement may begin to emerge in the Spring, as enterprise decision makers address the pent-up demand within their organizations after a 12-18 month slowdown in spend.

Expect in-line 4Q print; tweak PO to \$66

We anticipate 4Q revs growth of (1.5)% y/y, in-line with Street/guide of (1.8)%/(3.1)%-(0.3)%. On a cc basis, we model revs growth of (2.1)% vs. guide of (4.0)%-(1.2)%. BofAe adj. op. margins of 14.3% is in-line with Street, with BofAe/Street adj. EPS of \$1.04, in-line with implied guide of \$1.02-\$1.05. We also tweak PO from \$64 to \$66, see inside for details.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.12	4.39	4.41	4.66	5.09
GAAP EPS	4.04	4.41	4.12	4.51	5.08
EPS Change (YoY)	20.5%	6.6%	0.5%	5.7%	9.2%
Consensus EPS (Bloomberg)			4.41	4.59	5.00
DPS	0.96	1.08	1.16	1.25	1.35
Valuation (Dec)					
P/E	18.6x	17.5x	17.4x	16.4x	15.1x
GAAP P/E	19.0x	17.4x	18.6x	17.0x	15.1x
Dividend Yield	1.3%	1.4%	1.5%	1.6%	1.8%
EV / EBITDA*	11.4x	11.0x	12.3x	11.4x	5.6x
Free Cash Flow Yield*	5.6%	5.6%	5.0%	5.2%	6.0%

* For full definitions of *IQmethod*SM measures, see page 8.

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12648352

Timestamp: 22 January 2024 12:00AM EST

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	64.00	66.00

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Stock Data

Price	76.88 USD
Price Objective	66.00 USD
Date Established	19-Jan-2024
Investment Opinion	B-3-7
52-Week Range	56.45 USD - 78.42 USD
Mkt Val (mn) / Shares Out (mn)	39,747 USD / 517.0
Free Float	99.7%
Average Daily Value (mn)	280.09 USD
BofA Ticker / Exchange	CTSH / NAS
Bloomberg / Reuters	CTSH US / CTSH.OQ
ROE (2023E)	17.8%
Net Dbt to Eqty (Dec-2022A)	-12.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

TCV: Total Contract Value

ACV: Annual Contract Value

CC: Constant Currency

iQprofileSM Cognizant Technology Solutions

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	15.5%	15.9%	14.3%	14.7%	14.8%
Return on Equity	19.1%	18.8%	17.8%	17.3%	16.7%
Operating Margin	15.3%	15.3%	13.6%	14.5%	15.3%
Free Cash Flow	2,216	2,236	1,963	2,061	2,363

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	1.1x	1.0x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.6x	0.6x	0.8x	0.8x
Tax Rate	24.5%	24.2%	23.8%	24.5%	24.5%
Net Debt-to-Equity Ratio	-9.4%	-12.6%	-15.1%	-20.1%	-27.1%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	18,507	19,428	19,361	19,722	21,002
% Change	11.1%	5.0%	-0.3%	1.9%	6.5%
Gross Profit	6,903	6,980	6,675	NA	NA
% Change	15.4%	1.1%	-4.4%	NA	NA
EBITDA	3,400	3,537	3,163	3,408	6,995
% Change	27.5%	4.0%	-10.6%	7.8%	105.3%
Net Interest & Other Income	1	52	97	108	108
Net Income (Adjusted)	2,174	2,278	2,231	2,321	2,507
% Change	17.5%	4.8%	-2.1%	4.0%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,134	2,290	2,082	2,245	2,504
Depreciation & Amortization	574	569	545	512	536
Change in Working Capital	(489)	(279)	(252)	(518)	(489)
Deferred Taxation Charge	27	(273)	(287)	0	0
Other Adjustments, Net	249	261	185	217	231
Capital Expenditure	(279)	(332)	(310)	(394)	(420)
Free Cash Flow	2,216	2,236	1,963	2,061	2,363
% Change	-23.6%	0.9%	-12.2%	5.0%	14.6%
Share / Issue Repurchase	(641)	(1,336)	(788)	(532)	(204)
Cost of Dividends Paid	(509)	(564)	(591)	(624)	(666)
Change in Debt	(53)	(39)	(19)	(16)	(16)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,792	2,191	2,569	3,459	4,935
Trade Receivables	3,557	3,796	3,774	3,984	4,243
Other Current Assets	1,993	1,279	1,422	1,572	1,655
Property, Plant & Equipment	1,171	1,101	1,047	1,016	985
Other Non-Current Assets	9,339	9,485	9,175	9,419	9,670
Total Assets	17,852	17,852	17,989	19,451	21,489
Short-Term Debt	38	8	33	33	33
Other Current Liabilities	3,491	3,339	3,177	3,348	3,538
Long-Term Debt	626	638	610	594	578
Other Non-Current Liabilities	1,706	1,558	1,392	1,392	1,392
Total Liabilities	5,861	5,543	5,212	5,367	5,541
Total Equity	11,991	12,309	12,777	14,084	15,948
Total Equity & Liabilities	17,852	17,852	17,989	19,451	21,489

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Payments, Processors & IT Services

Company Description

Cognizant is a global IT services firm with CY22 revenues of \$19.4B. As of F22, the company derived 74% of its revenues from North America and 60% from the financial services and healthcare verticals. CTSH follows the offshore IT services business model, with 80%+ of its employees located in India. However, with an increasing focus on Digital, the company is currently focusing on boosting its onshore headcount. Digital now represents 50% of total revenues for the company.

Investment Rationale

While demand for cost takeout initiatives remain reasonably solid, we anticipate increased pockets of softness, which could spread in a recessionary environment. A worsening macro backdrop could exacerbate CTSH's ongoing struggle to bridge the revenue growth gap vs peers, and company-specific fulfillment/backlog conversion challenges may persist near-term.

Stock Data

Average Daily Volume 3,643,203

Quarterly Earnings Estimates

	2022	2023
Q1	1.08A	1.11A
Q2	1.14A	1.10A
Q3	1.17A	1.16A
Q4	1.01A	1.04E

4Q23 Preview

At current valuation, we maintain our Underperform rating on CTSH, largely based on uncertainty surrounding post-'23 growth expectations. Based on typical seasonality, 1Q consensus revs could be a touch high. Below we summarize our 4Q23 preview thoughts.

Expect moderating bookings growth in 4Q and in 2024

In 3Q, CTSH reported LTM bookings of \$26.9B, up 16% y/y (9% y/y growth in quarterly bookings), driven by larger and longer duration deal wins, with duration up 50% over the past 12 months. This led to a healthy LTM book-to-bill of 1.4x. While these larger deals are primarily focused on cost efficiency and managed services, management commentary also suggests solid momentum for transformation-led deals.

For 4Q, we believe CTSH will continue to report a solid pipeline for cost-takeout related initiatives vs. shorter-term consulting and systems integration projects. Additionally, in 4Q CTSH will be lapping the \$1B signing with CoreLogic, which will likely pose a headwind to growth.

During 2024, we also anticipate CTSH will begin lapping the benefit in 2023 of TCV growth outpacing ACV growth due to longer duration contracts, and we believe CTSH's LTM book-to-bill will ease from 3Q23 levels.

BofA vs. consensus estimates

For 4Q, we are modeling reported y/y revenue growth of (1.5)%, in-line with guidance of (3.1)%-(0.3)% and consensus of (1.8)%. On a const-curr basis, we expect growth of (2.1)% y/y compared to Street/guide of (2.5)%/(4.0)%-(1.2)%, including 100bps from M&A. We are modeling non-GAAP operating margin of 14.3%, in-line with Street.

We estimate a tax rate of 25.8%, leading to non-GAAP EPS of \$1.04, in-line with street and implied guidance of \$1.02-\$1.05. For 1Q24, we are modeling reported y/y revs growth of (1.0)% vs. Street at (0.6)%. BofAe adj. op. margin of 14.9% is in-line with Street at 14.8%, leading to BofAe/Street non-GAAP EPS estimates of \$1.11/\$1.10, respectively.

See Exhibit 1 for analysis of BofAe vs. consensus and guidance.

Exhibit 1: Analysis of BofAe vs. consensus and company guidance

Our 4Q23/F24 estimates are relatively in-line with Street, 1Q24 revs modestly below

	4Q23			1Q24		F24	
	BofAe	Street	Guidance	BofAe	Street	BofAe	Street
Organic, constant-currency revenue growth	-3.1%		(5.0%)-(2.2)%				
M&A	1.0%		1.0%				
Constant-currency revenue growth	-2.1%	-2.50%	(4.0)%-(1.2)%				
FX tailwind / headwind	0.6%		0.9%				
Reported revenue growth	-1.5%	-1.8%	(3.1)%-(0.3)%	-1.0%	-0.6%	1.9%	1.9%
Non-GAAP operating margins	14.3%	14.3%		14.9%	14.8%	15.0%	15.0%
Tax rate	25.8%	28.5%		24.5%	25.5%	24.5%	24.1%
Non-GAAP EPS	\$1.04	\$1.04	\$1.02 - \$1.05	\$1.11	\$1.10	\$4.66	\$4.62

Source: BofA Global Research estimates, Visible Alpha, Bloomberg, Company Materials

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Update PO to \$66 from \$64

We also tweak our PO to \$66 from \$64 prior, based on 15x (vs. 14x prior) our C24e non-GAAP EPS and our DCF model to reflect an increase in market multiples. Our multiple represents a 25% discount to the S&P500 (no change), based on CTSH's revenue and EPS growth profile.

Read-thrus from recent comps' results

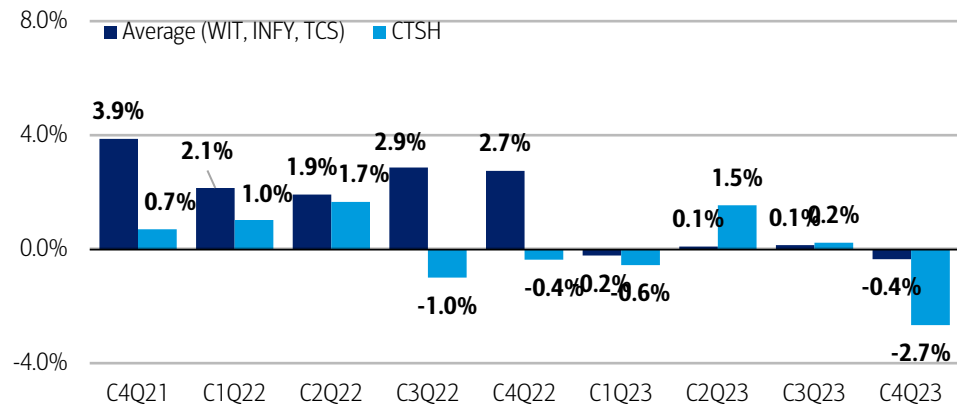
Exhibits 2-3 show the average q/q reported and y/y const-curr revenue growth rates for Indian IT Services comps (Wipro, Infosys, and TCS) compared to Cognizant's results since C4Q21, with C4Q23 reflecting BofA revenue estimates.



Comps' q/q reported revs growth declined modestly in C4Q at (0.4)%, driven largely by positive growth in TCS offset by declines in Wipro revs (Exhibit 2). Between C4Q21 and C3Q23, Cognizant has averaged q/q growth 130bps below the Indian IT Services peer group.

Exhibit 2: Q/Q reported growth for CTSH vs. comps (WIT, INFY, TCS)

Comps' q/q average reported revenue declined 0.4% in C4Q



Source: BofA Global Research estimates, Company Materials

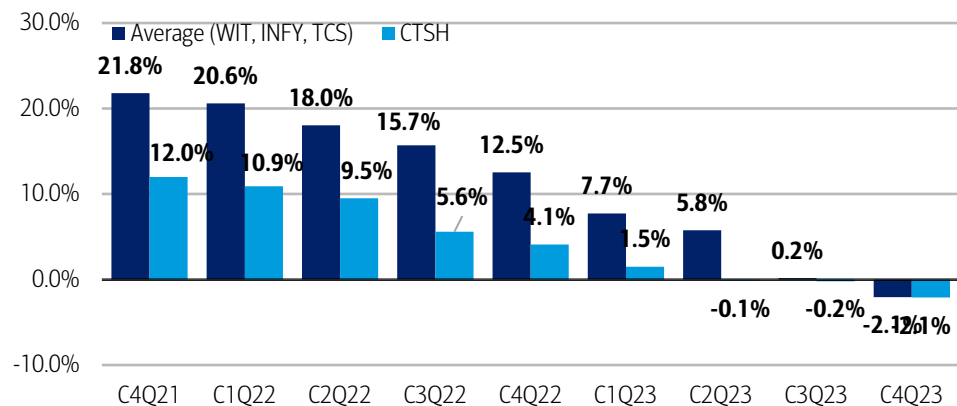
** CTSH C4Q23 reflects BofAe growth; guidance implies (4.2)%-(1.6)% q/q growth

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In C4Q, the peer set's const-curr y/y growth decelerated 190bps sequentially to (2.1)%, attributable to a 350bps deceleration in Infosys const-curr growth to (1.0)% y/y and 210bps deceleration in Wipro const-curr growth to (6.9)%, as shown in Exhibit 3. On average between C4Q21 and C3Q23, Cognizant has reported a const-curr revenue growth rate 740bps below the Indian IT Services comp group (Exhibit 4).

Exhibit 3: Y/Y const-currency growth for CTSH vs. comps (WIT, INFY, TCS)

Comps' average growth rate has been decelerating since C4Q21



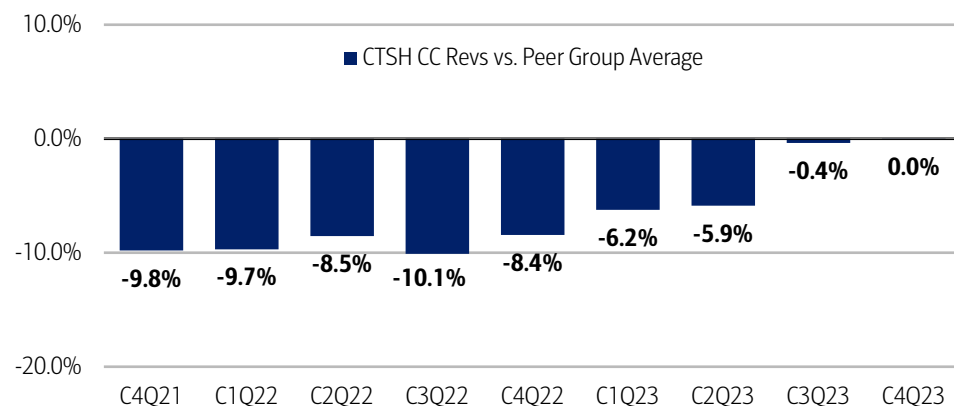
Source: BofA Global Research estimates, Company Materials

** CTSH C4Q23 reflects BofAe growth

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Exhibit 4: Y/Y const-currency growth for CTSH vs. comps (WIT, INFY, TCS)

CTSH has grown 740bps slower than the peer group on average since C4Q21, but the gap has narrowed



Source: BofA Global Research estimates, Company Materials

** CTSH C4Q23 reflects BofAe growth

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Similar to last quarter, commentary from peers (Exhibit 5) suggests that the demand environment for IT Services and visibility into future spending remains cloudy, as vendors see clients focus on cost-takeout initiatives and shorter duration ROI initiatives, while remaining cautious towards more discretionary-oriented projects.

While AI is also becoming an increasingly frequent talking point among peers, commentary suggests generative AI is not expected to be a significant contributor to revenue in the near term.

Exhibit 5: Management demand commentary from comps' recent earnings (ACN, INFY, TCS, WIT)

Demand remains muted across verticals and geographies, as clients remain focused on shorter-duration cost takeout initiatives

	Demand Commentary
Accenture	I'd kind of anchor to, first of all, we're seeing demand for transformational deals. So, in an environment like this, the thing that I look at most is are we continuing to have our clients do more than \$100 million of bookings, right, which is in our industry, we are a real standout here...We are continuing to see significant demand in areas like cloud migration and modernization, modern ERP, and data and AI, including GenAI, platforms and security, all of which represent areas of great opportunity... Clients are continuing to prioritize the digital core as evidenced by strong demand for cloud migration...
Infosys	Our resilient performance in a seasonally weak quarter and the continued momentum in deal wins, coupled with a very large, efficient execution engine, gives us confidence for growth in the medium-term... In terms of the client discussions, we've not seen some sort of significant change in one or the other direction from what we were seeing in last quarter. So some of the digital transformation work or some of that type of programs are where clients are not putting focus or attention, whereas the cost and the efficiency and now even consolidation we are seeing more and more of that, which is what we were seeing last quarter as well. So in that sense, we don't have any change that we have sensed at this stage... The budget decisions are ongoing and as you know well, these will go through the early part of this month. So nothing firmed up, but we don't see any change and in what we were seeing in terms of behavior from the last quarter where budgets would suddenly have a different direction.
Tata Consultancy	In the face of macro-economic uncertainties around fear of recession and continued high inflation, many businesses are being cautious about further investments creating a pent-up demand. This pent-up demand is important for long-term strategic growth for our customers, and we are optimistic that our customers will scale up these initiatives once they gain the comfort that the macro risks are receding... Operating model transformation focused on improving efficiencies, digitalization, customer and employee experience transformation, sustainability, cloud, cyber resilience, and Gen AI continue to be key themes driving demand for our services. We signed several large deals in the quarter led by vendor consolidation, and operating model transformation... the proportion between discretionary and non-discretionary that existed in last quarter or last couple of quarters has not tilted or changed significantly, it's continuing to be the same.
Wipro	The demand environment overall remains cautious. Clients are still making conservative investments. They are looking for efficiency. They are more focusing on returns on investment and looking for better optimization, I would say, of existing investments. But we are seeing some indicators for growth.

Source: BofA Global Research, Company Materials

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Exhibit 6 summarizes C4Q earnings commentary from Indian IT Services comps, and suggests, similar to previous quarters, demand softness persists across a variety of industry verticals and geographies.

By industry vertical, Technology and Financial Services remain the most impacted by softer spending trends. The Financial Services and Technology verticals represented ~47.5% of Cognizant's total revenue in C3Q (same total in F22). In C3Q, Financial

Services const-curr revs declined (4.0)%, while Communications, Media, & Technology increased 7.3% y/y due to recent M&A and ramp-ups among top clients.

By geography, commentary from comps suggest a more resilient spending environment in Europe vs. N. America, though respective geographic growth rates varied by vendor. CTSH generated 73.5% of C3Q revs from N. America (predominately US), followed by Europe and the UK both at 9.9% of total. The rest of world generated ~6.7% of total reported revs.

Exhibit 6: Management vertical and geography commentary from comps' recent earnings (ACN, INFY, TCS, WIT)

Comps experienced continued softness in financial services and high-tech verticals

Industry Verticals and Geographic Commentary	
Accenture	Consulting revenues for the quarter were \$8.5 billion, flat in US dollars and a decline to 2% in local currency. Managed services revenues were \$7.8 billion, up 6% in US dollars and 5% in local currency. Technology services grew mid-single digits, Operations was flat, and Strategy & Consulting declined mid-single digits.... In North America, revenue declined 1% local currency. Growth was led by public service, offset by declines in communications & media, software & platforms, and banking & capital markets... In EMEA, revenues grew 2% in local currency, led by growth in public service and banking & capital markets, partially offset by a decline in communications & media. Revenue growth was driven by Italy, Austria, and France, partially offset by a decline in the United Kingdom... In growth markets, we delivered 5% revenue growth in local currency, driven by growth in chemicals and natural resources, public service, and banking & capital markets. Revenue growth was led by Japan.
Infosys	Inflation, uncertain macro, and delays in decision-making continue to impact the financial services sector with increasing cost pressures, client remain cautious on spending and are re-prioritizing their programs to deliver maximum business value. Overall, while the near-term outlook remains volatile, we will benefit from the recent deal wins and the new account openings. Communications sector continues to face growth challenges, which is putting pressure on OpEx spend. Uncertainty about medium-term spends remains with clients prioritizing cost optimization and vendor consolidation. Clients are looking at conserving cash, which is visible in delayed decision-making and project deferrals... Energy, utilities, resources and services clients remain cautiously optimistic about the demand environment with cap on short-term spend. In energy segment, we are seeing market share gains due to consolidation... Manufacturing segment continues to deliver strong performance on the back of new deal wins and ramp-up of earlier large deal signed. Growth was broad-based across Europe and the US, as well as across the industrial, automotive and aerospace industries. While the budget remains largely stable, clients continued to find ways to channel run savings into newer areas like digital cloud data and IoT. Pipeline remains healthy with emerging opportunities on various fronts in the ER&D space resulting from increased spending. In the retail segment, cost takeout and consolidation remain the primary focus for the clients. While discretionary spends remain under pressure, there are pockets of the opportunities, leveraging generative AI in predictive analysis, real-term insights and decision support areas.
Tata Consultancy	Growth was led by energy resources and utilities vertical which grew 11.8%, manufacturing which grew 7%, Life sciences & Healthcare grew 3.1%. Our consumer business group grew by minus 0.3%. Banking, financial services, insurance by minus 3.0%. Communications & Media by minus 4.9%, and Technology & Services by minus 5.0%. Among major markets, the United Kingdom led with 8.1% growth. Continental Europe grew by 0.5%, North America by minus 3.0%. In emerging markets, India led the growth with 23.4%. Middle-East and Africa grew by 16%, Latin America grew by 13.2% and Asia Pacific by 3.9%.
Wipro	Looking at Americas 1 first, we recorded a strong quarter for this unit, where we booked half of our 14 large deals this quarter. Revenue in this market grew 2% sequentially, led by healthcare, which grew actually 9% sequentially. In our Americas 2 market unit, we continue to see some softness. This is -- let's keep in mind, this unit is primarily a BFSI or BFSI and energy and utilities being the large part of these units. They are seeing still some softness and resulting in a 1.3% drop in revenue Q-on-Q. That said, there's strong momentum in order bookings, which in total contract value terms increased 46% sequentially. In Europe, we won four large deals in the third quarter despite the continuing economic weakness. These four new transformative deals add up to nearly \$300 million in booking. These deals underscore the success of our strategy in this market. Having said that, revenue from Europe decreased 4.3% sequentially in Q3. Across the board, but more specifically in our APMEA strategic market unit, we have worked on -- and we've reported on that regularly, we have worked on reducing low-margin accounts, while slowly moving towards higher-value transformation projects. So in APMEA, revenues declined 5.4% quarter-on-quarter. However, the strategy of pivoting towards higher-value business reflects in the margins we delivered in the region.

Source: BofA Global Research, Company Materials

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Price objective basis & risk

Cognizant Technology Solutions (CTSH)

We use a blend of 15x our 2024E non-GAAP EPS estimates and our DCF model to calculate our 12-month price objective of \$66. Our multiple represents a 25% discount to the S&P500, which we believe is appropriate based on CTSH's revenue and EPS growth profile, along with the risk/reward. Our DCF model assumes a weighted average cost of capital (WACC) of 10.9% and terminal growth rate of 2.2%.

Upside risks to our price objective are: 1) better than expected hiring and revenue growth trends, 2) significant improvement in employee attrition, 3) extended period of material margin expansion. Downside risks to our price objective are 1) potential work visa reform, 2) cyclical nature of CTSH's discretionary IT services businesses, 3) competition for talent, 4) wage inflation.

Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan



US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
RSTR	Western Union	WU	WU US	Jason Kupferberg
	EngageSmart	ESMT	ESMT US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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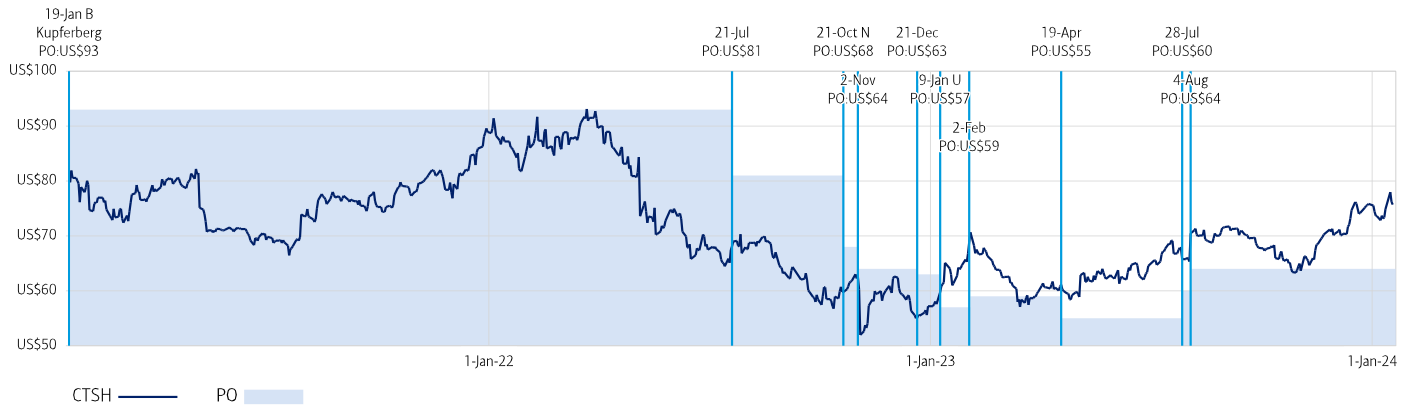
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Cognizant (CTSH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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