

Initiated 2026-10-21 · Price \$68.18 (close 2026-10-20, stockanalysis.com) · Mkt cap \$30.8bn (452mm shares) · Information technology / IT services · Model: verified

Rating: Buy — Conviction: High

Cognizant trades at about 12x this year's adjusted EPS guide and an ~8.4% free-cash-flow yield, close to the model's Bear case. That price assumes AI shrinks its labor-based revenue. The filings don't show that yet: organic growth near 4%, a ~1.3x trailing book-to-bill, margins expanding for a third year, and ~3% of shares retired a year. Market fear about AI deflation in IT services gives a margin of safety that the Base case doesn't need to beat.

Conviction tests (3a-v-c): T1 pass (Base +14.5% at +1pp, +41.3% at -1pp; Buy at both) · T2 pass (Gordon alone +40.9%, exit-multiple alone +11.4%; Buy on both, the exit leg thinly) · T3 pass (every FY0 fact and historical series from EDGAR XBRL, the Q2 2026 10-Q and release, or the 2026-10-06 8-K; no est. inputs) · T4 pass (the open legal items, the India tax case at \$349mm and the Syntel appeal at ~\$298mm, are each ~1% of market cap)

The rule gives High. The thinnest leg is T2's exit-only reading (+11.4%). If a reviewer reads that as Hold, conviction is Medium.

MODEL VALUE RANGE VS PRICE



Business overview

Cognizant sells IT services, mostly application development and maintenance, cloud and infrastructure work, digital engineering and business-process outsourcing, to large enterprises. About 75% of revenue is from North America. FY2025 revenue was \$21.1bn, up 6.4% in constant currency, of which 2.6pp came from the Belcan acquisition. Q2 2026 revenue by segment was Financial Services 32%, Health Sciences 29%, Products & Resources 24% and Communications, Media & Technology 16%. About 73% of its ~357,000 staff are in India, so revenue is in dollars and most costs are in rupees. Three variables drive earnings:

- the organic volume of outsourcing and project work, which large deals and renewals set;
- price per unit of work, as AI tooling cuts the hours a deliverable needs;
- the spread between Indian wage inflation and bill rates, adjusted for the rupee, which sets the ~16% adjusted operating margin.

Competition

The 2025 10-K names Accenture, Infosys, TCS, Wipro, HCL, Capgemini, EPAM and IBM Consulting as direct competitors. On growth, Cognizant is ahead of the Indian group. Its Q2 2026 revenue grew 4.1% in constant currency, and Financial Services grew 11.7%. TCS grew 2.8% in constant currency in its September 2026 quarter, and Infosys cut its FY27 (March year-end) guide to 1.5–3.0%, which includes ~1.7pp from acquisitions. Pressure would show up first in renewal pricing and in clients' in-house delivery centers (GCCs, which

the 10-K flags). On the Q2 call, management said one in four Global 2000 companies had paused AI deployments. Wipro, the closest listed comparable by delivery model, trades at 8.96x aggregator EV/EBITDA and 13.4x forward P/E, against Cognizant's 7.87x and 11.2x (stockanalysis.com, 2026-10-20 close).

Bull case

- 1. **Organic growth holds above peers and reaches ~6%.** TTM bookings of \$29.1bn (+5%, ~1.3x book-to-bill) and seven \$100mm+ deals in Q2 ramp into revenue. AI, data and Anthropic/Google partner work adds scope faster than it removes hours. Plays out if 2027 organic growth is guided at or above ~4% and bookings stay above 1.2x revenue. *Model: rev_growth*
- 2. **Project Leap lifts margin to ~20%.** The \$230–320mm program restructures delivery around AI-led productivity. Once its charges roll off, model-basis EBITDA margin rises from 18.7% to 20%. Plays out if the 2027 adjusted operating margin is guided above 16.5%. *Model: ebitda_margin*
- 3. **The multiple moves toward Indian peers.** The stock exits at 9.5x model-basis EBITDA, up from 7.95x today, still below Infosys and Accenture. *Model: exit_ev_ebitda*

Bear case

- 1. **AI deflates the labor pool.** AI productivity in maintenance and BPO renewals outruns new scope. Organic revenue is about flat in 2027 and falls 1.5% in 2028, the industry's direction if TCS-like ~3% growth fades further. Plays out if 2027 organic guidance is under 1%, or headcount falls while revenue stalls. *Model: rev_growth*
- 2. **Leap savings get passed to clients.** Renewal price concessions and Indian wage inflation push model-basis margin to 16.5%, below FY2024's 17.4%. Plays out if adjusted operating margin falls below 15.5% in 2027. *Model: ebitda_margin*
- 3. **Permanent de-rating.** The market values Cognizant as a shrinking labor business: a 6.0x exit and a 1pp higher discount rate. *Model: exit_ev_ebitda, wacc*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$31.3bn = mkt cap \$30.8bn – cash \$1.05bn + bank debt \$1.55bn; EBITDA = GAAP operating income + D&A; leases excluded)	7.95x FY2025	n/a (unverified)	aggregator TTM: ACN 10.57x · INFY 10.30x · WIT 8.96x · EPAM 8.10x (CTSH 7.87x on that basis)	model-inputs.json ; stockanalysis.com 2026-10-20 close
P/E	11.8x the \$5.70–5.82 2026 adjusted EPS guide; 15.0x FY2025 GAAP \$4.56 (includes a one-time \$390mm non-cash OBBBA tax charge, \$0.80/sh)	n/a (unverified)	forward: ACN 16.31x · INFY 14.43x · WIT 13.41x · EPAM 9.64x (CTSH 11.23x)	stockanalysis.com 2026-10-20; Q2 2026 release; 2025 10-K
FCF yield (FY2025 OCF \$2,883mm – capex \$288mm, over mkt cap)	8.4% (aggregator TTM 8.46%)	n/a (unverified)	ACN 8.23% · INFY 7.88% · WIT 7.97% · EPAM 7.16%	EDGAR XBRL; stockanalysis.com 2026-10-20

Model-implied value range (from model-summary.json ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$54.95 · Base \$86.02 · Bull \$121.91 per share, i.e. implied returns of –19.4% / +26.2% / +78.8% vs \$68.18. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits 56% of the way from Bear to Base: the market is pricing a good deal of the AI-deflation bear case.
- **Re-rating.** Base's 7.5x exit is a 5.7% de-rating from today's 7.95x model-basis multiple. The two methods differ by 26% (Gordon \$96.05, exit \$75.98). At a 9.1% WACC and 2.5% terminal growth, the Gordon method embeds a terminal multiple near 10x, a re-rating of about a quarter. The exit method, alone +11.4%, is the conservative read, and the call does not rest on Gordon.

- **Acquisitions.** 2026 growth includes acquisitions already closed and paid for, such as Astreya (\$634mm, June 2026). From 2027 on, growth is organic only, with no deal spend.
- **No tail run.** No segment or client is ≥50% of revenue (the largest segment is 32%), and Bear is a decline, not a plateau.
- **Excluded upside.** The Syntel judgment (~\$298mm, under appeal, ~\$0.66/sh, ~1% of market cap) is not booked by the company and not counted here.

Balance sheet: net leverage 0.13x FY2025 EBITDA (gross 0.39x). Net debt is ~\$0.5bn after \$1.6bn of H1 2026 buybacks and the revolver-funded Astreya deal. Interest coverage is 52.9x. The nearest material maturity is October 2031: the \$550mm term loan and the ~\$1.0bn drawn on the \$1.85bn revolver, both refinanced on 2026-10-05, unsecured, under a 3.50x leverage covenant. Ratings: n/a (unverified). Separately, \$365mm sits on deposit with India's tax department against a \$349mm disputed assessment on the 2016 buyback. It is excluded from cash.

Model note: tier `full` , status `built` , verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs and no assumptions without a basis. Scenario consistency is `OK` on all 14 rows.

- **Sourcing.** Revenue, operating income, D&A, working-capital lines, capex, acquisitions, buybacks and dividends come from EDGAR XBRL 10-K annual values for FY2021–25. Cash and shares come from the Q2 2026 10-Q and release, and debt from the 2026-10-06 8-K.
- **EBITDA basis.** GAAP, so Project Leap charges and stock compensation stay in as costs. FY2025 includes a \$62mm property-sale gain.
- **EPS vs guidance.** Base Y1 EPS \$5.78 is 0.4% above the \$5.76 adjusted guide midpoint. The model is on a GAAP basis that absorbs Leap charges net of the \$81mm India provident-fund reversal.
- **Placeholders and shares.** Bank-debt coupons (4.8%) are display-only estimates. The share count is 452mm outstanding at 2026-06-30, not a diluted figure.

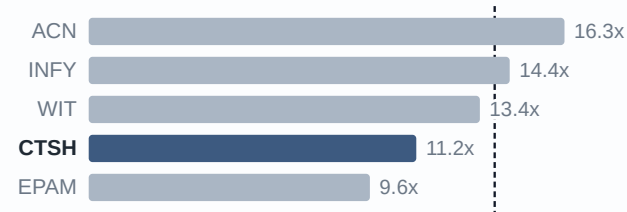
RELATIVE VALUE VS PEERS

Metric	CTSH	ACN	INFY	WIT	EPAM	Peer median	vs median
P/E (TTM)	14.7x	17.6x	14.5x	13.8x	17.7x	16.1x	−9%
P/E (forward)	11.2x	16.3x	14.4x	13.4x	9.6x	13.9x	−19%
PEG	1.5x	2.4x	n/a	n/a	1.1x	1.7x	−14%
EV/EBITDA (TTM)	7.9x	10.6x	10.3x	9.0x	8.1x	9.6x	−18%
EV/Sales (TTM)	1.5x	1.9x	2.3x	1.7x	1.1x	1.8x	−18%
P/B	2.1x	4.5x	5.0x	2.3x	1.9x	3.4x	−37%
FCF yield	8.5%	8.2%	7.9%	8.0%	7.2%	7.9%	+0.5pp

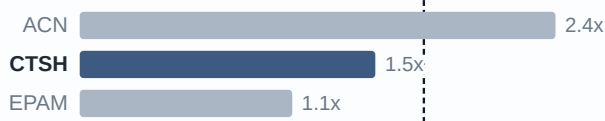
P/E (TTM)



P/E (forward)



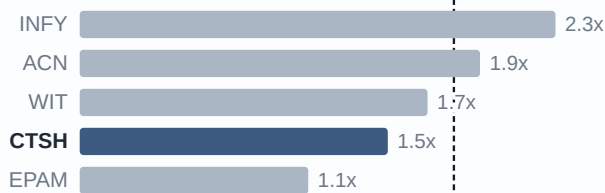
PEG



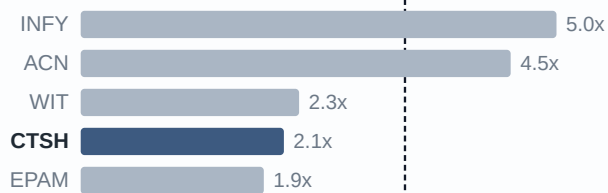
EV/EBITDA (TTM)



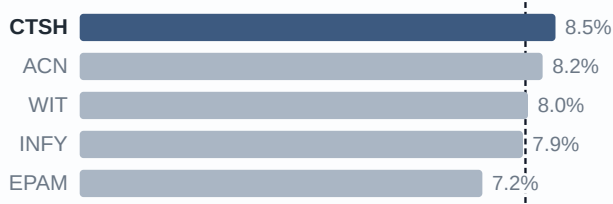
EV/Sales (TTM)



P/B



FCF yield



As of 2026-10-21. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting reported cash and including lease liabilities in debt. Not the model's own EV basis (see the report's valuation table). Pages fetched 2026-10-21 before the open; quotes are the 2026-10-20 close (4:00pm ET). Dashed line = peer median. Source: stockanalysis.com/stocks/<ticker>/statistics/, fetched 2026-10-21.

Notes. PEG as given by the source, resting on its consensus growth estimates; the source shows none for Infosys or Wipro. CTSH's 7.87x uses the source's \$4.04bn TTM EBITDA; on the model's basis (FY2025 GAAP operating income + D&A, leases excluded) it is 7.95x.

Scenario stress test

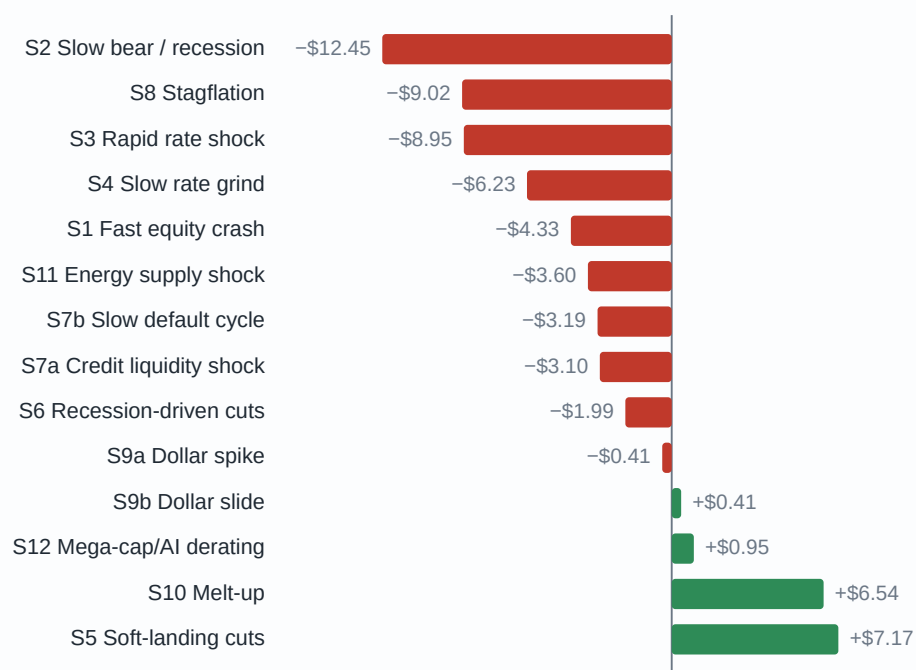
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	-	Liquidity de-rating of a 0.85-beta large cap; small net debt, no funding channel	Med	-\$4.33
S2 Slow bear / recession	-	Discretionary projects and P&R/CMT budgets are cut first, and outsourcing contracts cushion them. Milder than Base – Bear (\$31) because it is a two-year cycle, not a permanent shrinking of the labor pool	High	-\$12.45
S3 Rapid rate shock	-	Higher discount rate; floating-rate bank debt is only \$1.55bn	High	-\$8.95
S4 Slow rate grind	-	Grinding rates slow client transformation budgets	Med	-\$6.23
S5 Soft-landing cuts	+	Confidence restarts discretionary spend	Med	+\$7.17
S6 Recession-driven cuts	-	Project cancellations, mostly offset in value by lower rates	Low	-\$1.99

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S7a Credit liquidity shock	-	De-rating only; leverage ~0.4x EBITDA	Low	-\$3.10
S7b Slow default cycle	-	Financial Services (~32% of revenue, the growth engine) trims spend	Low	-\$3.19
S8 Stagflation	-	Indian wage inflation outruns bill rates while budgets tighten	High	-\$9.02
S9a Dollar spike	±	~25% of revenue is outside North America, but most costs are in rupees, so a translation loss is offset by cost relief	Low	-\$0.41
S9b Dollar slide	±	Mirror image: translation gain, rupee cost hit	Low	+\$0.41
S10 Melt-up	+	A low-multiple large cap re-rates in a risk-on tape	Med	+\$6.54
S11 Energy supply shock	-	Indirect: energy costs squeeze European and manufacturing (P&R) budgets	Low	-\$3.60
S12 Mega-cap/AI derating	±	Smaller AI-disruption discount on services vs lower tech-client (CMT) budgets; roughly offsetting	Low	+\$0.95

Currently active/on watch per the playbook: S3 partially active (price-level leg only); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Downgrades to Hold if: the stock re-rates toward the Base midpoint with no improvement in the data. Also if 2027 organic growth is guided below ~2%, adjusted operating margin falls below 15.5%, or TTM book-to-bill drops under 1.1x. **Downgrades to Sell if:** organic revenue turns negative, as in the Bear case, while the price still reflects Base.

Watch items

- **W1:** Q3 2026 revenue — within \$5.60–5.68bn (+3.8–5.3% cc) — Q3 2026 release — late Oct 2026 (date not verified) — *Model: rev_growth*
- **W2:** Margin and Leap — FY2026 adjusted operating margin within 16.0–16.2%, and cumulative Leap charges within \$230–320mm — Q4 2026 release — ~Feb 2027 — *Model: ebitda_margin*
- **W3:** 2027 guide — organic growth at or above ~3.5% (Base) vs under 1% (Bear) — Q4 2026 release — ~Feb 2027 — *Model: rev_growth*
- **W4:** Bookings — TTM book-to-bill $\geq 1.2x$ (Q2 2026: ~1.3x, \$29.1bn) — quarterly releases — through 2027 — *Model: rev_growth*

Sources

- Cognizant (CTSH) statistics — <https://stockanalysis.com/stocks/ctsh/statistics/> — accessed 2026-10-21
- Accenture, Infosys, Wipro, EPAM statistics — <https://stockanalysis.com/stocks/acn/statistics/> · [/infy/](#) · [/wip/](#) · [/epam/](#) — accessed 2026-10-21
- EDGAR XBRL companyfacts, CIK 0001058290 — <https://data.sec.gov/api/xbrl/companyfacts/CIK0001058290.json> — accessed 2026-10-21
- Cognizant Reports Second Quarter 2026 Results — <https://news.cognizant.com/2026-07-29-Cognizant-Reports-Second-Quarter-2026-Results> — accessed 2026-10-21
- Cognizant Form 10-Q, Q2 2026 — <https://www.sec.gov/Archives/edgar/data/1058290/000105829026000031/ctsh-20260630.htm> — accessed 2026-10-21
- Cognizant Form 10-K, 2025 — <https://www.sec.gov/Archives/edgar/data/1058290/000105829026000008/ctsh-20251231.htm> — accessed 2026-10-21
- Cognizant Form 8-K, new credit agreement (2026-10-06) — <https://www.sec.gov/Archives/edgar/data/1058290/000105829026000033/ctsh-20261005.htm> — accessed 2026-10-21
- Q2 2026 call coverage (AI deployment pauses, discretionary assumption) — <https://www.webull.com/news/15364343851656192> — accessed 2026-10-21
- Infosys Q1 FY27 guidance cut — <https://www.outlookbusiness.com/corporate/infosys-q1-net-profit-rises-12-yoy-to-7769-cr-trims-fy27-revenue-growth-guidance> — accessed 2026-10-21
- TCS Q2 FY27 results — <https://ticker.finology.in/discover/market-update/tcs-q2-fy27-results-analysis> — accessed 2026-10-21
- Macro log, 10Y 5.12% and fed funds on 2026-10-20 — [logs/macro-2026-10.md](#) — accessed 2026-10-21

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.