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Computer Services and IT Consulting (Citi)
North America | United States

IT/BPO Services & Consulting 2013 Outlook

Evolving IT/BPO Market Yields Many Opportunities

- **Key Takeaway(s)** — We remain bullish on the IT/BPO segment in spite of good multi-year performance from many ideas. Macro challenges remain and are driving a continued push for productivity, which now extends beyond the IT enterprise and so BPO is making a good comeback. At the same time there are also growth-focused IT spending drivers present for the first time in more than a decade. New corporate IT buyers beyond the CIO are emerging and this benefits vendors with a well-developed consulting front-end. Valuations remain in check for the most part. This combination drives our confidence in the space and in our overweight stance.

- **Summary of Changes** — Specifics are in the table on page 2. We raised our price targets for CTSH, EPAM and DOX. Also, we have lowered our estimates for CSC to reflect recent divestitures. Lastly, we are upgrading WNS to Buy from Neutral.

- **Buy ACN** — ACN's 28% return in 2012 reflected strong execution, and we look for a continuation of solid fundamentals in 2013. Our checks indicate ACN remains quite successful in new contract pursuits, and gaining incremental client wallet share. This gives us more confidence in our above-consensus 2013 estimates.

- **Buy CTSH** — CTSH returned 15% to investors in 2012 despite a downward adjustment to its revenue guidance. We expect the 2013 revenue guide will include an appropriate level of "cautious optimism" – we think 15-16% y/y is a good starting point – and ultimately we believe revenue acceleration over 2012 is possible.

- **Buy EPAM** — EPAM returned 51% in 2012 from its $12 IPO price driven by a string of solid qtrly results. Ongoing positive secular trends toward off-shoring and EPAM's position as a top Central & Eastern Europe IT vendor should enable it to continue a trend of 20%+ revenue growth and commensurate EPS performance in 2013.

- **Buy WNS** — Upgrading WNS to Buy with a $15 target price on (1) improving demand trends for offshore BPO services; (2) better underlying fundamentals for WNS in terms of solid execution on its expansion / go-to-market strategies; (3) improved balance sheet position; and (4) attractive current valuation.

- **Buy DOX** — DOX's +20% return in 2012 was driven by a balanced mix of EPS growth / outperformance and modest multiple expansion. We look for a similar 2013 as DOX should drive upside to consensus and possibly benefit from a higher multiple as visibility about higher growth emerges.

- **Buy TW** — TW was the lone stock in our IT coverage that produced a negative return in 2012 and we look for a bounce-back year in 2013. We believe TW will surprise investors with EPS upside over the next few quarters as upcoming seasonality (Benefits, Extend Health) should help. Its valuation remains attractive.

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Data Summary

Company	Ticker	Rating Old	Rating New	Target Price Old	Target Price New	Current Year Earnings Estimates Old	Current Year Earnings Estimates New
Accenture	ACN	1	1	US$76.00	US$76.00	US$4.29	US$4.29
Computer Science	CSC	2H	2H	US$39.00	US$39.00	US$3.25	US$3.20
CSG Syst Intl	CSGS	2H	2H	US$24.00	US$24.00	US$2.15	US$2.15
Cognizant	CTSH	1	1	US$79.00	US$90.00	US$3.43	US$3.43
Convergys Corp	CVG	1	1	US$19.50	US$19.50	US$0.92	US$0.92
Amdocs Ltd	DOX	1	1	US$37.00	US$41.00	US$2.95	US$2.95
EPAM	EPAM	1	1	US$23.00	US$25.00	US$1.41	US$1.41
ExlService	EXLS	1	1	US$35.00	US$35.00	US$1.58	US$1.58
Genpact	G	2	2	-	-	US$0.95	US$0.95
IBM	IBM	1	1	US$250.00	US$250.00	US$16.86	US$16.86
Nielsen Hld	NLSN	1	1	US$35.00	US$35.00	US$1.82	US$1.82
TeleTech Hldgs	TTEC	2	2	-	-	US$1.35	US$1.35
Towers Watson	TW	1	1	US$65.00	US$65.00	US$5.30	US$5.30
WNS Hldg	WNS	2	1	-	US$15.00	US$1.01	US$1.01

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Why We Like the IT/BPO Services Market

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us…

- Charles Dickens, A Tale of Two Cities

The fantastic piece of prose that starts off Dickens' classic is also appropriate for today's IT/BPO market. On the one hand, five years of a "beat-down" at the hands of embattled IT buyers is definitely a demoralizing experience for IT vendors – this is the stuff of innumerable earnings calls that discuss flattish budgets, elongated sales cycles, higher quarterly volatility in expectations, and so on….and yet, scratching beneath the surface and discussing the underlying changes within IT with smart industry insiders and sales professionals yields an undeniable "spring of hope". Why? We believe a look at Figure 1 below should provide some answers!

Figure 1. IT Services Spending Drivers – A Historical and Future Perspective

	The 90s	2000-2009	2010-
Cyclical Impact	Good Economy, except for a modest U.S. downturn early in the decade and slower European growth. Generally, a good cyclical environment for IT.	Two downturns, one of them deep and global. Terrible underlying environment for IT.	A slow recovery in major IT markets. Better, albeit still-disappointing growth, outside traditional developed markets.
	Employment Growth	Stagnant Employment except for Healthcare and Government, followed by Decline	Slowest Employment Recovery on Record
Secular Impact	Core Computing Becomes Mainstream	Growth of Offshore Outsourcing	Growth of Social Media
	Growth of Enterprise Software - ERP, CRM, Supply Chain Management (SCM)	Outsourcing Mega-contracts in early part of decade	Growth of Mobility and mCommerce
	Growth of Corporate Email	Service-Oriented Architecture	Growth of Analytics and Big Data
	Growth of Internet and eCommerce		Mainstreaming of Cloud
			Globalization
			BPO Growth
			Digital Marketing Growth
			Shortage of IT Talent
Episodic Impact	Y2K Project Activity	Growth of Defense IT and Cybersecurity, at least from 9/11 through 2008.	Growth of Regulation
Other Impact	New Beginnings - Outsourcing Mega-Contracts	New Beginnings - BPO, Cloud, SaaS, Mobile Computing, Globalization, Analytics	Maturation of Thought Process on Outsourcing

Source: Citi Research

Figure 1 illustrates the dichotomy of today's IT Services market by providing a historical perspective and then taking it forward to a longer-term view of the industry's evolution. Consider the following:

Growth-focused IT drivers dominated in the 1990s…

The IT Services industry is a relatively young one. While pioneers like CSC, EDS and TCS pre-date the 1990s, the industry gained mainstream acceptance only two decades ago, on the back of an unusual confluence of positive circumstances – we had a healthy economic backdrop for most of the decade, which combined with secular / technological developments and a once-in-a-lifetime episodic event to drive tremendous growth. Those were the good old days!

…while productivity- or cost-focused IT drivers dominated in the last decade…

The next decade could not have been more different. Two recessions book-ended the decade – this was hardly a healthy backdrop. To make matters worse, every single secular driver had a single objective – to make the IT organization more productive. So unlike the growth-focused drivers of the 1990s, the drivers in the last decade were all cost-focused. There was one minor exception – the growth of defense IT, although that was also rooted in tragedy. Those were definitely not the good old days!

Now, we have both growth- and productivity-focused IT drivers, and in certain verticals, we have a fair level of mandatory work (due to regulation).

The depth of the last economic downturn and the slow recovery has kept the focus on cyclical factors since the beginning of this current decade. However, in our view, there are also multiple growth-focused demand drivers within the IT spectrum for the first time since the 1990s. In Figure 1, we delineated today's major drivers. Figure 2 below shows these drivers along three broad areas of focus – which we characterized as "productivity", "growth" and "mandatory" work.

Figure 2. Categorizing Today's IT Spending Drivers – Growth, Productivity and Mandatory.

Growth-Focused Drivers	Productivity-Focused Drivers	Mandatory Work
Shortage of IT Talent is a Common Underlying Factor		
Growth Of Social Media	More Outsourcing - Increased Penetration; Incorporating New Geographies, New Functions like BPO and New Verticals	Growth of Regulation
Growth of Mobility & mCommerce	More Offshoring - Increased Penetration; Using New Geographies esp. non-India; Selling New Functions like Infrastructure and BPO and Incorporating New Verticals	
Globalization	Maturation of Thought Process on Outsourcing - Use of Automation; Alternative Technologies like Cloud and SaaS; Eliminating Work through Consolidation of Vendors, Systems and Infrastructure; Sending Work to the Right Locations	
Growth of Analytics and Big Data		
Digital Marketing and other Client-focused investments		

Source: Citi Research

Brief Thoughts on Productivity Initiatives

Given the slow recovery and still-tenuous economic environment, the continued focus on productivity and cost-takeouts is easy to understand. We note the following points.

- Because multiple years of success have led to both a higher comfort-level as well as a higher penetration, the next logical step is to do more of the same. So, both outsourcing and offshoring continue to be good end-markets.
- We are also experiencing a more mainstream adoption of BPO, in our view, as enterprises seek productivity gains in areas other than IT.
- Asymmetrical adoption across verticals and geographies as well as a measure of desperation due to the multi-year downturn has led to companies in non-traditional geographies and verticals adopting these practices as well.
- Big Data and Analytics initiatives are a key part of understanding cost drivers more precisely so that the appropriate actions can be taken.
- More mature users of outsourcing seem to be taking it a step further by more systematically asking whether it is better to eliminate the work / process being done (perhaps through consolidation of systems or infrastructure) rather than just do it cheaply. Similarly, if a certain process must be done, more mature clients are asking whether it is better to attempt to automate the process. This is not always possible, but it is clearly a trend that bears watching.

What about the new focus on growth?

Growth is difficult to attain for many companies in today's economy and so there is an understandable "premium" attached to the notion of growth. The maturation of new technologies – social, mobile and analytics – has helped make the focus on growth more achievable. Consider the following.

- Understanding the behavior and preferences of customers, subscribers, account-holders, etc., is quite important as a precursor to increasing the value of these relationships. Clearly Big Data and Analytics can play a crucial role in this effort.
- The rise in smart-phone penetration and capability as well as the increased use of social media can both provide data and clues into customer behavior.
- Innovative uses of mobility have the potential to be a strong multi-year driver of IT demand growth.
- Globalization (and the associated trend of urbanization) is another strong driver as IT usage increases rapidly in emerging economies.

Finally, the mandatory stuff….

Regulation is likely to be a strong driver of IT demand over the next few years. This is particularly true in the financial services industry – both banking and insurance – and in the healthcare industry. Healthcare exchanges, Solvency regulation for insurance, Basel, MIFID, etc., are just a few of the many examples that should help.

An Important Change on Who the Buyer Is

Traditionally, the CIO controlled IT Spending. While the CIO remains important, they are increasingly focused on just a part of the IT spending in an organization. Our checks have certainly shown the growth of two other centers of control.

1. As the search for productivity has transcended the IT organization leading to the increased mainstreaming of BPO, the CFO and/or COO has emerged as a key player in the funding of such initiatives. Why? Because many of the underlying business processes that are being outsourced – finance, accounting and procurement – legitimately belong in their organization. So they tend to fund and control these initiatives. However, because the IT systems that support these processes are typically controlled and maintained by the CIO's organization, the CIO remains involved. In fact, sometimes they act as a conduit for BPO spending. Ultimate control, however, resides with the CFO or COO – this complexity is also a contributing factor in elongated sales cycles.

2. The search for growth also results in a different buyer. Many growth initiatives are centered on the customer and so the "business unit" or the CMO (Chief Marketing Officer) or Head of Sales often becomes the key buyer instead of the CIO. Again, it is the CIO's organization that ensures systems standardization and supports the CRM systems, so they often act as the conduit for this spending. But the buyer is not the CIO.

Why is this Change Important?

Most CIO Surveys nowadays, including ours, typically indicate that the CIO Budget is flattish. This is true, but it also measures just one of the three areas of an enterprise's tech spending.

In effect, what has happened is that the CIO might manage all of the tech spend in an organization, but they do not control all of it. The important implication from this is that IT vendors that understand this and cultivate relationships at multiple points in an enterprise or sell at higher levels in an enterprise are likely to see a bigger budget and a different growth profile relative to a vendor that is focused on traditional IT.

Which Vendors Benefit from this?

Vendors with a good consulting front-end intrinsically "get" this. The list includes Accenture, IBM and Capgemini. Among the India-model vendors, Cognizant has clearly moved in this direction and more recently, Infosys is also trying to refocus its efforts to adapt to this. Among smaller vendors, we note that Sapient has long had a creditable reach into the marketing organization and that EPAM recently acquired into the space. Lastly, we note that the pure-play BPO companies like EXLS, WNS and Genpact are clearly beneficiaries of the strength in BPO even as Accenture, Cognizant, TCS and Infosys re-double their efforts in that area.

Baseline Information and Re-Cap of Trends

- Figures 3 and 4 show that although overall budget growth remains "flattish", outsourcing growth is higher than that. Figure 3 below is derived from Citi's Quarterly Survey of CIOs (260 Global CIOs for the last couple of years and 200 CIOs prior to that). The subsequent Figure 4 is from a November 2012 IDC report – we can see that overall outsourcing growth is in the mid-single digits and within this spectrum, the higher growth areas include hosted services and applications management, which are remote services suited for offshore outsourcing.

Figure 3. Anticipated IT Budget Growth (at Beginning of Year) from our CIO Survey

	2007	2008	2009	2010	2011	2012	2013
US	2.7%	1.3%	(3.2%)	1.7%	0.8%	(0.5%)	0.3%
Europe	0.6%	0.4%	(2.2%)	1.2%	1.6%	0.1%	(0.7%)
Asia	n/a	n/a	n/a	n/a	n/a	0.0%	1.1%
Total	**1.6%**	**0.8%**	**(2.7%)**	**1.5%**	**1.2%**	**0.1%**	**0.1%**

Source: Citi Research

260 CIOs were asked: Please describe your IT budget growth relative to the previous year.

Figure 4. IDC's Worldwide Services Spend Estimates by Function 2011-2016E ($millions)

	2011E	2012E	2013E	2014E	2015E	2016E	CAGR
BPO	153,224	160,851	169,574	179,130	189,452	200,269	5.5%
IS Outsourcing	122,453	124,896	128,184	131,690	134,761	136,459	2.2%
Systems Integration	112,068	114,932	119,262	124,725	130,669	136,661	4.0%
Business Consulting	74,861	78,583	83,549	89,431	95,936	102,688	6.5%
Software deploy and support	68,555	70,393	72,808	75,635	78,663	81,649	3.6%
Hardware deploy and support	62,130	63,209	64,970	66,967	69,166	71,447	2.8%
Network and Desktop Outsourcing	46,979	48,742	50,934	53,542	56,305	59,086	4.7%
Application Management	48,421	51,103	54,061	57,274	60,470	63,273	5.5%
Custom Application Development	37,579	39,384	41,550	43,917	46,364	48,871	5.4%
Network Consulting and Integration	34,273	36,392	38,867	41,608	44,416	47,336	6.7%
IT Consulting	30,747	31,311	32,368	33,754	35,305	36,962	3.8%
Hosting and Infrastructure Services	31,025	33,306	35,952	38,855	41,710	44,623	7.5%
IT Education and Training	23,378	23,855	24,629	25,575	26,622	27,672	3.4%
Hosted Application Management	9,527	10,368	11,332	12,421	13,630	14,917	9.4%
Total	**$855,220**	**$887,325**	**$928,039**	**$974,523**	**$1,023,468**	**$1,071,912**	**4.6%**
yr/yr growth	--	*3.8%*	*4.6%*	*5.0%*	*5.0%*	*4.7%*	

Source: IDC, November 2012

- Offshore outsourcing spend should grow faster than overall outsourcing. The recent results from India-based outsourcers indicates relatively healthy spend patterns for these companies. Also, Cognizant's 2013 management compensation seems to be centered around 16% year/year growth, clearly much healthier than budget growth as well as broader outsourcing growth.

Figure 5. India Based IT Companies' December Quarter Revenue Growth

	TCS	Infosys	HCLT
Revenue growth (constant currency)			
Change qtr/qtr	2.7%	5.8%	3.1%
Change yr/yr	n/a	5.8%	13.0%
Revenue growth ($USD terms)			
Change qtr/qtr	3.3%	6.3%	3.6%
Change yr/yr	14.0%	5.8%	12.9%

Source: Company Reports and Citi Research Estimates

- India is still a leading destination in terms of lower-cost locations, but clearly Eastern Europe, the Philippines and other countries are making more headway. EPAM's recent results and above-market growth can be considered partial proof for this trend.

- CIO Budgets are just one part of Tech Spending – investors should consider the increasing importance of BPO Spending and Marketing-related tech spending, whose owners from a budget standpoint are often executives other than the CIO. We have made this point in a prior section, here we note that this was anecdotally also highlighted in our recent CIO survey call.

- Social, Mobile, Analytics and Cloud (SMAC) are all legitimate drivers of new across-the-board project activity, while Regulation should help in certain vertical markets. Note that SMAC projects are often sponsored by executives other than the CIO. Our last few CIO Survey calls have highlighted this trend. Also, commentary from our covered companies is quite bullish about the building of this demand, but project sizes are still small.

- Pricing is a neutral-to-slightly-positive impact based on a scarcity of talent and nature of work. The most recent India outsourcer results also point to positive pricing.

Growth and Total Return in 2013

We believe that companies that can sustain above-market growth – a relatively rare commodity nowadays – will generally do better in 2013. However, within the IT/BPO and Analytics part of our coverage, the preponderance of emerging secular themes overrides any such growth vs. value bias. As we have mentioned before, we like a large proportion of names in the sector.

Figures 6and 7 present our IT/BPO coverage sorted by revenue and EPS CAGR. It shows a wide dispersion of outcomes. The seeming outlier is CSC – bottom of the barrel in revenue growth but top of the chart in EPS CAGR – and this is because of the aggressive turnaround-related cost-cutting and divestitures that the company has promised. Beyond this, the only broad takeaway is that these companies all should manage to deliver quite respectable top-line and bottom-line growth relative to the broader market.

Figure 6. Our Coverage Universe – Sorted by Revenue CAGR

Ticker	Y/Y Growth CY 2013E	Rev CAGR 14E/12E	Action
EPAM	23.0%	24.0%	Buy
CTSH	21.0%	20.5%	Buy
EXLS	17.0%	17.4%	Buy
G	15.0%	14.3%	
WNS	13.4%	12.4%	Upgrading
ACN	7.8%	7.4%	Buy
CVG	5.2%	5.8%	Buy
TW	5.8%	5.6%	Buy
NLSN	5.1%	5.2%	Buy
TTEC	3.0%	5.0%	
DOX	4.1%	4.6%	Buy
IBM	3.5%	3.5%	Buy
CSGS	1.4%	2.5%	
CSC	-0.2%	1.1%	

Source: FactSet, Citi Research

Figure 7. Our Coverage Universe – Sorted by EPS CAGR

Ticker	Y/Y Growth CY 2013E	EPS CAGR 14E/12E	Action
CSC	64.2%	35.9%	
EPAM	17.3%	20.5%	Buy
CTSH	19.5%	18.9%	Buy
EXLS	16.5%	18.4%	Buy
WNS	16.1%	15.7%	Upgrading
G	10.6%	13.3%	
CVG	13.6%	12.9%	Buy
TTEC	8.6%	12.3%	
ACN	12.7%	11.5%	Buy
NLSN	10.4%	11.4%	Buy
IBM	10.2%	11.2%	Buy
TW	10.4%	10.5%	Buy
DOX	8.2%	9.0%	Buy
CSGS	-5.8%	1.7%	

Source: FactSet, Citi Research

- We also present the company list sorted based on both a PEG-based and a P/E based valuation in Figures 8 and 9.

Figure 8. Our Coverage Universe – Sorted by PEG

Ticker	P/E CY 2012	P/E CY 2013	CY 12-14E EPS CAGR	2013 PEG	Action
CSC	20.6x	12.5x	36%	0.3x	
EPAM	14.4x	12.3x	20%	0.6x	Buy
WNS	12.4x	10.6x	16%	0.7x	Upgrading
EXLS	18.9x	16.2x	18%	0.9x	Buy
TW	11.5x	10.4x	11%	1.0x	Buy
TTEC	13.4x	12.3x	12%	1.0x	
CTSH	22.8x	19.1x	19%	1.0x	Buy
IBM	12.9x	11.7x	11%	1.0x	Buy
G	17.6x	15.9x	13%	1.2x	
CVG	18.5x	16.3x	13%	1.3x	Buy
DOX	12.6x	11.6x	9%	1.3x	Buy
NLSN	17.3x	15.6x	11%	1.4x	Buy
ACN	17.9x	15.9x	11%	1.4x	Buy
CSGS	8.8x	9.3x	2%	5.4x	

Source: FactSet, Citi Research

Figure 9. Our Coverage Universe – Sorted by 2013 P/E

Ticker	P/E CY 2012	P/E CY 2013	CY 12-14E EPS CAGR	2013 PEG	Action
CSGS	8.8x	9.3x	2%	5.4x	
TW	11.5x	10.4x	11%	1.0x	Buy
WNS	12.4x	10.6x	16%	0.7x	Upgrading
DOX	12.6x	11.6x	9%	1.3x	Buy
IBM	12.9x	11.7x	11%	1.0x	Buy
EPAM	14.4x	12.3x	20%	0.6x	Buy
TTEC	13.4x	12.3x	12%	1.0x	
CSC	20.6x	12.5x	36%	0.3x	
NLSN	17.3x	15.6x	11%	1.4x	Buy
ACN	17.9x	15.9x	11%	1.4x	Buy
G	17.6x	15.9x	13%	1.2x	
EXLS	18.9x	16.2x	18%	0.9x	Buy
CVG	18.5x	16.3x	13%	1.3x	Buy
CTSH	22.8x	19.1x	19%	1.0x	Buy

Source: FactSet, Citi Research

- Lastly we have a brief analysis of 2012 performance. Only one company had a negative return. Eight (8) out of fourteen (14) companies beat the broader market's total returns. We have pointed out the companies where P/E expansion drove stock performance (CSGS, which we then downgraded to Neutral from Buy in Sep-2012); where a special dividend drove performance; where EPS growth drove stock performance rather than P/E expansion; and lastly, situations where P/E contraction more than offset the impact of EPS growth. It is a useful screen so we don't end up chasing stocks.

Figure 10. Ranked 2012 Performance and Attribution for IT Services & Consulting Companies

	As of 12/30/2011*		As of 12/31/2012			Attribution			
Ticker	Closing Price	Forward 12-mo P/E	Closing Price	Forward 12-mo P/E	Total Return	Expected EPS Growth	Estimate Revision	P/E Expansion	Comments
CSC	$23.70	6.0x	$40.05	11.9x	**72%**	70%	-48%	98%	EPS base reset in turnaround
EPAM	$12.00	NA	$18.10	11.5x	**51%**	17%	NA	NA	EPS growth is not representative due to IPO adjustments to shares
CVG	$12.77	12.1x	$16.41	16.0x	**30%**	14%	-13%	32%	
ACN	$53.23	13.6x	$66.50	15.5x	**28%**	13%	1%	14%	
CSGS	$14.71	6.7x	$18.18	9.4x	**24%**	-6%	-2%	40%	P/E Expansion drove stock performance
DOX	$28.53	10.8x	$33.99	11.4x	**20%**	8%	6%	6%	EPS Growth drove stock performance
G	$14.95	14.2x	$15.50	14.8x	**19%**	11%	-10%	4%	Special dividend drove total return
EXLS	$22.37	14.0x	$26.50	14.8x	**18%**	16%	-1%	6%	EPS Growth drove stock performance
Above-listed Stocks Beat the Market									
WNS	$8.99	8.5x	$10.42	9.2x	**16%**	16%	-6%	8%	
CTSH	$64.31	19.7x	$73.88	18.4x	**15%**	20%	5%	-7%	EPS Growth drove stock performance
TTEC	$16.20	10.5x	$17.80	12.4x	**10%**	9%	-13%	18%	
IBM	$183.88	12.4x	$191.55	11.4x	**6%**	10%	2%	-8%	P/E Contraction over-rode EPS gains
NLSN	$29.69	15.9x	$30.59	15.3x	**3%**	10%	-2%	-4%	P/E Contraction over-rode EPS gains
TW	$59.93	11.5x	$56.21	10.3x	**(6%)**	10%	-3%	-10%	P/E Contraction over-rode EPS gains

Source: Source: Factset, Citi Research

* For EPAM the starting point is the IPO issue price as they were not trading on 12/30/2011

Company Focus

- Company Update

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Buy	**1**
Price (24 Jan 13)	US$71.54
Target price	US$76.00
Expected share price return	6.2%
Expected dividend yield	2.3%
Expected total return	**8.5%**
Market Cap	US$49,792M

Price Performance
(RIC: ACN.N, BB: ACN US)

Accenture Ltd (ACN)

Solid Market Position, Nimble Execution, & Return of Cash Make ACN an Attractive Buy

- **2013 Outlook / Themes** — We expect Accenture to continue its trend of solid execution in 2013, including above-market revenue growth, 20-30 bps of annual operating margin improvement, and significant share repurchases (reducing the overall outstanding base by ~2%) driving double digit EPS growth. The current 2.3% dividend yield rounds the meaningful return-of-cash story. Following ACN's F1Q '13 results (Nov-12), we maintain our outlook for a more back-ended year from a revenue growth perspective given the changing "velocity" of consulting bookings converting to revenues and the shifting revenue mix (more outsourcing vs. consulting) – see our note here ACN Earnings. Our recent checks indicate that Accenture continues succeed in its new contract pursuits and is gaining incremental share of clients' IT spend. This drives our confidence in our above-consensus 2013 estimates.

- **Our L/T View** — Drilling deeper into ACN's market position, and taking a longer term view of the stock, we believe the ACN is well situated to take advantage of the next multiyear leg of IT services growth in areas such as Analytics, Enterprise Mobility, and Social Media. It is also better positioned than peers in terms of having multiple higher end relationships in client organizations, so it can exploit the recent emergence of multiple IT buyers (CFO, CMO, COO - not just CIO).

- **Our FY 13 Estimates** — We reiterate our FY 2013 (Aug) estimates for ACN including revenues of $29.6 Bn (+6.7% yr/yr local currency) and EPS of $4.29 (+11.6% yr/yr). Our outlook is modestly ahead of consensus estimates for both revenues ($29.3 Bn) and EPS ($4.27) and in line with ACN's guidance range of 5-8% local currency revenue growth and EPS of $4.24-$4.32.

- **Reiterate Buy and $76 target price** — We believe ACN is one of the best positioned vendors to take advantage of evolving IT services demand. Our $76 target price is based on our 14-16x P/E range applied to our calendar year '13 GAAP EPS estimate of $4.39, plus ACN's ~$8.00 in net cash on the balance sheet. Our target P/E range for calendar 2013 is in-line with ACN's current fiscal year 2013 multiple, as well as its 2-yr average forward P/E based on FactSet.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.96A	0.97A	1.03A	0.88A	3.84A	3.84A
2013E	**1.06A**	**0.96E**	**1.17E**	**1.10E**	**4.29E**	**4.26E**
Previous	1.06A	0.96E	1.17E	1.10E	4.29E	na
2014E	**na**	**na**	**na**	**na**	**4.73E**	**4.66E**
Previous	na	na	na	na	4.73E	na
2015E	**na**	**na**	**na**	**na**	**5.21E**	**5.04E**
Previous	na	na	na	na	5.21E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

Amdocs Ltd (DOX)

Expect Solid Growth and Return of Cash; PT to $41; Maintain Buy

- Company Update
- Target Price Change

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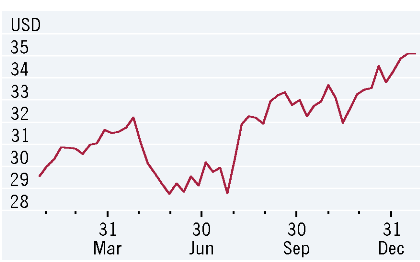
Buy	**1**
Price (24 Jan 13)	US$35.40
Target price	US$41.00
from US$37.00	
Expected share price return	15.8%
Expected dividend yield	1.5%
Expected total return	**17.3%**
Market Cap	US$5,751M

Price Performance
(RIC: DOX.N, BB: DOX US)



- **2013 Outlook / Themes** — In 2013 we are looking for solid stock appreciation and a new dividend yield to generate attractive returns for DOX investors. With its fiscal year ending last September, DOX has already issued guidance for its FY13 and we believe the targets are achievable, while EPS could even outperform (we are above consensus, outlined below). Revenue growth should improve modestly this year given the absence of meaningful headwinds (AT&T), while visibility into a better forward growth environment could emerge if pending M&A in North America pulls through in favor of DOX. Lastly, DOX should remain one of the stronger cash distributors in the sector given its strong balance sheet, active buyback and new dividend. With a CY13 P/E (ex-cash) of <10x, DOX also remains attractively valued relative to our ~10% compounded EPS growth expectations over the next three years. Maintain Buy on DOX.

- **Our FY13-14 Estimates** — We are forecasting FY13 revenue for DOX of $3.36 bil (+3.5% y/y), which is in-line with consensus and at the midpoint of the company's guidance of +2-5%. For EPS, our $2.95 forecast is $0.04 ahead of consensus and our ~8.5% growth is at the high end of management's +5-8% guidance range. Note that our forecast includes incremental share repurchases of ~$200 mil, which is down from FY12 activity of ~$485 mil but in-line with management's more balanced return of cash policy (new dividend yields ~1.5%). Our FY14 revenue forecast of $3.53 bil (+5% y/y) is ~1% ahead of consensus, while our EPS expectation of $3.23 (+10% y/y) is $0.07 ahead of consensus, likely due to share repurchase assumptions and modest higher revenue growth.

- **Raising Price Target to $41; Maintain Buy** — We are raising our price target on DOX to $41 (from $37) as we roll forward our valuation basis to FY13 (from CY12) and modestly increase our target multiple to 12x from 11.3x. We then give DOX credit for its ~$5.60 per share in net cash. We believe DOX can sustain good returns in 2013 through a combination of steady and visible EPS growth, modest multiple expansion and dividend payments. We note that our current model assumes DOX uses ~$280 mil for share repurchases and dividends in FY13, which could be conservative given our expectation for ~$480 mil in free cash flow and the existing ~$920 mil in net cash on the balance sheet. We maintain our Buy rating on DOX.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.64A	0.67A	0.70A	0.70A	2.71A	2.71A
2013E	**0.71E**	**0.73E**	**0.75E**	**0.76E**	**2.95E**	**2.92E**
Previous	0.71E	0.73E	0.75E	0.76E	2.95E	na
2014E	**na**	**na**	**na**	**na**	**3.23E**	**3.14E**
Previous	na	na	na	na	3.23E	na
2015E	**na**	**na**	**na**	**na**	**3.56E**	**3.45E**
Previous	na	na	na	na	3.56E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change

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Buy	**1**
Price (24 Jan 13)	US$77.27
Target price	US$90.00
from US$79.00	
Expected share price return	16.5%
Expected dividend yield	0.0%
Expected total return	**16.5%**
Market Cap	US$23,196M

Price Performance
(RIC: CTSH.O, BB: CTSH US)

Cognizant (CTSH)

Look for Continuation of Superior Growth – Raising PT to $90

- **2013 Outlook / Themes** — CTSH' stock performance over the next twelve months should largely depend on its initial 2013 guidance (reports Feb-7th) and its ability to deliver sustained upside against this guidance. We believe the company could begin the year with a revenue growth outlook of 15.5%-16% yr/yr, which should include the customary "at least" language. We believe most investors also expect CTSH will begin with top-line guidance around the ~16% range, and have an "endpoint" somewhere around 17%-18% as the company continues its trend of modest beat-and-raise performance. However, we continue to believe that our 21% growth expectation for 2013 (vs. 20% in 2012) is achievable based on our demand / contract win / share gain checks and we note that CTSH's history indicates that growth does stabilize and sometimes accelerates even on a higher base. We further highlight CTSH's recent acquisition of six C1 group companies, representing ~500 consulting and IT professionals in Germany and Switzerland, which we believe could add about 100 bps to top-line based on our estimates – we do not believe this deal is currently in the consensus estimate.

- **Our 2013 Estimates vs. Consensus** — We reiterate our above-consensus 2013 estimates for CTSH. We forecast revenues of $8.9 Bn (+21% yr/yr) and EPS of $4.10 (+19.5% yr/yr). Our outlook compares to the current consensus estimate of revenue of $8.6 Bn (+16.7% yr/yr) and EPS of $4.00.

- **Reiterate Buy Rating; Raising target price to $90** — As companies globally continue to seek cost efficiencies by sending more work offshore, CTSH's prospects remain solid in our opinion. As cost savings helps to drive its Horizon 1 (app development/ maintenance) and Horizon 2 (BPO and ITIS) services, clients then look to reinvest budget savings back into new technologies and growth initiatives which helps the Horizon 3 (social, mobile, cloud, analytics) product set longer-term. We are increasing our CTSH target price to $90 (from $79) reflecting the shift of our valuation basis year to 2013 from 2012. Our $90 target price reflects our unchanged 20-22X P/E target range applied to our 2013 EPS estimate of $4.10, plus the ~$8.00 in net cash per share on the company's balance sheet. Our P/E multiple range is in line with CSTH's 2-yr forward earnings growth rate. There just isn't a long list of tech names which can deliver significantly above-market growth with stable margins for a sustained period of time, and so, we believe CTSH deserves a premium multiple to its peer group.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.67A	0.67A	0.73A	0.78A	2.85A	2.85A
2012E	**0.79A**	**0.82A**	**0.91A**	**0.91E**	**3.43E**	**3.43E**
Previous	0.79A	0.82A	0.91A	0.91E	3.43E	na
2013E	**na**	**na**	**na**	**na**	**4.10E**	**4.00E**
Previous	na	na	na	na	4.10E	na
2014E	**na**	**na**	**na**	**na**	**4.85E**	**4.68E**
Previous	na	na	na	na	4.85E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

Computer Sciences Corporation (CSC)

Solid Progress on Turnaround offset by Growth Challenge, Valuation – Reiterate Neutral

- Company Update
- Estimate Change

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Neutral/High Risk	**2H**
Price (24 Jan 13)	US$42.52
Target price	US$39.00
Expected share price return	-8.3%
Expected dividend yield	1.4%
Expected total return	**-6.9%**
Market Cap	US$6,606M

Price Performance
(RIC: CSC.N, BB: CSC US)

- **2013 Outlook / Themes** — CSC has made significant progress towards its turnaround including the sale of its very profitable, but non-core, credit services business to Equifax, as well as the divestiture of its Italian operations and Australian staffing unit. Further, the company has exhibited solid execution so far on its huge $1 Bn cost take out plan. Candidly, the turnaround is running ahead of our expectations and the stock rallied as a result (up 69% in 2012). For 2013, we expect CSC to continue on its turnaround path, but also expect at some point investors will focus on the underlying fundamentals / growth trends of the business where we do continue to see some challenges. Specifically we believe top-line growth will continue to be a problem for CSC due to weak public sector demand, anemic BSS bookings, a high number of problem contracts, and the need to transition its model to less "commoditized" IT – this is no small task and could weigh on revenue growth for some time. Unfortunately, the valuation, while not quite rich (in P/E terms) prices in a successful transition as well

- **Adjusting our Estimates** — We are adjusting our fiscal 3Q13 and beyond estimates for CSC to reflect (1) the credit services and Italian operations divestitures and (2) modest reductions to our MSS/BSS organic revenue growth rates. Note that CSC is also in the process of completing the sale of its Australian IT staffing unit, which we will incorporate into our estimates at close. We now expect F3Q 13 revenues of $3.796 Bn (from $3.89 Bn), adjusted EPS of $0.72 (unch), and GAAP EPS of $0.63 (unch). Our 4Q estimates are now: revenues of $4.0 Bn (from $4.11 Bn), adjusted EPS of $1.03 (from $1.08) and GAAP EPS of $0.93 (from $0.98). In 2014, we look for revenues of $15.76 Bn (+1% yr/yr) and adjusted / GAAP EPS of $3.55 (from $3.57). Our estimates compare to the consensus average of $15.4 Bn and $3.28. Our 2015 EPS estimate is reduced to $4.04 from $4.05. Our new estimates reflect the approximately $330 mil and $0.40-$0.42 per share of divested businesses on a run-rate basis, partly offset by CSC's ongoing cost take out efforts, share buyback plan, and accounting impact of recent pension contributions.

- **Reiterate Neutral/High Risk Rating** — We remain Neutral on CSC given: (1) the revenue growth issues we believe the company still faces; and (2) valuation of ~12X our adj. calendar 2013 EPS estimate of $3.37, which we believe is fair when compared to CSC's comps which have higher growth/quality of earnings.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.18A	0.85A	1.35A	-0.12A	3.26A	3.24A
2013E	**0.36A**	**1.09A**	**0.72E**	**1.03E**	**3.20E**	**2.53E**
Previous	0.36A	1.09A	0.72E	1.08E	3.25E	na
2014E	**na**	**na**	**na**	**na**	**3.55E**	**3.28E**
Previous	na	na	na	na	3.57E	na
2015E	**na**	**na**	**na**	**na**	**4.04E**	**3.87E**
Previous	na	na	na	na	4.05E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

Convergys Corp (CVG)

Good Upside Exists from Execution, Cash Usage; Buy CVG

- **Company Update**

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Buy	**1**
Price (24 Jan 13)	US$16.81
Target price	US$19.50
Expected share price return	16.0%
Expected dividend yield	1.2%
Expected total return	**17.2%**
Market Cap	US$1,835M

Price Performance
(RIC: CVG.N, BB: CVG US)

- **2013 Outlook / Themes** — We look for CVG to continue to execute well and drive strong returns for investors in 2013. Relative to other call center operators, we expect CVG to post good growth through a combination of new business awards and strong client retention. We believe CVG can deliver continued margin expansion as it benefits from streamlined processes and a simplified management structure. Lastly, CVG is well-positioned to incrementally add shareholder value by deploying cash via buybacks, dividends or potential M&A. On the latter point, we would be most excited about vertical specific M&A in a higher growth niche (e.g. healthcare customer service) rather than a large scale deal aimed at overhead synergies. With a CY13 P/E (ex-cash) of <11x, CVG also remains attractively valued relative to our ~13% compounded EPS growth expectations over the next two years. Maintain Buy on CVG.

- **Our 2013 Estimates** — We are forecasting 2013 revenue for CVG of $2.11 bil (+5% y/y), which is ~1.5% ahead of consensus expectations. For EPS, our $1.04 forecast is $0.02 ahead of consensus and implies growth of ~14% over our 2012 forecast. Our model assumes a modest acceleration in growth in the Customer Care business from 4% in 2012 to 5.5% in 2013, driven by strong client retention and solid new business wins. We are also anticipating some continued margin expansion and EPS should benefit further from ongoing share repurchase activity. Note that our model assumes ~$150 mil in cash return to shareholders via buybacks and dividends. This projection could be conservative based on our ~$115 mil free cash flow estimate and the existing ~$660 mil in net cash on the balance sheet.

- **Maintain Buy and $19.50 Price Target** — We are maintaining our $19.50 price target on CVG, which is based on a 13x target P/E, our 2013 EPS forecast of $1.04 and then crediting the company for its ~$5.80 per share in net cash. We believe our targeted 13x multiple is fair given our expectation for compounded EPS growth of ~13% over the 2012-14 timeframe. The unknown remains how CVG will deploy its ample cash balance, though we note there are several attractive options, including further share repurchases, a higher dividend and/or strategic M&A.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.24A	0.26A	0.25A	0.28A	1.03A	0.92A
2012E	**0.22A**	**0.19A**	**0.26A**	**0.25E**	**0.92E**	**0.91E**
Previous	0.22A	0.19A	0.26A	0.25E	0.92E	na
2013E	**na**	**na**	**na**	**na**	**1.04E**	**1.02E**
Previous	na	na	na	na	1.04E	na
2014E	**na**	**na**	**na**	**na**	**1.17E**	**1.10E**
Previous	na	na	na	na	1.17E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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Neutral/High Risk	**2H**
Price (24 Jan 13)	US$18.35
Target price	US$24.00
Expected share price return	30.8%
Expected dividend yield	0.0%
Expected total return	**30.8%**
Market Cap	US$619M

Price Performance
(RIC: CSGS.O, BB: CSGS US)

CSG Systems International Inc (CSGS)

Comcast Renewal and DISH M&A Are 2013 Keys; Maintain Neutral

- **2013 Outlook / Themes** — For much of 2012, the prospect for contract renewals with two key customers (Comcast and Time Warner, together ~30% of revenues) were important for the stock's performance. While uncertainty related to whether the contracts would renew has largely abated (CSGS has indicated that the Comcast renewal will likely occur in January 2013), investor attention has shifted toward the financial impact of the deals for 2013. Consensus expectations have contracted to account for expected price discounts recently – our forecasts remain above consensus though we note that initial guidance will likely be conservative. The multiple on the stock could improve from the recent pullback given the expected earnings visibility as it relates to CSGS' largest customers, though execution and growth of the business will remain important as investor focus shifts to 2014-15 growth. We see some modest near-term upside in the stock, but we maintain our Neutral/High Risk rating as our longer-term outlook is more balanced.

- **Our 2013 Estimates** — We are forecasting 2013 revenue for CSGS of $757 mil (+1% y/y), which is ~1% ahead of consensus expectations. For EPS, our $2.02 forecast is $0.07 ahead of consensus and implies a decline of ~6% relative to our 2012 forecast. Our model assumes a ~3% top-line headwind related to ~10% price discounts on renewals for two major clients, Comcast (pending renewal) and Time Warner (announced in early January). The EPS decline is more significant as the renewals will not materially impact expenses in the near-term (lost leverage). Note that while our EPS projections are above consensus, we would anticipate initial 2013 guidance closer to consensus given mgmt's historical conservatism.

- **Maintain Neutral and $24 Price Target** — We are maintaining our $24 price target on CSGS, which is based on the average of our P/E ($23) and DCF ($25) valuation methodologies. The stock is currently trading at a 2013 P/E of ~9.5x, which is modestly below the 5-year average of ~10x. We believe the multiple could recover in the near-term following a successful renewal with Comcast, though financial expectations will have to settle out given the wide range of consensus forecasts for 2013. We see the potential for an above average multiple later in 2013 given that CSGS should have its three major clients locked into long-term deals, which helps with earnings visibility. We maintain our Neutral rating on the stock.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.54A	0.49A	0.58A	0.64A	2.25A	2.25A
2012E	**0.60A**	**0.56A**	**0.50A**	**0.49E**	**2.15E**	**2.13E**
Previous	0.60A	0.56A	0.50A	0.49E	2.15E	na
2013E	**na**	**na**	**na**	**na**	**2.02E**	**1.98E**
Previous	na	na	na	na	2.02E	na
2014E	**na**	**na**	**na**	**na**	**2.22E**	**2.14E**
Previous	na	na	na	na	2.22E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

IT Consulting & Other Services (GICS) | Computer Services and IT Consulting (Citi)

North America | United States

Company Focus

EPAM Systems, Inc. (EPAM)

Our Top Small-Cap IT Pick – Buy EPAM

- Company Update
- Target Price Change

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Buy	**1**
Price (24 Jan 13)	US$20.96
Target price	US$25.00
from US$23.00	
Expected share price return	19.3%
Expected dividend yield	0.0%
Expected total return	**19.3%**
Market Cap	US$912M

Price Performance
(RIC: EPAM.N, BB: EPAM US)

- **2013 Themes / Outlook** — We expect the ongoing secular trend of sending IT work (specifically software development) to lower cost locations, and Central and Eastern Europe being an increasing beneficiary of this trend, will continue to drive above-market growth for EPAM in 2013. EPAM sits in an enviable position as a leading IT vendor located in Central and Eastern Europe, with the ability to capture growth from clients looking to diversify their outsourced IT exposure to geographies other than India. Further, we believe EPAM enjoys both geographic, and to an extent, cultural and language advantages to the India-heritage firms, especially for European based companies looking to gradually increase their use of outsourcing. EPAM has for all intents and purposes successfully navigated the revenue drop-off from its largest client, Thomson Reuters, and while the tail end of this impact will extend into 2013 it should be less relevant to the overall outcome given EPAM's growth elsewhere, in our view. Also, the company looks to be doing a solid job of absorbing the excess TRI capacity with higher billing rates.

- **Our 2013 Estimates vs. Consensus** — We estimate 2013 revenues of $522.5 million, representing 23% yr/yr growth. We look for non-GAAP adjusted EPS of $1.66 and GAAP EPS of $1.47 in 2013. As a reminder, non GAAP EPS primarily excludes the impact of acquisition-related intangible amortization and stock-based comp on earnings. Our estimates are above the consensus 2013 outlook for revenues of $513.6 mil and EPS of $1.59. The recent accretive acquisition of Empathy Lab, a digital media and ecommerce-focused IT firm, gives us further comfort with our above-consensus 2013 estimates, as we do not believe this deal is fully reflected in the consensus average currently.

- **Reiterate Buy Rating; Raising Target Price to $25** — We are raising our EPAM target price to $25 (from $23) reflecting the shift of our basis year to 2013 from 2012. Our $25 target price reflects our unchanged 16X-18X P/E target range applied to our 2013 GAAP EPS estimate of $1.47. Our target multiple-range is in line with EPAM's comparable company average and reasonable in our opinion given the company's superior growth profile versus those comps.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.54A	0.58A	0.86A	0.67A	2.63A	na
2012E	**0.31A**	**0.37A**	**0.37A**	**0.36E**	**1.41E**	**na**
Previous	0.31A	0.37A	0.37A	0.36E	1.41E	na
2013E	**na**	**na**	**na**	**na**	**1.66E**	**na**
Previous	na	na	na	na	1.66E	na
2014E	**na**	**na**	**na**	**na**	**2.05E**	**na**
Previous	na	na	na	na	2.05E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

ExlService Holdings Inc (EXLS)

Building Value Through Profitable Growth – Buy EXLS

- **Company Update**

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Buy	**1**
Price (24 Jan 13)	US$29.75
Target price	US$35.00
Expected share price return	17.6%
Expected dividend yield	0.0%
Expected total return	**17.6%**
Market Cap	US$956M

Price Performance
(RIC: EXLS.O, BB: EXLS US)

- **2013 Outlook / Themes** — We expect EXLS to benefit in 2013 from a continuation of the solid BPO demand trends seen coming out of 2012. We highlight two data points on demand including: (1) generally positive BPO demand/pipeline commentary from traditional IT and pure-play BPO vendors who have reported quarterly results to date, including competitor WNS; and (2) our own 4Q survey of 260 global CIOs, which indicates offshore-outsourcing as a positive priority over the next 12 months. We expect growth will continue to come from areas such as data analytics, platform BPO, F&A (excluding the OPI contract roll-off), the healthcare vertical (leveraging the Landacorp acquisition), and continued wallet share penetration of key insurance and banking vertical clients. EXLS is facing a one-time hit to its revenue base of about 5%-6% in 2013 from pruning of less profitable, non-core OPI contracts. Clearly this will be top of mind for many investors this year, but EXLS will still generate good ~10% organic revenue growth in 2013 based on our estimates and we highlight that the expected EPS and cash flow impact is minimal. Through its history, EXLS has been in several situations where they have chosen to walk away from clients (even large ones) when it had the opportunity to improve profitability and cash flow. To us, these are positive-NPV milestones.

- **Our 2013 Estimates** — We reiterate our 2013 outlook for EXLS: Revenues of $519.1 million, or 17% yr/yr growth, which includes $20 mil incremental contribution from Landacorp offset by 500-600 bps of revenue headwinds from OPI contract roll-off. We expect adj. operating margins will remain relatively stable vs. 2012 at approximately 16.5% and forecast 2013 non-GAAP EPS of $1.84 (+16.5% yr/yr). Our estimates are ahead of the consensus average of revenues of $501 million and EPS of $1.81.

- **Reiterate Buy rating and $35 Target Price** — EXLS remains one of the better run BPO operators with a leadership position in key growing verticals. We continue to believe EXLS can sustain its niche market leadership position and deliver a healthy revenue growth rate (15-20% organic), steady margin improvement over the medium term, and commensurate EPS growth performance.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.33A	0.35A	0.35A	0.37A	1.39A	1.39A
2012E	**0.36A**	**0.36A**	**0.42A**	**0.44E**	**1.58E**	**1.56E**
Previous	0.36A	0.36A	0.42A	0.44E	1.58E	na
2013E	**na**	**na**	**na**	**na**	**1.84E**	**1.81E**
Previous	na	na	na	na	1.84E	na
2014E	**na**	**na**	**na**	**na**	**2.21E**	**2.13E**
Previous	na	na	na	na	2.21E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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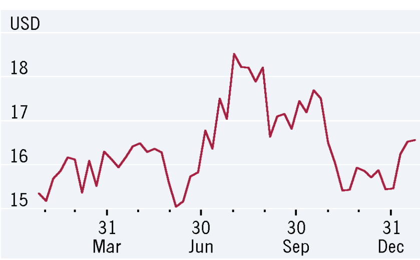
Neutral	**2**
Price (24 Jan 13)	US$16.63
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	**-**
Market Cap	US$3,728M

Price Performance
(RIC: G.N, BB: G US)



Genpact Ltd (G)

Well Positioned for Industry Growth, but WNS and EXLS Have Better Risk / Reward

- **2013 Outlook / Themes** — Like EXLS and WNS, we look for good performance from Genpact in 2013 driven by solid ongoing demand for offshore BPO services. This demand is partly driven by clients' ongoing focus on cost-reduction projects in an environment of flat budgets to help fund growth-oriented investments. We also anticipate strong data analytics (i.e., Smart Decision Services) demand to remain a consistent contributor to incremental growth for G in the next twelve months. For Genpact, we believe its industry leading scale/F&A capabilities sets the company up fairly well to capitalize on these growth trends through new client additions and wallet share penetrations of exiting customers. On the risk side, G has mentioned some pockets of delays in client decision making in the U.S., and Headstrong's primarily capital markets focus could be headwind to revenue growth given the uncertainties in that vertical. While we believe there is a longer term opportunity to penetrate some of the companies in the Bain Capital portfolio, we believe this could be more of a 2014/15 opportunity from a revenue standpoint.

- **Our 2013 Estimates** — We reiterate our 2013 outlook for G: revenues of $2.19 Bn, or 15% yr/yr growth, helped by an extra quarter of Accounting Plaza acquired revenues. Adj. operating income margin of 16.7%, up 20 bps yr/yr. 2013 non-GAAP EPS of $1.05 (+10.6% yr/yr). Our estimates are generally above the consensus estimate of $2.16 Bn of revenues and $1.03 of adjusted EPS.

- **Reiterate Neutral Rating on G** — Genpact is a solid performer in an attractive end-market; but for now we prefer the risk/reward profile of Buy rated WNS and EXLS to G in the BPO segment.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.18A	0.22A	0.26A	0.32A	0.98A	0.98A
2012E	**0.21A**	**0.32A**	**0.18A**	**0.24E**	**0.95E**	**0.95E**
Previous	0.21A	0.32A	0.18A	0.24E	0.95E	na
2013E	**na**	**na**	**na**	**na**	**1.05E**	**1.03E**
Previous	na	na	na	na	1.05E	na
2014E	**na**	**na**	**na**	**na**	**1.21E**	**1.20E**
Previous	na	na	na	na	1.21E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

IT Consulting & Other Services (GICS) | Server & Enterprise Hardware (Citi)

North America | United States

Company Focus

International Business Machines Corp (IBM)

Sold Long-Term Investment Opportunity

- **Company Update**

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Buy	**1**
Price (24 Jan 13)	US$204.03
Target price	US$250.00
Expected share price return	22.5%
Expected dividend yield	1.5%
Expected total return	**24.0%**
Market Cap	US$230,540M

Price Performance
(RIC: IBM.N, BB: IBM US)

- **2013 Outlook / Themes** — We remain quite positive on IBM's growth prospects / stock appreciation potential in 2013, and maintain our above-consensus estimates for the company. Recently reported 4Q results give us further comfort in our bullish outlook for IBM. Management commentary on the call indicated strong revenue expectations for software (expected to be up mid-single-digits for the year) along with particular strength in mainframe (which we expect to be a multi-quarter positive and drive demand for software and services). The new mainframe cycle is under-way, which is a significant episodic driver of top- and bottom-line growth. Services had some puts-and-takes, but the perceived negatives regarding top-line growth had more to do with IBM's ongoing mix-shift strategy in Services to higher margin/longer-term growth services (high-value transformational, Cloud, Analytics, etc.) and less to do with overall IT demand trends. As we have pointed out before, and IBM corroborated, IBM has recently walked away from available revenues, including revenues in their own base. This is a 1% hurt to growth directly and if we consider that the new backlog has a slower "velocity of conversion to revenues" due to the presence of transformational projects, it is a bigger influence. From a forward-looking perspective, as the base of "growth market" revenues becomes larger its influence on overall growth should increase even though we are a few years away from a tipping point. In the meantime, we should continue to see profit growth nicely exceed revenue growth. In the medium/long-term IBM remains on track to exceed the low end of its "at least $20 in EPS by 2015" guidance.

- **Our 2013 Estimates** — We reiterate our 2013 estimates for IBM: Revenues of $108.1 Bn, or 3.4% yr/yr growth, and EPS of $16.86 (+10% yr/yr). Our forecasts are above the consensus estimate of $106.2 Bn of revenues and $16.72 of EPS.

- **Reiterate Buy Rating on IBM** — We view IBM as a compelling long-term investments opportunity within our coverage universe. IBM is uniquely positioned among the major IT vendors given its arguably best-in-class portfolio of products and services and to embrace the BYOD trend. On hardware, IBM has a commanding leadership position within the mainframe space. Its software portfolio, highlighted by its middleware, allows the company to provide superior integration and manageability of the customer's datacenter. Finally, IBM's services platform (consulting, BPO, IT outsourcing) is the world's largest in terms of market share, one of the best run, and gives IBM a channel to sell its products.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	2.78A	3.51A	3.62A	5.39A	15.30A	15.25A
2013E	**2.86E**	**4.06E**	**4.00E**	**5.94E**	**16.86E**	**16.76E**
Previous	2.86E	4.06E	4.00E	5.94E	16.86E	na
2014E	**3.54E**	**4.47E**	**4.44E**	**6.45E**	**18.90E**	**18.46E**
Previous	3.54E	4.47E	4.44E	6.45E	18.90E	na
2015E	**3.87E**	**4.86E**	**4.83E**	**6.97E**	**20.53E**	**19.91E**
Previous	3.87E	4.86E	4.83E	6.97E	20.53E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Research & Consulting Services (GICS) | Business & Professional Services (Citi)

North America | United States

Company Focus

Nielsen Holdings N.V. (NLSN)

Reiterate Buy Rating on NLSN, but Likely Range Bound ahead of ARB Approval

- Company Update

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Buy	1
Price (24 Jan 13)	US$32.03
Target price	US$35.00
Expected share price return	9.3%
Expected dividend yield	0.0%
Expected total return	**9.3%**
Market Cap	US$11,600M

Price Performance
(RIC: NLSN.N, BB: NLSN US)

- **2013 Outlook / Themes** — NSLN's 2013 stock performance will be largely driven by the execution of its $1.3 billion Arbitron acquisition integration in our opinion. We believe the ARB deal was a good, strategic move by NLSN (see our note here NSLN / ARB Note) as it helps to further the company's position as the leading source of measurement and analytics services focused on what people consume – whether it be media or products. The financial aspects of the acquisition appear to be quite attractive currently – its an all cash acquisition financed by what we expect are low-cost credit facilities, ARB exhibits mid-single digit growth helped by annual price escalators, its margins (EBITDA of 29%) are attractive relative to NLSN existing base; and NLSN expects $0.13 of EPS accretion to adjusted EPS 12 months after the close and $0.19 of accretion 24 months following. The deal, however, is still awaiting regulatory approval, and so we expect the stock could be range bound until we get further detail / clarity around a potential closing date. From an organic NLSN perspective, our thesis (discussed below) remains intact for 2013.

- **Our 2013 Estimates (excluding ARB)** — Our 2013 NLSN model excludes the Arbitron acquisition, which we plan to incorporate if and when the deal is approved and closes. We look for 2013 revenues of $5.91 Bn, or 5% yr/yr growth – we assume currency is essentially neutral to growth. Our adjusted EBITDA estimate is $1.72 billion, representing 29.1% margin and 7.5% yr/yr growth. Our 2013 adjusted EPS estimate is $2.01. Our revenue and EBIDA estimates are in line with consensus, while our EPS forecast is below the Street average of $2.07.

- **Reiterate Buy Rating on NLSN** — Our positive thesis/outlook on NLSN is supported by the following 1) we generally view the ARB acquisition positively from a strategic rationale and accretion standpoint; 2) the bulk of NLSN's revenue is under existing contracts at the beginning of each year, which provides high levels of stability and visibility; 3) NLSN's business model is highly defensible given its brand name, global reach, and deep long-standing relationships; 4) NLSN enjoys modest pricing power, even in a downturn; 5) NLSN has exhibited solid revenue and margin expansion in times of growth and has levers to defend modest growth in a more difficult environment; and 6) NLSN generates ample FCF to reduce debt and ultimately repurchase its shares, serving to augment EPS growth from revenue and margin improvements.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.19A	0.41A	0.48A	0.51A	1.61A	1.61A
2012E	**0.30A**	**0.42A**	**0.53A**	**0.57E**	**1.82E**	**1.83E**
Previous	0.30A	0.42A	0.53A	0.57E	1.82E	na
2013E	**na**	**na**	**na**	**na**	**2.01E**	**2.07E**
Previous	na	na	na	na	2.01E	na
2014E	**na**	**na**	**na**	**na**	**2.26E**	**2.32E**
Previous	na	na	na	na	2.26E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Data Processing & Outsourced Services (GICS) | Business & Professional Services (Citi)
North America | United States

Company Focus

TeleTech Holdings Inc (TTEC)

Diversification Yet to Bear Fruit; Maintain Neutral

- Company Update

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Neutral	**2**
Price (24 Jan 13)	US$18.11
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	**-**
Market Cap	US$988M

Price Performance
(RIC: TTEC.O, BB: TTEC US)

- **2013 Outlook / Themes** — We are maintaining our Neutral stance on TTEC at the outset of 2013 and continue to prefer CVG in the call center space. TTEC has made strides in diversifying its revenue stream beyond pure call center work, but this transition has yet to bear fruit in terms of better growth or profitability of the business. In fact, TTEC's core call center business has had the best margin profile of all its segments through the first three quarters of 2012 despite some restructuring expenses recognized throughout the year. For TTEC to justify its premium multiple in the space, we look for greater evidence that TTEC's differentiated approach can drive accelerated earnings growth for the company. In the meantime, we maintain our Neutral stance on the stock.

- **Our 2013 Estimates** — We are forecasting 2013 revenue for TTEC of $1.20 bil (+3% y/y), which is ~1% below consensus expectations. For EPS, our $1.46 forecast is $0.01 below consensus and implies growth of ~9% over our 2012 forecast. Our model assumes an acceleration in revenue growth relative to the declines seen in 2012 as a result of easier comparisons against the contract paring that took place last year. We are also anticipating some continued margin expansion as a result of more favorable revenue mix and EPS should benefit further from ongoing share repurchase activity. Note that our model assumes ~$25 mil in buybacks, which could be conservative depending on M&A activity.

- **Maintain Neutral Rating** — We are maintaining our Neutral rating on TTEC. With a 2013 P/E (ex-cash) of ~11.5x and an EV/EBITDA multiple of ~6.0x, we do not believe TTEC's valuation is sufficiently attractive relative to the growth that it is producing. The company has made it clear that its goal is to increase its mix of higher growth and higher margin non-agent based work. While these segments have grown in size, it is not yet clear whether they are truly growing faster or have better margins.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.29A	0.29A	0.35A	0.29A	1.22A	1.26A
2012E	**0.29A**	**0.31A**	**0.39A**	**0.36E**	**1.35E**	**1.34E**
Previous	0.29A	0.31A	0.39A	0.36E	1.35E	na
2013E	**na**	**na**	**na**	**na**	**1.46E**	**1.49E**
Previous	na	na	na	na	1.46E	na
2014E	**na**	**na**	**na**	**na**	**1.70E**	**1.69E**
Previous	na	na	na	na	1.70E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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Buy	**1**
Price (24 Jan 13)	US$59.94
Target price	US$65.00
Expected share price return	8.4%
Expected dividend yield	0.2%
Expected total return	**8.7%**
Market Cap	US$4,469M

Price Performance
(RIC: TW.N, BB: TW US)

Towers Watson and Co (TW)

Look for Seasonal Boost to EPS to Drive Upside in Early 2013

- **2013 Outlook / Themes** — We are looking for above consensus EPS from TW as its FY13 results come in through the course of this year. We believe consensus is underestimating the seasonal benefits TW should experience in its March and June quarters, which is typical for its core Benefits practice but new for its Extend Health acquisition. We also anticipate the overall revenue and EPS growth trajectory to improve as we move past the initial dilution from Extend Health. As visibility into this improved growth profile grows, we expect some modest upside to TW's valuation multiple, which can help generate good returns for investors. We are maintaining our Buy rating and $65 price target on the stock.

- **Our FY13-14 Estimates** — We are forecasting FY13 revenue for TW of $3.56 bil (+4% y/y), which is in-line with consensus and at the midpoint of the company's guidance of $3.52-$3.60 bil. For EPS, our $5.30 (+2% y/y) forecast is $0.10 ahead of consensus and above the high end of management's $5.12-$5.20 guidance range. We believe the seasonal benefits in the second half of TW's fiscal year (March and June quarters) are understated by consensus given the normal seasonality in the core Benefits unit and the significant seasonal swings in the recent Extend Health acquisition. Our FY14 revenue forecast of $3.76 bil (+5.5% y/y) is ~1% ahead of consensus, while our EPS expectation of $5.90 (+11% y/y) is $0.33 ahead of consensus due to better revenue growth and margin expansion assumptions.

- **Maintain Buy and $65 Price Target** — We are maintaining our $65 price target on TW which is based on our FY13 EPS estimate of $5.30 and a targeted P/E multiple of 12.3x, which is in-line with the 5-year average for the company. We believe TW's current P/E of ~11x is attractive relative to our expectation for double digit EPS growth beyond FY13, which is consistent with the company's longer-term guidance. While there are no near-term dividends given the accelerated payments made at the end of CY12, TW is in position to return cash to shareholders via its dividend and share repurchase program over time. We maintain our Buy rating on the stock.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.19A	1.35A	1.39A	1.25A	5.19A	5.18A
2013E	**1.13A**	**1.29E**	**1.48E**	**1.39E**	**5.30E**	**5.18E**
Previous	1.13A	1.29E	1.48E	1.39E	5.30E	na
2014E	**na**	**na**	**na**	**na**	**5.90E**	**5.57E**
Previous	na	na	na	na	5.90E	na
2015E	**na**	**na**	**na**	**na**	**6.50E**	**6.14E**
Previous	na	na	na	na	6.50E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change

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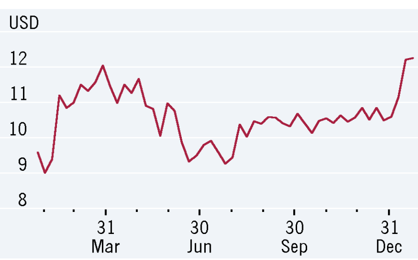
Buy	**1**
from Neutral	
Price (24 Jan 13)	US$12.20
Target price	US$15.00
from -	
Expected share price return	23.0%
Expected dividend yield	0.0%
Expected total return	**23.0%**
Market Cap	US$616M

Price Performance
(RIC: WNS.N, BB: WNS US)



WNS Holdings Ltd (WNS)

Upgrading to Buy on Improved Fundamentals & BPO Strength

- **Upgrading WNS to Buy (from Neutral)** — We are upgrading WNS to Buy from Neutral with a $15 target price, representing an ETR of ~23% from recent levels. Our upgrade is based on: (1) improving demand trends for offshore BPO services, which we discuss in detail in the overview section of this report and summarize below; (2) better underlying fundamentals for WNS in terms of solid execution on its expansion / go-to-market strategies; (3) improved balance sheet position; and (4) attractive current valuation vs. its peers and growth rate, even when considering its strong stock performance so far this year (up a~17% YTD).

- **BPO: A Large / Attractive Market with Positive Demand Outlook** — The BPO market is huge (roughly $160 Bn based on IDC) and is projected to grow at a decent mid-single digit clip over the next 4 years. The offshore BPO segment where WNS operates, however, is expected to grow much faster – BPO vendors generally point to an 11%-13% projected growth rate. We believe the market is experiencing a more mainstream adoption of BPO, as enterprises seek productivity gains in areas other than IT, which is helping to drive this growth. In our view, WNS is well positioned to capitalize on this growth going forward given its deep set of products and industry expertise, as well as its recent investments to improve both the hunting of new client relationships and the mining of those relationships to gain increased wallet share. To illustrate this point, in the Dec-12 quarter alone WNS added 9 new clients and expanded 8 relationships. It has signed 4 large clients (with $5-$10 mil of ACV) so far this year with 2 additional near-term prospects. WNS' solid sales execution should enable the company to continue to accelerate its organic revenue growth, approaching an industry-normal growth in the next 12-18 months. Admittedly, ramp costs associated with these new projects will have a dampening impact on margins initially and then improve over time, but we believe this is the right approach from a shareholder value perspective.

- **Significantly Improved Balance Sheet** — One of the key concerns with WNS historically was its high levels of debt and mandatory principal repayment schedule of $20 million every six months. Given WNS' capital structure requirements, the risk was that the company would be limited in its ability to properly invest for growth. Further, a BPO provider's overall balance sheet health is something clients do care about a lot when choosing a vendor. As of December 2012, however, WNS had cut its total debt by more than half its 2009 levels of $200 million to $85 million. *(Our WNS discussion is continued on the next page)*

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.22A	0.26A	0.27A	0.27A	1.02A	1.04A
2013E	**0.22A**	**0.24A**	**0.27A**	**0.29E**	**1.01E**	**1.02E**
Previous	0.22A	0.24A	0.27A	0.29E	1.01E	na
2014E	**na**	**na**	**na**	**na**	**1.19E**	**1.15E**
Previous	na	na	na	na	1.19E	na
2015E	**na**	**na**	**na**	**na**	**1.37E**	**1.29E**
Previous	na	na	na	na	1.37E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

- Over that time, WNS' net debt per share has gone from ~$3.60 at FYE-09 to a modest net cash position of $0.03 at Dec-12. Based on its current $86 mil of cash and equivalents on the balance sheet, and good cash flow capabilities, WNS has ample capacity to continue to consistently reduce its debt level while investing for future growth – as such the historic balance risks are mitigated in our view.

- **What Are the Risks?** — Company specific risks to WNS include (1) insider ownership: Warburg Pincus still owns ~29% of the firm; (2) volatility of results: WNS qtrly results have been impacted historically by swings in volumes of certain business line such as the Auto Claims BPO unit; and to a lesser extent (3) some client concentration: WNS' top-5 clients comprise 41% of net revenues. Other general risks include competition from traditional IT vendors in the BPO space, and exposure to foreign currency fluctuations. Overall we believe these risks are manageable and properly reflected in our valuation of the company, and we favor the risk / reward profile of WNS.

- **Introducing $15 Target Price for WNS** — WNS currently trades at ~11X our calendar year 2013 adjusted EPS estimate of $1.14, a discount to its offshore BPO comps (G and EXLS) at ~16X. Our WNS valuation model yields an implied $15 target price based on applying a 13-14X multiple to our calendar-year 2013 adjusted EPS estimate ($1.14). Our target P/E multiple assumes a discount to WNS' peer group average of 16X and its own two-year forward EPS CAGR of 16% based on our ests. We believe this discount is appropriate, currently, given that WNS is still relatively early on in executing its sales and infrastructure investment plans and returning to above-industry organic top-line growth.

- **Our FY 13-14 Estimates** — We are forecasting FY 2013 (March YE) net revs of $438.7 mil, in line with the consensus est. of $438.4 mil and at the high-end of WNS' $437-$439 mil guidance. Our adj. EPS estimate of $1.01 is a penny below the Street. For FY14 we look for net revs of $493.5 mil (+12.5% y/y) and adj. EPS of $1.19 (+17.8%), vs. the consensus ests. of $485.3 mil and $1.15.

- **Brief WNS Overview** — WNS, headquartered in Mumbai, India, is an offshore business process outsourcing (BPO) provider. The company began operations as an in-house unit of British Airways in 1996 and started focusing on providing BPO services to third parties in 2003. Today its dominant target markets include the travel and leisure, and the banking, financial services and insurance (BFSI) sectors. WNS also has clients in the manufacturing, retail, healthcare, utilities, telecom, and shipping industries, among others. The company maintains service delivery centers located in Costa Rica, India, the Philippines, Romania, Sri Lanka, the UK, U.S., and South Africa, offering cost savings and operational flexibility to clients. In addition, WNS' "transformation practice" helps clients identify business and process optimization opportunities through technology-enabled solutions and process design improvements. WNS offers vertical specific BPO services tailored to address clients' specific business and industry practices, as well as horizontally focused BPO offerings including customer care, finance and accounting, legal services, procurement, research and analytics. WNS has approximately 24,000 employees serving over 220 clients. Its largest client in fiscal 2012 in terms of revenue contribution was Aviva accounting for nearly 21% of the company's net revenues. WNS' five largest clients account for ~41% of revenues.

Accenture Ltd

Company description

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. The company's business is structured around five operating groups, which, together, are comprised of 19 industry groups serving clients in every major industry. Its operating groups are Communications, Media and Tech, Financial Services, Health & Public Services, Products, and Resources.

Investment strategy

We rate the shares of Accenture Buy (1) due to its market position (intellectual leadership), broad portfolio of contracts (diverse geographically and by industry) and strong balance sheet and cash flow. Balancing the positives, risks to Accenture include the late cyclical nature of the IT services business and associated near-term headline risks.

Valuation

Our $76 (rounded) one-year target price is based on the implied value derived from our price-to-earnings (P/E) valuation model plus the approximately $8.00 in cash per share currently on the company's balance sheet. Our P/E model yields an implied value of $68 per share by applying our 14x-16x multiple-range to our $4.39 calendar year 2013 GAAP EPS estimate. We believe our target multiple range of 14x-16x is appropriate as 1) the range is in line with ACN’s recent comparable company P/E of 15X the 2012 estimate; and (ii) it is in line with ACN’s 2-year historical P/E based on FactSet.

Risks

The key risks to our investment thesis on ACN include the following:

(1) More than half of Accenture's revenue base (consulting) is susceptible to the changes in the discretionary spending environment.

(2) Currency fluctuations can cause the top- and bottom-line results to fluctuate because almost half of Accenture's revenues are generated outside the U.S.

(3) Accenture is not immune to problem contracts – this can cause fluctuations in its margin performance from quarter to quarter.

(4) Accenture might use its significant cash balance to grow via acquisitions, which could create integration risk.

(5) Accenture's response to the threat from offshore outsourcing (i.e., the build-out of its Global Delivery Network) does have risks, such as the possible cannibalization of revenues and margin risk. However, Accenture does appear to be executing well so these risks have moderated in our opinion.

If the impact on the company from any of these factors proves to be greater than we anticipate, it may prevent the stock from achieving our target price. Conversely, if the impact on the company from any of these factors proves to be significantly less than we anticipate, the stock may exceed our target price.

Amdocs Ltd

Company description

Amdocs Limited (DOX), founded in 1982, is a leading global provider of services and software to the communications industry. Amdocs systems cover a broad range of the end market's billing and customer care needs - billing systems, customer relationship management (CRM) software, directory systems and ancillary products like revenue assurance, subscriber retention, mediation and fraud management. Amdocs has development facilities located in Israel, the United States, Cyprus, Ireland, Canada and India. The company management is based in Israel, along with about a quarter of its development staff.

Investment strategy

We rate the shares of Amdocs Buy (1). Our Buy rating reflects our view that the company's solid cash position and free cash flow generation along with its steadily rising backlog should be: 1) beneficial for the stock; 2) mitigate downside risk; and 3) help the company grow opportunistically. We also like the relative stability of most of its Tier-1 contract base, which we nevertheless view as a client base that can support continued steady penetration by DOX, based on its increasingly wider product portfolio. DOX's valuation also looks highly attractive.

Valuation

Our 12-month target price for Amdocs is $41. Our target is derived from our P/E analysis. Our $41 value is derived by applying a 12x multiple, which is within our targeted 10x-12x multiple range to our FY 2013 adjusted EPS estimate of $2.95. We then add DOX' $5.60 per share in cash. We believe our target multiple range is appropriate relative to the company's FY12-15E EPS CAGR of approximately 10%.

Risks

The key risks to our investment thesis on DOX are:

- Amdocs derives over 90% of its revenues from the telecommunications vertical, which implies that we can expect the problems inherent in the vertical will be passed on to Amdocs.
- Consolidation in the telecom industry can lead to uncertainty and hurt DOX stock (even if it might not hurt the operating performance) when its clients are part of a transaction.
- Significant client concentration: In fiscal 2011, Amdocs' top 3 clients accounted for approximately 50% of Amdocs' revenues.
- Large managed services contracts can hurt Amdocs' margins, at least in the short run.
- Amdocs' business model partially depends on ramping up people for growth.
- Amdocs has development facilities in Israel, Cyprus, India, the United States, Ireland, China and Canada, and a support center in Brazil. The largest of these facilities is located in five different sites throughout Israel. If there is an upsurge in the political strife in Israel, it is likely to hurt the stock. In addition, many Israeli Amdocs personnel can be called to active military duty under certain circumstances, with a detrimental impact on the business.

- Increased currency fluctuations, for example the appreciation of the US dollar, may adversely impact both top-line and bottom line performance even though the company hedges its currency exposure.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Cognizant

Company description

Cognizant Technology Solutions (CTSH), with headquarters in Teaneck, New Jersey, is a provider of information technology services. The company began its services as an in-house technology development center for Dun and Bradstreet Corporation, and was later spun off in 1996. As a portfolio provider, the company delivers cost-effective, full life-cycle solutions through the use of on-site and offshore project teams. These solutions include application development and management services, testing and quality assurance services, and re-hosting and re-engineering services. Cognizant provides services to its clients through technical and account management teams located on-site at the client location and offshore at its development centers located in India. It also has vertical market expertise in financial services, information services, healthcare, retail, and telecom.

Investment strategy

We rate the shares of Cognizant Technology Solutions Buy (1). Contributing to CTSH's Buy rating we highlight the following factors: 1) positive long-term impact of a secular mega-trend toward offshore outsourcing, which is gaining momentum for Tier 1 providers like Cognizant due to the mix of new services, new verticals, and new geographies; 2) Cognizant's ability to deliver stable margins (i.e., good execution on its opportunities); 3) good management; 4) a good brand name on Indian campuses; and 5) a pristine balance sheet. Other key positives include high quality of earnings and a large and diverse customer base (no one customer exceeds 10% of revenues). The primary risk for many investors is the expectation for continued growth at a faster clip than the rest of the industry. Other risks include the dependence of the stock's trading trajectory on the sometimes volatile Indian market, and geopolitical risks associated with operating in India.

Valuation

Our $90 target price is based on our price-to-earnings (P/E) valuation model plus the ~$8.00 of net cash and investments per share on the company's balance sheet. Our P/E-based model yields an implied $82 (rounded) valuation based on our 20x-22x target multiple range applied to our 2013 GAAP EPS estimate of $4.10. We forecast CTSH to grow net income by an average of 20% over the next two years, so a multiple in line to slightly above its growth rate is reasonable in our opinion.

Risks

The key risks to our investment thesis on Cognizant Technology Solutions include the following:

1. Normal IT services vendor risks such as timing and magnitude of budgets; Contract ramps; Pricing pressure are par for the course.

2. Normal offshore services risks including exchange rate volatility; the threat of political backlash against offshore outsourcing; wage inflation in India; supply-side constraints, including visa limits and infrastructure development in India should be considered.

3. Though Cognizant does not trade on the Indian market, most of its comparables do, and the company does respond to moves in the Indian market, both up and down.

4. Senior management's compensation is heavily impacted by stock option grants. Based on the historical performance of the stock, senior management has and may in the future exercise significant amounts of options.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these risks is less than we anticipate, the stock could exceed our target price.

Computer Sciences Corporation

Company description

Founded in 1959, CSC is a global leader in providing technology-enabled solutions and services through three primary lines of business. These include Business Solutions & Services (BS&S), Managed Services Sector (MSS), and the North American Public Sector (NPS). CSC's capabilities include systems design and integration, information technology and business process outsourcing, applications software development, web and application hosting, mission support and management consulting. CSC is headquartered in Falls Church, Virginia.

Investment strategy

We rate CSC Neutral/High Risk (2H).

We believe CSC has had difficulty recently in gaining / maintaining market share in an increasingly competitive IT services market. Approximately 38% of CSC's revenue is attributable to the North American Public Sector unit (NPS), which is either directly or indirectly dependent on federal government and civil agency spending. We expect public sector IT spending to be constrained over the next one to two years, which should weigh on CSC's top-line/earnings performance vs. its peers. Finally, CSC debt load - not onerous but still higher than competitors - and the need to scale its business in lower-cost geographies like India hurts business flexibility, in our opinion, and contribute to our cautious view on CSC.

Positively, CSC's ongoing plan to shed non-core assets and reduce operating costs by $1 billion, combined with a willingness and ability to manage earnings through non-operating items (e.g., freezing employee pensions, using lower tax assumptions to benefit EPS) is likely to continue to help the numbers, thereby balancing the impact of negative catalysts such as poor fundamental results.

Lastly, we view CSC's current valuation, though cheap in absolute terms, to be fair relative to the expected earnings growth rate.

Valuation

Our $39 target price for CSC is based upon our price-to-earnings (P/E) valuation model. Our P/E valuation model yields a one-year implied value of $39 (rounded) per share by applying a 11-12x multiple to our fiscal year 2014 adjusted EPS estimate of $3.55. We believe a discount to CSC's competitor average P/E multiple of ~15X the calendar year 2012 estimate is appropriate given our forecast of flat to low-single-digit top-line growth over the next three years.

Risks

We assign a High Risk rating to CSC shares principally to reflect: 1) CSC's high level of exposure to Federal and State government IT spending and uncertainty regarding timing/level of recovery in those two segments, and 2) company-specific contractual uncertainty around the NHS contract in the U.K. and the prospect of additional reductions to the contract's scope. We believe NHS represents up to 5% of CSC's revenue.

Risks that we see to CSC achieving our target price include the following:

1. Revenue Outlook Remains Weak – IT services volumes and prices have shown evidence of recovery, especially for commercial clients, but we believe CSC may lag in this realm due to their specific revenue mix (more government-related business, the revenue impact of moving to cloud and other output-based metrics, etc). Historically, CSC shares have traded with revenue growth, so lagging top-line prospects may negatively impact the share price.

2. FX May Increase Revenue Volatility – CSC earns 35%-40% of revenues in currencies other than the US dollar. Based on recent FX volatility, we expect currency to pose an unpredictable headwind or tailwind to future revenue growth.

3. Federal Contracts Cause Uncertainty – Due to constraints on federal spending, we expect some volatility in these revenues - there is also likely to be added oversight of these contracts.

CSC also has some opportunities that may pose upside risk to our estimates and price target: primarily here we consider the exceedingly low investor expectations which create a situation where decent execution should lead to stock appreciation and the possibility of management change and NHS contract resolution as events that can drive upside.

If the impact from any of these factors proves to be greater or less than we anticipate, the stock may have difficulty achieving or could materially outperform our target price.

Convergys Corp

Company description

Convergys Corporation (CVG), based in Cincinnati, Ohio, provides call center services. The Customer Management Group (CMG) is one of the world's largest providers of outsourced call center services - it provides primarily inbound services and generates most of its revenues in the communications, technology, and financial services industries. The company started operating as a stand-alone entity in 1998, when it was spun off from Cincinnati Bell. Convergys employs approximately 70,000 people globally.

Investment strategy

We rate the shares of Convergys Corporation Buy (1). We view CVG as a stock with multiple catalysts. Some of these are structural in nature - for example the sale of a part of the company (both operating and non-operating entities may be considered). Other catalysts are fundamental in nature - including eventual cyclical improvement in the call center business; margin improvement based on further cost cutting and also from revenue growth; solid cash flow performance; the use of cash to pay down debt or return money to shareholders, etc. The valuation looks attractive, and we believe there is limited downside in the stock at these levels.

Valuation

Our 12-month price target for Convergys is $19.50 and is a result of our P/E analysis.

Our P/E analysis yields a $19.50 target (rounded), based on the high end of our targeted 12x-13x multiple range and our FY13 estimate of $1.04. We then credit CVG for its ~$5.80 in net cash. The 12x-13x multiple is lower than the "peak" multiple of 21x and is modestly below the median of ~14x over the past 10 years.

Risks

The key risks to our investment thesis on CVG are:

- Convergys gets a significant part of its revenues from a single vertical – communications (telecom & cable), so the problems inherent in the vertical will likely be passed on to CVG. When telecom service providers and cable companies are in a sustained cost-control mode, it tends to hurt Convergys.
- Client driven M&A or other corporate actions (e.g. bankruptcies) may adversely impact revenue.
- As Convergys' customer care delivery model becomes increasingly global – particularly with investments in India and the Philippines – it faces numerous risks that are inherent in operating in a non-U.S. environment. These include financial risks including currency risk and political risks.
- As Convergys simplifies its structure and derives a greater proportion of its revenues and profits from the call centers, it is important to note that call centers are economically sensitive businesses.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

CSG Systems International Inc

Company description

Denver-based CSG Systems is a major global provider of billing and customer care solutions for the cable television, direct broadcast satellite, and advanced IP services. In 2011, CSGS generated net revenues of $735 million. In November 2010, CSGS acquired UK-based telecom billing provider Intec. CSGS' two largest customers are Comcast and EchoStar, accounting for roughly one-third of revenues combined.

Investment strategy

We rate the shares of CSG Systems Neutral/High Risk (2H). Our Neutral rating is based on our view that, at the current price levels, the stock is reflecting potential positive effects from upcoming contract renewals from both Comcast and Time Warner. In the near term, ongoing economic pressures and increased investments in new contracts are likely to lead to limited EPS growth. Over the longer run, we believe that CSGS does have a strong ability to retain and grow its client base based on its expanded product portfolio. We also believe that the company is well run, with an attention to cash flow generation that we like. However, we believe these positive factors are largely priced in.

Valuation

Our price target for CSGS is $24. The target is based on the average of our P/E and DCF analyses.

P/E Analysis: Our P/E-based valuation is $23 (rounded).

We believe that CSGS' multiple should maintain its recent recovery toward the upper half of its 5-year historical range of 6x-13x forward estimates based on improved revenue visibility related to recent and upcoming contract renewals. As a result, we apply an 11.5x multiple, within our targeted 10x-12x multiple range, to our FY13 EPS estimate of $2.02 to arrive at our price target.

DCF Analysis: Our DCF analysis yields a $25/share valuation (rounded). We discount projected free cash flow over the next 10 years to a present value, using these assumptions: beta of 0.92 (per Bloomberg), risk-free rate of 1.81% (based on guidance from our Accounting & Valuation Group), market risk premium of 6.54% (from our Accounting & Valuation Group), tax rate of 35%, WACC of 6.19% (calculated), and a terminal free cash flow decline rate assumption of approximately (1.50%). Additionally, we subtract a net debt stub of $4.00/share from the resulting price.

Risks

We assign a High Risk rating to CSGS given its dependence on several key client relationships and limited trading volume. The key risks to CSGS are:

Client concentration is an issue: CSGS' top 2 clients in the Broadband business cumulatively represent ~1/3 of total revenues on a pro forma basis.

Changes in cable subscriber patterns could hurt CSGS's revenue to the extent that customers decide to use alternative means to access media. CSGS is paid on a per subscriber basis.

Integration risk with its Intec acquisition adds a degree of variability to the company's overall results.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if CSGS executes well and these risk are less than we expect, the share price could exceed our price target.

EPAM Systems, Inc.

Company description

Established in 1993, EPAM is an IT services provider whose historical core competency has been software development, testing, and consulting services, but the company has also been growing in the areas of application maintenance and infrastructure outsourcing. EPAM is based in Newtown, PA but the company primarily provides its services from "offshore" delivery centers located in the Commonwealth of Independent States and Central and Eastern Europe. For the fiscal year-ended December 31, 2011, we estimate EPAM will generate $329 million in revenue.

Investment strategy

We rate the shares of EPAM Systems Buy (1). Contributing to EPAM's Buy rating we highlight the following factors: 1) the positive long-term impact of a secular trend toward offshore outsourcing, for which Central and Eastern Europe will be an incremental beneficiary; 2) EPAM's expansion into the application maintenance and infrastructure outsourcing markets, which are cumulatively larger and grow faster than the software development end-market; and 3) EPAM's attractive operating model, good FCF capabilities, and clean balance sheet. The primary risks for many investors include an evolving competitive landscape as EPAM expands into new areas of IT, geographical risks to operating in the CIS/CEE; some large client-specific risk; and high levels of private equity ownership/low public float post the IPO. Overall, we believe that the risk/reward in the company is favorable and we recommend EPAM as a Buy.

Valuation

Our $25 (rounded) one-year target price is based on the implied value derived from our price-to-earnings (P/E) valuation model.

We use a target 2013 P/E multiple range of 16X-18X for EPAM based on our comparable-company P/E analysis. Within our comparable universe we include India-based IT vendors, and mid-sized U.S. and Europe based IT services companies. We believe our comps list is appropriate because it includes IT services companies that (i) derive their revenues from activities similar to EPAM, and (ii) have a lower-cost resource bias or a comparable revenue base, similar to EPAM.

The comparable group recently traded at an average P/E of 16X based on the 2013 GAAP EPS estimate (based on CIRA and First Call consensus estimate). Based on our expectation for EPAM to deliver superior revenue growth and comparable earnings growth metrics, we believe a target multiple range in-line-to-modestly-above the comparable group average is appropriate. As result, we use a target 2013 P/E multiple range of 16X-18X applied to our 2013 GAAP EPS estimate of $1.47 for EPAM when deriving our target price for the company.

Risks

The key risks to our investment thesis on EPAM Systems include the following:

1. As EPAM continues to move deeper into the ADM and infrastructure outsourcing space it will more directly compete with larger, established IT services companies. This does create a certain level of execution risk for EPAM;

2. EPAM has significant operations in the CIS and CEE countries which have historically been subject to greater political, tax, and economic risks than developed markets;

3. EPAM has some large contract relationships which could materially impact the company's performance, including one which is build-operate-transfer (BOT) in nature;

4. Following its IPO, private equity sponsors own about 61% of EPAM's common shares outstanding. Management and former officers own an additional approximately 22%. There is a standard 180-day lock-up post IPO; and

5. Normal IT services vendor risks such as timing and magnitude of budgets; Contract ramps; Pricing pressure are par for the course.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these risks is less than we anticipate, the stock could exceed our target price.

ExlService Holdings Inc

Company description

ExlService Holdings (EXLS) is a leading provider of offshore business process outsourcing (BPO) and knowledge process outsourcing (KPO) services to clients. It has historically focused on the Banking, Financial Services, and Insurance vertical. BPO services include transaction processing, and finance and accounting services. KPO services are provided through its Research and Analytics unit and its Risk and Process Advisory business. EXLS was founded in 1999, and is headquartered in New York City, but most of its operating personnel are located in India.

Investment strategy

We rate EXLS Buy (1). In our view, key positives to the EXLS story are that it is a well-run BPO operator with a leadership position in the key insurance vertical. We believe EXLS can sustain its niche market leadership position and deliver a healthy revenue growth rate and steady margin improvement over time. EXLS has continued to sell (and renew) clients and has deployed its capital more effectively recently – these steps, combined with the lapping of the impact from client losses over the past 18 months abate client concentration and related issues to a large extent. The strong cash position provides strong support for the shares, in our view.

Valuation

Our $35 (rounded) target is based on the implied value derived from our price-to-earnings (P/E) valuation model plus the ~$3.50 of pro forma net cash and equivalents per share on the company's balance sheet. Our P/E model uses our 17x-19x multiple-range and our 2013 pro forma EPS estimate of $1.84 and adds in this cash on the balance sheet. We believe a 17x-19x multiple is appropriate given the average pro-forma net earnings growth rate of ~17% over 2011-2014E time-frame.

Risks

The key risks to our investment thesis on EXLS are:

1. The Business Process Outsourcing (BPO) business is inherently lumpy – and we are experiencing a relatively slow recovery in demand given elongated sales cycles.

2. The Transaction Services segment relies on discretionary spending trends.

3. Sector concentration – most of EXLS' revenues come from Insurance and Financial Services.

4. Normal geopolitical and supply-side risks associated with operating a global business, including currency, wage inflation, etc.

5. EXLS's guidance is typically conservative and has historically paled in comparison to operating results after the fact – unfortunately, this sometimes results in an adverse reaction in the stock.

If the impact on the company from any of these risk factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Genpact Ltd

Company description

Genpact manages business processes for companies around the world. The company combines process expertise, information technology and analytical capabilities with operational insight and experience in diverse industries to provide a wide range of services using its global delivery platform. Genpact helps companies improve the ways in which they do business by applying Six Sigma and Lean principles plus technology to continuously improve their business processes. Genpact operates service delivery centers in India, China, Hungary, Mexico, the Philippines, the Netherlands, Romania, Spain and the United States.

Investment strategy

We rate Genpact Neutral (2). Genpact is a solid performer in an attractive end-market, but several near-term risks related to its client base and to the macro environment temper our view. The stock has been volatile and has recently settled into a trading range.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

The key risks to our investment thesis on Genpact are:

1. GE is a large client of G and so news flow about GE can affect G stock.

2. GE can sell approximately 13 million shares (about 6% of Genpact's outstanding shares) without recourse under the current shareholders' agreement, which creates an additional overhang risk in our view.

3. Multiple rapid revenue ramps of (initially) less profitable non-GE clients could negatively surprise some investors.

4. Genpact has a stated intention to pursue future acquisitions. The completion of any future acquisitions could pose integration risk in our view.

As a positive risk we highlight the following:

1. The BPO industry tends to have "lumpy" earnings – both to the upside and to the downside. If Genpact's earnings unexpectedly outperform our estimates due to the inherent "lumpiness" in the business model, then the shares could materially outperform our target price.

2. G could be a potential acquisition candidate. Several large IT services companies have targeted the BPO space for growth and could be possible strategic buyers.

International Business Machines Corp

Company description

IBM is the world's largest enterprise IT company and is a significant player in virtually every major segment of the enterprise market, including services, servers, storage, software, and semiconductors. The company generated almost $107B revenue in 2011 and has led the world in the number of US patents granted for more than a decade. Revenue categories include Global Services, Hardware, Software, and Global Financing, which were 56%, 18%, 23%, and 2% of 2011 total revenue, respectively. The same categories showed 33%, 40%, 89%, and 50% gross margins, respectively, with an aggregate gross margin of 47%. IBM operates labs around the world and its R&D expense in 2011 was $6.3 billion as the company continues to innovate and evolve for future enterprise needs.

Investment strategy

We rate IBM with a Buy rating and a 12-month target of $250, as we believe it is one of the most compelling long-term investments within Technology Hardware. IBM is uniquely positioned within the major IT vendors given its arguably best-in-class portfolio of products and services and to embrace BYOD. On hardware, IBM essentially has a monopoly within mainframes which remain superior to x-86 servers in terms of reliability, utilization, security and throughput which will see an upgrade in 2013. IBM’s software portfolio, highlighted by its middleware, allows the company to provide superior integration and manageability of the customer’s datacenter. IBM’s services platform (consulting, BPO, IT outsourcing) allows IBM to offer a turnkey solutions to customer & also a channel to sell its products. The combination of these assets makes IBM arguably the most compelling end-to-end solutions provider in areas such as infrastructure roll-out, system integration, IT outsourcing & BYOD. From a financial perspective, the company is the only company within our universe that sets a 5-year EPS target, which is a testament to its earnings visibility (60-70% of revenues are recurring), as well as the ability to generate earnings growth via a combination of several levers which include organic growth, acquisitions, share repurchases, margin expansion, and productivity gain. Our estimates may prove to be conservative if the following occurs: 1) a meaningful pick-up in short-term consulting deals, which generally occurs with a macro recovery, 2) a potential refresh of the z-Series & IBM shares have generally performed well during the initial stages of the mainframe cycle given the earnings

pick up (Roughly 30-35% of IBM’s revenues are related to the mainframe business), 3) faster-than-expected share repurchases.

Valuation

Our target price of $250 is based on 13x forward 12 month EPS estimates 12 months from now. During the past 20 years, we find that IBM shares have traded at a mean multiple of 19X F12 EPS, but this includes periods of significantly higher sales growth which were double digit growth as well as some periods of significant financial distress for IBM in the late 1980s and early 1990s. Since 1997, the shares have traded in a core range of 16-20X F12 EPS, excluding unusual periods during the Internet bubble and subsequent economic downturn. Given medium to long-term potential for single-digit revenue and double-digit EPS growth, good earnings visibility, tempered by the reality that share repurchase and acquisitions drive a substantial amount of IBM's EPS growth, we believe that IBM shares should trade more in line with the current market multiple at 13x compared to the >60% premium during the two decades. We also believe this lower than historical multiple reflects a deceleration in sales growth stemming from various macro headwinds and general multiple compression across the tech universe. Consequently, we are using a 13x multiple (in line with the S&P). Applying 13x to our F12 month EPS 12 months from now of $18.90 suggests a 12-month target price of $250.

Risks

1) Any meaningful slowdown in infrastructure roll-out in emerging markets given that it has been a key driver of IBM’s revenue growth (and mainframe adoption), 2) material drop in long-term Services signings as it has an eventual impact to Services revenues, 3) muted adoption of the pending new zSeries mainframes, 4) potential share loss (or slower growth) in the key branded Middleware segment, which could limit the expectation of positive mix shift.

More than half of the company’s pretax income is derived from annuity-like sources such as IT outsourcing, maintenance, software, and financing, contributing to a high degree of EPS predictability. Market cap, liquidity, and a solid balance sheet also pose somewhat limited risk. That said, roughly half of Services revenues is transactional and short-term oriented in nature, and can be vulnerable during period of macro weakness. Within the Systems and Technology segment, the company derives close to 28% of its revenues from the highly competitive x-86 market, and another 15-20% comes from Microelectronics and Tape, which generally lacks growth. Within software, a significant portion is tied to the mainframe which has seen more and more competition from x86 platforms.

If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price.

Nielsen Holdings N.V.

Company description

Nielsen is a leading global information and measurement company focused on providing clients with a comprehensive understanding of consumers and consumer behavior. Its business is aligned along three reporting segments – Watch, Buy and Expos. Nielsen uses combined information from the Watch and Buy segments to deliver insights into the effectiveness of advertising by linking media consumption trends with consumer purchasing data.

Investment strategy

We rate NLSN Buy (1). We believe NLSN can prove to be a solid, long-term play on two secular trends: (1) Rapid growth of the middle-class in developing countries; and (2) Proliferation and convergence of digital media formats. The growth trends should enable Nielsen to showcase its unique strengths and add to its growth rate. While these twin secular trends can improve the growth profile of the company, the stability of Nielsen's core business is equally important – its high visibility into about two-thirds of its revenues at the beginning of each fiscal year; its long-term contracts; the even longer-term tenure of its clients; the economic resilience of its financial model. There are three other parts to a bullish investment thesis on NLSN – even though it has healthy margins, there should still be steady margin upside from current levels; from a cash perspective, we note that it has an attractive cash tax profile; earnings can benefit materially over time from de-levering the balance sheet.

Valuation

Our 12-month target price for Nielsen of $35 is based on our P/E valuation model supported by our Discounted Cash Flow valuation analysis.

P/E analysis – Our P/E based analysis yields a share price of $35 (rounded) by applying our 19x to 20x multiple-range to our 2012 adjusted cash EPS estimate of $1.82. Our target P/E is derived from NLSN's comparable company trading range. Nielsen's comparable universe, including Functional comps (Business Information, Insights and Analytics companies) and Business Model comps (mostly Financial and Payment Processing companies) recently traded, on average, in a range of 18x to 19x on a 2012 basis with the Functional comps average at the higher end of the range. We assign a higher weight to the Functional comparable companies in our analysis and believe a 19X to 20X multiple is appropriate for Nielsen.

We estimate NLSN can deliver average adjusted EPS growth (on a constant currency basis) in the low-to-mid-teens over the next three years. This EPS trajectory is helped by sustainable mid-single digit top line growth, 30-50 bps of annual EBITDA margin improvement, and IPO/organic cash flow driven debt reductions. We believe giving NLSN a target P/E range higher than its growth rate is reasonable, particularly given our view of limited downside risk to our estimates.

DCF Analysis - Our DCF analysis yields a 12-month $35 price target (rounded). We discount projected debt free cash flows over the next 10 years to a present value, using these assumptions: Beta of 1.00 (per Bloomberg), Risk-free rate of 2.02% (based on guidance from our Accounting & Valuation Group), market risk premium of 6.19% (from our Accounting & Valuation Group), tax rate of 27%, WACC of 7%, and a terminal free cash flow growth rate assumption of approximately 2%. We subtract total debt of $6.4 billion and add cash of $325 million to arrive at our DFC driven target price.

Risks

The key risks to our investment thesis on NLSN are:

1. Need for continual investment along both growth axes (i) New "Point-Of-Influence" formats like smart-phone growth; social media, etc.(ii) New "Point-Of-Sale" locations that are increasingly geographically diverse.

2. Nielsen's faster growth areas could be lower-margin initially due to lower scale, needed investment and more competitive newer markets.

3. Investor discomfort with Nielsen's level of debt is a gating factor for "new money".

4. Significant post-IPO private-equity ownership creates a stock overhang.

5. Potential CPG company consolidation could impact long-term pricing.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

TeleTech Holdings Inc

Company description

TeleTech is a leading global business process outsourcing (BPO) company that provides a wide range of front- to back-office outsourced solutions. Its clients are Global 1000 companies and governments for which it provides a variety of voice and non-voice customer relation services. It has approximately 42,000 employees in about 35,000 seats, based in 58 delivery centers in 17 countries. It uses a global IP network, OnDemand, which allows it to quickly roll out technology to any end user, either to employees in its call centers, to @Home agents, or to clients. The company started in 1982, went public in 1996, and is run by the founder and CEO Ken Tuchman, who still owns 55%+ of TTEC's outstanding stock.

Investment strategy

We rate TeleTech (TTEC) Neutral. Although management has executed well on the controllable factors in a tough environment, there is a higher level of near-term uncertainty with the revenue outlook due to the economic environment and the recently strengthened dollar. This uncertainty has led us to an outlook that supports only modest upside to the stock from current levels. Given the balanced risk/reward, we believe Neutral is the right rating for TTEC currently.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

TTEC faces the following company and industry specific risks:

- Decision-making and ownership is concentrated in the CEO office – CEO Tuchman owns more than 55% of the common stock. A key risk is that while the management team is good operationally, there is no obvious leader who can eventually step into Tuchman's shoes.

- The demand for BPO is mostly cyclical, so we could have variability in the near-term outlook regardless of the bullishness of the long-term outlook.

- TeleTech's growing global presence increases geopolitical risk - about 70% of TeleTech's workstations are offshore currently, with the majority in Canada, the Philippines, India and countries in Latin America. While this is good for servicing global clients and helps from a cost perspective, it does increase the complexity and risk associated with its business.

- High price volatility of TTEC and its valuation comps.

- Currency fluctuations could hurt TeleTech results - TeleTech reports in U.S. dollars, but it generates roughly 50% of its revenues from non-U.S. centers and we expect this ratio to increase. Note that given TTEC's currency hedges this is less an operational risk and more a matter of perception. But it's a risk to the stock nevertheless.

Towers Watson and Co

Company description

Towers Watson is a leading global provider of human capital and financial management consulting services. These services are in four practice areas - Benefits, Risk & Financial Services, Talent & Rewards, and Exchange Solutions. On January 4, 2010, Towers Watson was formed by the merger of equals between predecessor firms Towers Perrin and Watson Wyatt. The company is now headquartered in New York and has 14,000 associates worldwide.

Investment strategy

We rate Towers Watson shares Buy (1). Following the recently completed merger, we believe the company has an improved market position in multiple segments of the HR consulting market and we continue to be fans of the HR consulting industry as a whole - we like the stability of the business model and the strength of the long-term secular trends that underpin it.

Additionally, we believe TW is poised to surpass its stated margin targets, which should help them beat consensus expectations. TW's management has a history of being quite conservative with its financial projections, and we look for it to raise it longer-term margin target over time as it executes on its synergy plan.

Lastly, we look to healthcare reform to act as a catalyst to added revenue and earnings growth for the combined company over the next several years.

With a valuation that is attractive, we believe Buy is the correct rating for the stock.

Valuation

Our 12-month target price for Towers Watson is $65. Our target is the result of our P/E-based analysis.

P/E Analysis: Our P/E target of $65 is based on a 12.3x multiple, within our targeted 11x-13x multiple range, and our adjusted FY13 estimate of $5.30 to arrive at our $65 price target (rounded). The former Watson Wyatt traded in a range of 10x-21x forward estimates over the past five years with a median of 16x (per StockVal). Given our expectation for modestly lower profit growth, we believe a target multiple below the median is justified.

Risks

The key risks to our investment thesis on TW are:

- The recently completed merger with Towers Perrin carries integration risk and could pressure EPS and FCF over the next 1-2 years. The merger may also create a share overhang as Towers Perrin owners eventually monetize their stakes.

- A segment of the firm's underlying business is economically sensitive and dependent on discretionary spending.
- The firm is currently responding to both government investigations and professional liability claims. The impact of current and future litigation is uncertain.
- Longer-term, the declining popularity of defined benefit plans relative to other retirement options may be a risk.
- In the investment consulting business, a part of the revenues come from advice related to structured products and that business has slowed in the current credit environment.
- Currency can have an impact on TW estimates and stock, given that a roughly half of its revenues come from outside the U.S.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

WNS Holdings Ltd

Company description

WNS provides offshore business process outsourcing (BPO) services. Its dominant target markets include the travel industry and the financial services and insurance (BFSI) sector. Besides these two dominant verticals, WNS has clients in the manufacturing, retail, logistics, utilities, and professional services sectors. WNS also specializes along functional lines, with a primary focus on finance and accounting BPO, although it also targets other functions like human resources, supply chain management, and research and analytical services. WNS has operations in India, Sri Lanka, and the United Kingdom, and serves clients across Europe, North America, and Asia.

Investment strategy

We rate WNS shares Buy (1). We believe that WNS has many attractive attributes: (1) WNS operates in a fast-growing end market and it is a leader in key verticals of this fast growing end-market; (2) we see improving demand trends for offshore BPO services in the near-term based on more mainstream adoption of BPO as enterprises seek productivity gains in areas other than IT; (3) better underlying fundamentals for WNS in terms of solid execution on its expansion / go-to-market strategies and improved balance sheet position; WNS should be able to deliver robust revenue growth and expand its margins over the next few years; and (4) attractive current valuation vs. its peers and growth rate. On the risk side we note: (1) high levels of P/E firm ownership; (2) historical volatility of results owning to WNS' auto claims BPO business; and (3) some client concentration.

Valuation

Our WNS valuation model yields an implied $15 target price based on applying a 13X -14X multiple to our calendar-year 2013 adj. EPS est. of $1.14. Our target P/E multiple assumes a discount to WNS' peer group average of ~16X and its own two-year forward EPS CAGR of 16% based on our estimates. We believe this discount is appropriate, currently, given that WNS is still relatively early on in executing its sales and infrastructure investment plans and returning to above-industry organic top-line growth.

Risks

The key risks to our investment thesis on WNS are:

1. The Business Process Outsourcing (BPO) business is inherently lumpy – and we are experiencing a relatively slow recovery in demand given elongated sales cycles.

2. Currency – WNS earns more than 60% of revenues in GBP, which may create volatility in reported revenues. Margins could also be pressured since WNS does not have FX collars included in all contracts.

3 Competitive Environment – Competitive pressures on new sales and pricing may intensify in our view as diversified IT services companies pursue BPO as an avenue of growth.

4. Auto Claims Business – The Auto Claims BPO segment has in the past caused earnings volatility at WNS.

5. Client Concentration – WNS' top-5 clients comprise 41% of total revenues in FY 2012 and Aviva was 21% of the total.

Appendix A-1

Analyst Certification

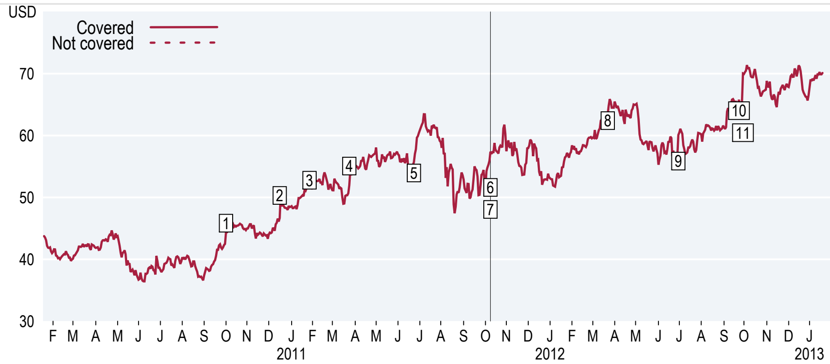
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Accenture Ltd (ACN)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	1-Oct-10	1H	*53.00	44.38
2	16-Dec-10	1H	*55.00	46.67
3	27-Jan-11	*1M	*60.00	52.36
4	24-Mar-11	1M	*64.00	51.96
5	23-Jun-11	1M	*66.00	55.69
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	66.00	55.92
8	22-Mar-12	1	*73.00	63.52
9	29-Jun-12	1	*70.00	60.09
10	24-Sep-12	1	*75.00	65.78
11	28-Sep-12	1	*76.00	70.03

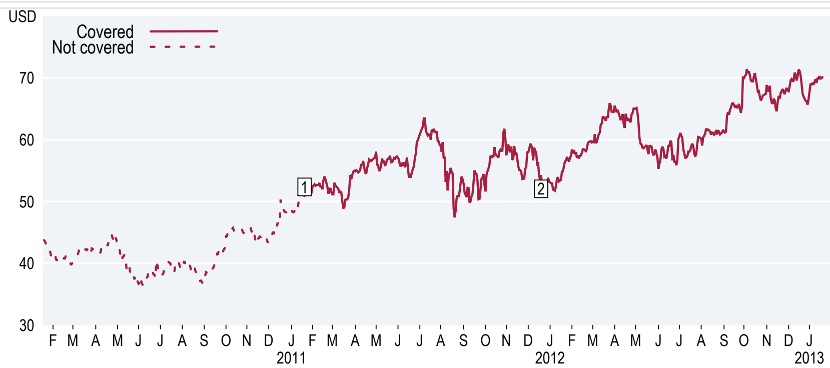
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Accenture Ltd (ACN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	51.14
2	20-Dec-11	*REM MP	-	54.24

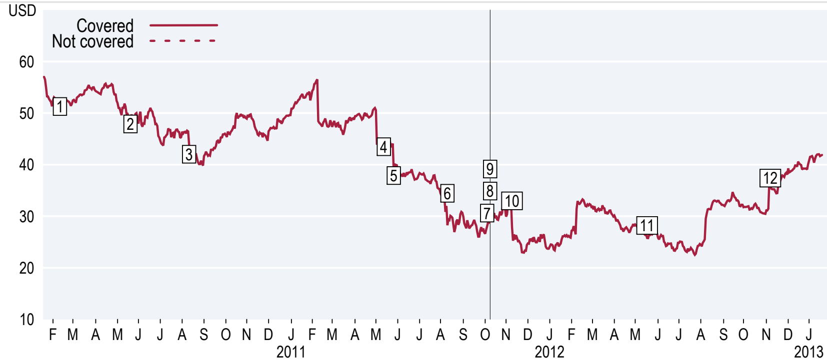
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Computer Sciences Corporation (CSC)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	10-Feb-10	2S	*59.00	52.13
2	20-May-10	2S	*57.00	47.88
3	11-Aug-10	2S	*54.00	43.88
4	12-May-11	2S	*53.00	45.04
5	26-May-11	2S	*50.00	38.38
6	10-Aug-11	2S	*35.00	28.24
7	5-Oct-11	2S	*32.00	28.09
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2H	32.00	28.59
10	9-Nov-11	2H	*30.00	27.90
11	17-May-12	2H	*28.00	25.77
12	7-Nov-12	2H	*39.00	35.80

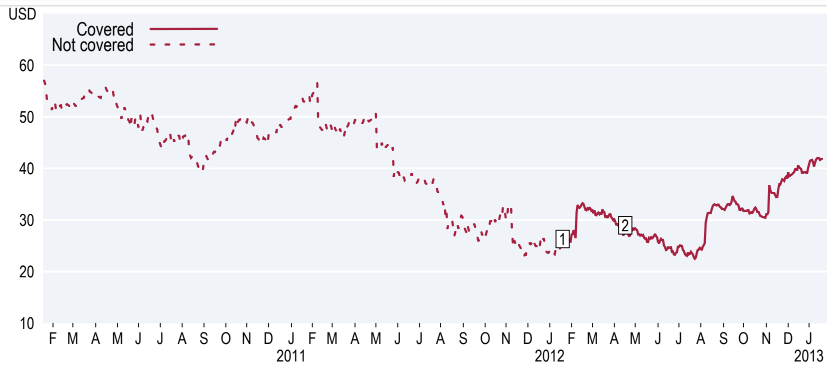
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Computer Sciences Corporation (CSC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	19-Jan-12	*ADD LP	-	26.09
2	17-Apr-12	*REM LP	-	27.69

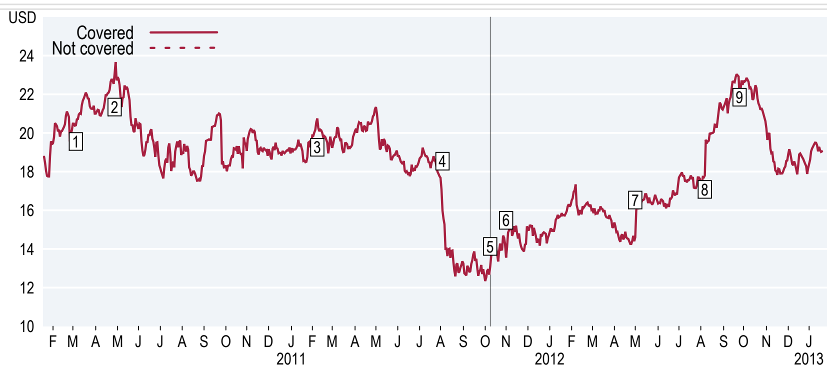
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CSG Systems International Inc (CSGS)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	4-Mar-10	1H	*25.00	20.40
2	28-Apr-10	1H	*27.50	23.05
3	8-Feb-11	1H	*26.00	20.75
4	3-Aug-11	1H	*20.50	15.98
5	8-Oct-11	Stock rating system changed		
6	1-Nov-11	1H	*18.00	13.55
7	1-May-12	1H	*19.00	14.60
8	7-Aug-12	1H	*22.50	17.80
9	25-Sep-12	*2H	*24.00	21.85

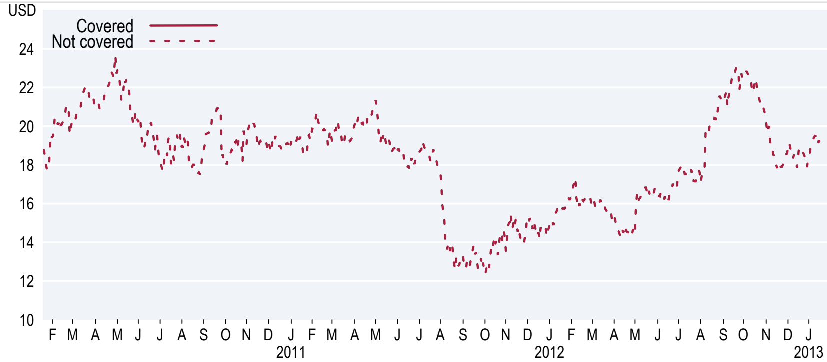
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CSG Systems International Inc (CSGS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



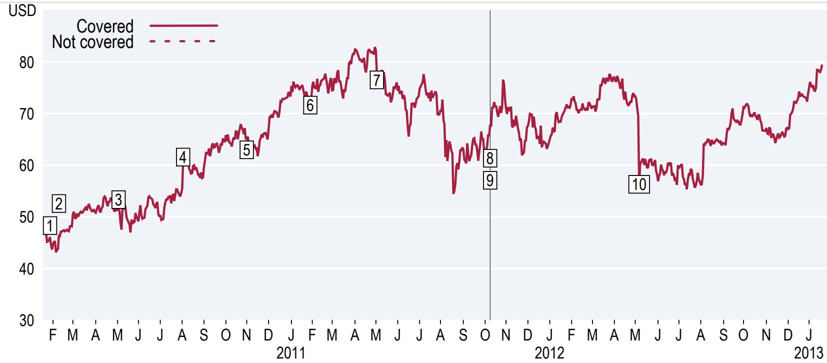
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cognizant (CTSH)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	27-Jan-10	*1M	*55.00	46.09
2	9-Feb-10	1M	*56.00	46.49
3	4-May-10	1M	*62.00	51.80
4	3-Aug-10	1M	*74.00	60.62
5	1-Nov-10	1M	*76.00	65.04
6	28-Jan-11	1M	*85.00	71.63
7	3-May-11	1M	*88.00	77.52
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	88.00	65.62
10	7-May-12	1	*79.00	56.30

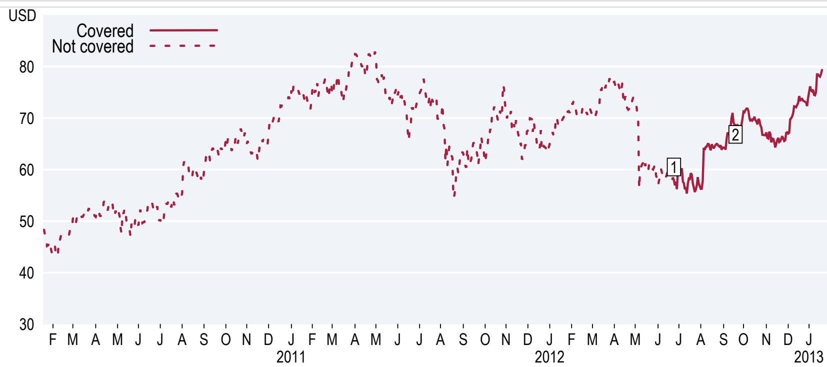
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cognizant (CTSH)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	25-Jun-12	*ADD MP	-	57.90
2	19-Sep-12	*REM MP	-	68.61

* Indicates change

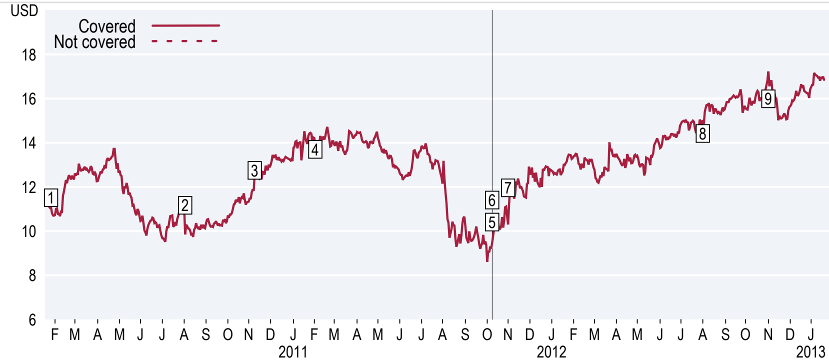
Rating/target price changes above reflect Eastern Standard Time

Convergys Corp (CVG)

Ratings and Target Price History

Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	26-Jan-10	1H	*15.00	11.06
2	3-Aug-10	1H	*12.50	9.85
3	9-Nov-10	1H	*14.50	12.65
4	2-Feb-11	1H	*17.00	13.92
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	17.00	9.21
7	1-Nov-11	1	*16.00	10.30
8	1-Aug-12	1	*17.00	15.03
9	1-Nov-12	1	*19.50	17.23

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

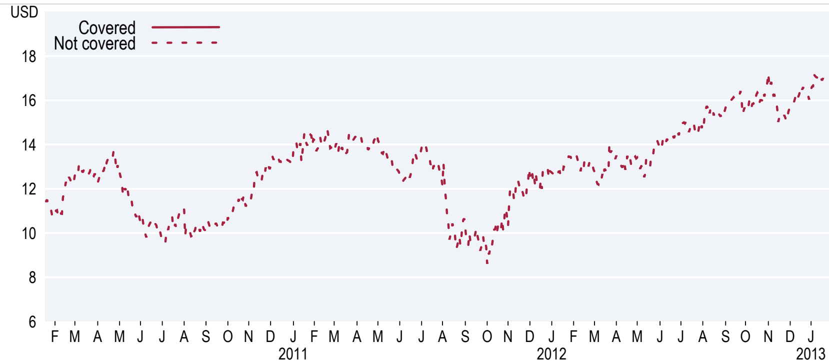
Convergys Corp (CVG)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Amdocs Ltd (DOX)

Ratings and Target Price History

Fundamental Research

Analyst: Ashwin Shirvaikar, CFA

	Date	Rating	Target Price	Closing Price
1	20-Jan-10	1H	*35.00	28.52
2	22-Apr-10	1H	*38.00	31.19
3	4-Nov-10	1H	*33.00	27.38
4	25-Jan-11	1H	*35.00	28.83
5	29-Apr-11	1H	*37.00	30.75
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	37.00	27.71

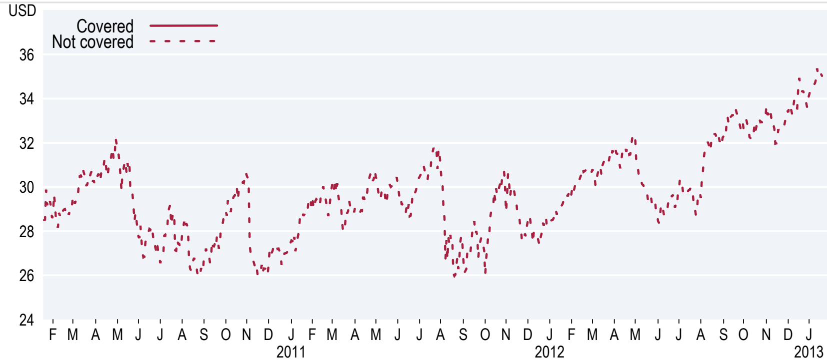
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Amdocs Ltd (DOX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



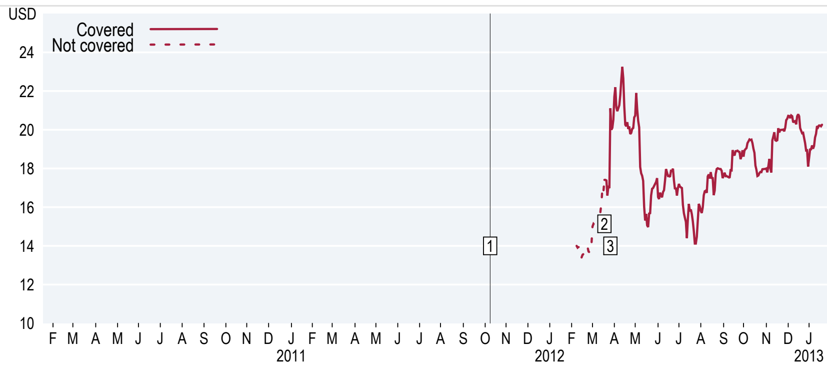
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EPAM Systems, Inc. (EPAM)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA
Covered since March 19 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	19-Mar-12	*1	*19.00	17.41
3	27-Mar-12	1	*23.00	21.11

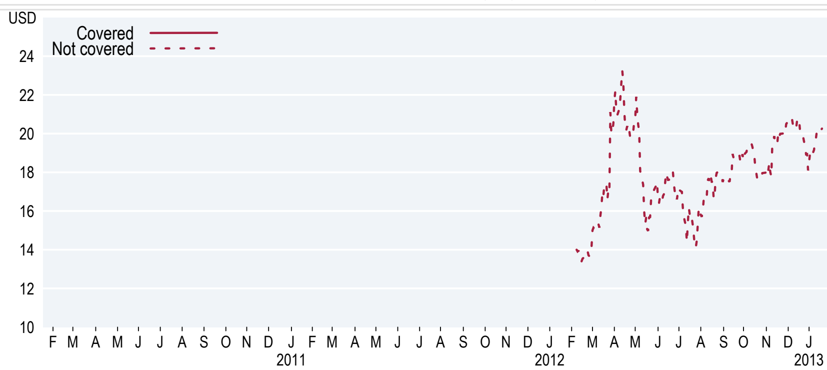
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EPAM Systems, Inc. (EPAM)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA
Covered since March 19 2012



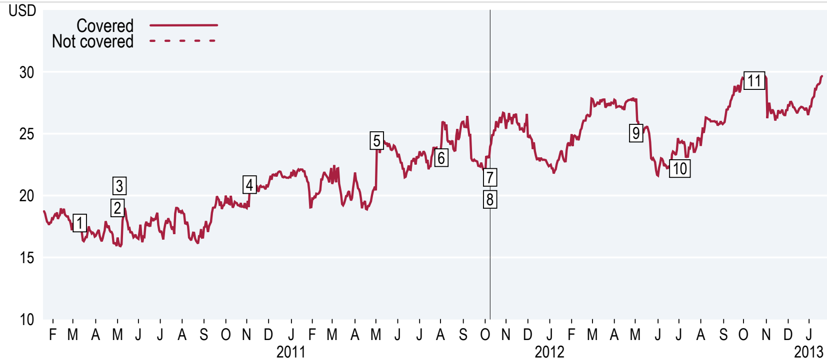
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ExlService Holdings Inc (EXLS)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



#	Date	Rating	Target Price	Closing Price
1	10-Mar-10	2S	*21.00	17.08
2	3-May-10	*1S	*22.50	16.61
3	5-May-10	1S	*24.00	15.94
4	4-Nov-10	1S	*26.00	20.60
5	3-May-11	1S	*32.50	24.04
6	2-Aug-11	1S	*33.00	24.31
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	33.00	23.03
9	2-May-12	1	*32.00	27.84
10	3-Jul-12	1	*31.00	24.26
11	16-Oct-12	1	*35.00	29.87

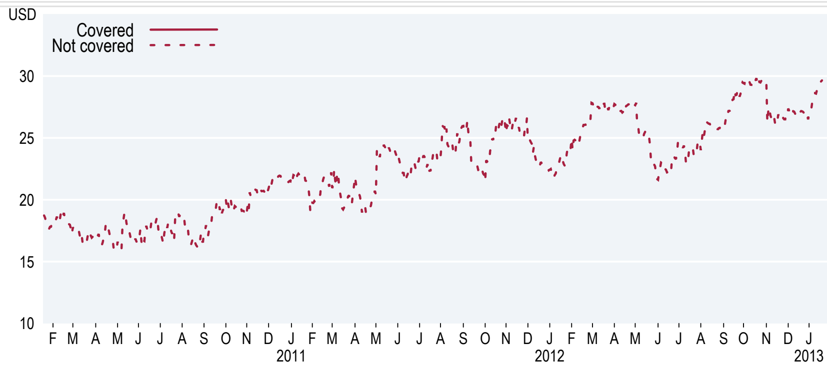
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ExlService Holdings Inc (EXLS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



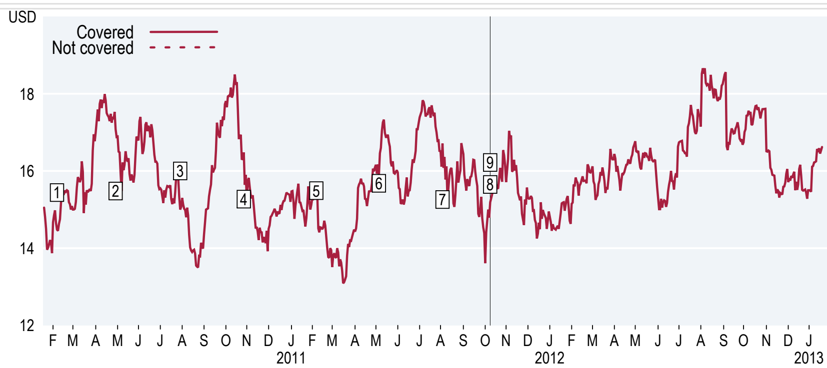
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Genpact Ltd (G)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



#	Date	Rating	Target Price	Closing Price
1	5-Feb-10	2S	*17.00	14.48
2	29-Apr-10	*2H	*18.00	17.08
3	29-Jul-10	2H	*17.50	15.00
4	27-Oct-10	2H	*16.50	16.48
5	7-Feb-11	2H	*16.00	15.49
6	5-May-11	2H	*17.50	15.89
7	3-Aug-11	2H	*18.00	16.71
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	-	14.79

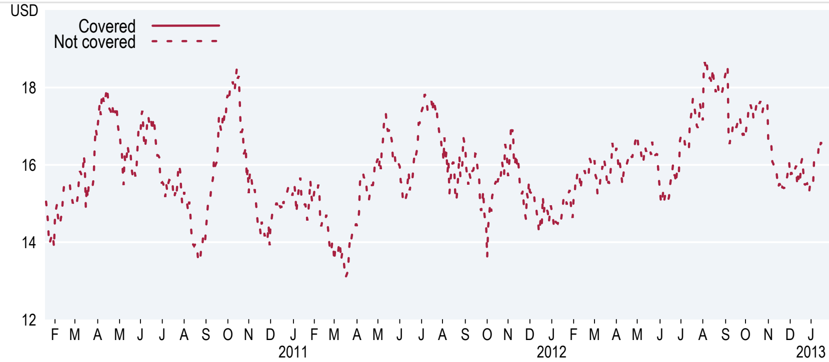
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Genpact Ltd (G)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

International Business Machines Corp (IBM)

Ratings and Target Price History
Fundamental Research

Analyst: Jim Suva, CPA
Covered since October 8 2012

	Date	Rating	Target Price	Closing Price
1	19-Oct-10	1M	*160.00	138.03
2	19-Jan-11	1M	*175.00	155.69
3	20-Apr-11	1M	*190.00	164.75
4	19-Jul-11	1M	*205.00	185.21
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	205.00	182.39
7	18-Apr-12	1	*235.00	200.13
8	7-May-12	Coverage terminated		
9	8-Oct-12	1	*250.00	209.82

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

International Business Machines Corp (IBM)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Jim Suva, CPA
Covered since October 8 2012

	Date	Rating	Target Price	Closing Price
1	24-Aug-11	*ADD MP	-	166.76
2	7-May-12	*REM MP	-	203.75

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Nielsen Holdings N.V. (NLSN)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA
Covered since March 7 2011

	Date	Rating	Target Price	Closing Price
1	7-Mar-11	*1H	*34.00	27.00
2	28-Apr-11	1H	*35.00	29.32
3	28-Jul-11	1H	*37.00	30.39
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	37.00	27.29
6	6-Feb-12	1	*35.00	28.85

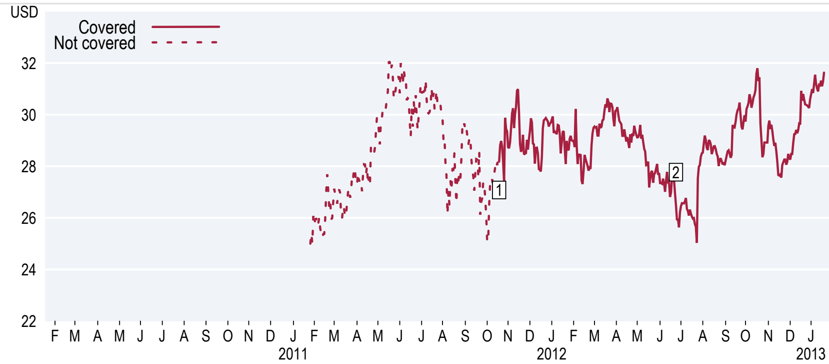
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Nielsen Holdings N.V. (NLSN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA
Covered since March 7 2011



	Date	Rating	Target Price	Closing Price
1	19-Oct-11	*ADD MP	-	28.18
2	25-Jun-12	*REM MP	-	26.48

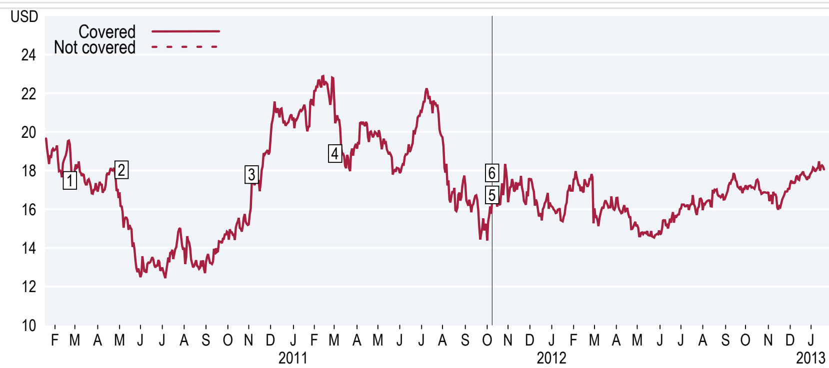
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TeleTech Holdings Inc (TTEC)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	22-Feb-10	2S	*21.00	19.34
2	5-May-10	2S	*17.00	16.18
3	4-Nov-10	2S	*18.00	17.30
4	2-Mar-11	2S	*22.00	20.45
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	-	15.76

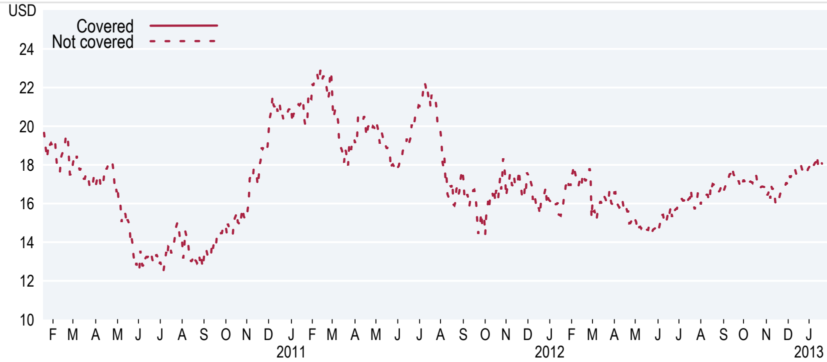
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TeleTech Holdings Inc (TTEC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



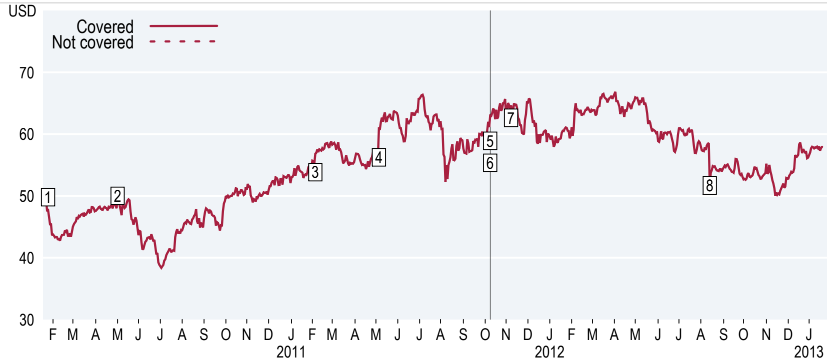
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Towers Watson and Co (TW)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	25-Jan-10	2H	*52.00	47.73
2	2-May-10	*1H	*60.00	48.00
3	4-Feb-11	1H	*66.00	56.83
4	5-May-11	1H	*73.00	60.90
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	73.00	61.12
7	8-Nov-11	1	*75.00	64.66
8	14-Aug-12	1	*65.00	51.68

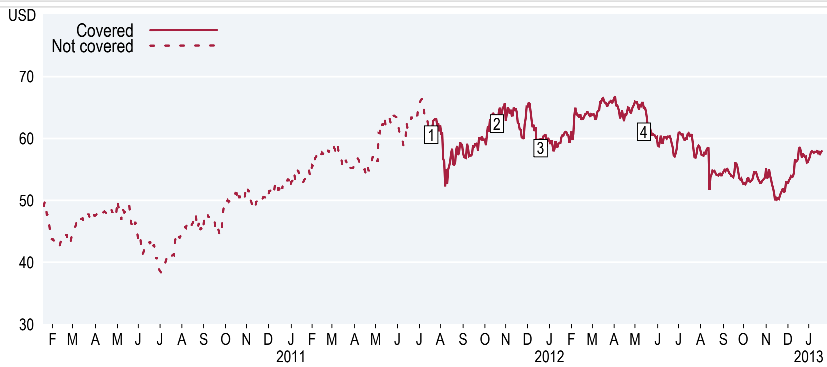
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Towers Watson and Co (TW)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	19-Jul-11	*ADD MP	-	61.65
2	19-Oct-11	*REM MP	-	62.49
3	20-Dec-11	*ADD MP	-	59.89
4	14-May-12	*REM MP	-	64.78

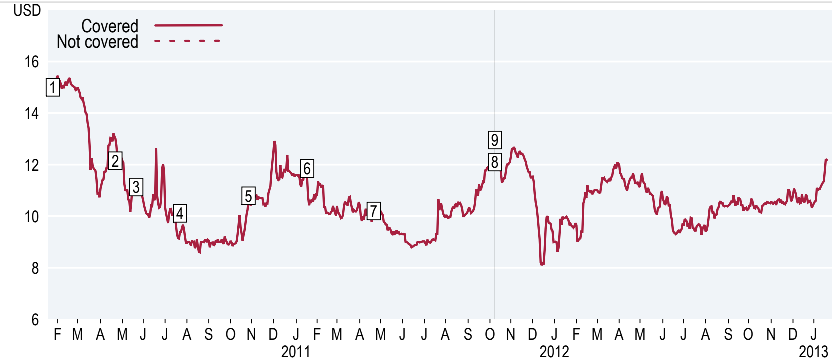
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

WNS Holdings Ltd (WNS)

Ratings and Target Price History
Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	21-Jan-10	2S	*17.00	15.05
2	22-Apr-10	2S	*15.00	13.01
3	21-May-10	2S	*14.00	10.98
4	22-Jul-10	2S	*11.00	9.39
5	27-Oct-10	2S	*12.00	10.60
6	18-Jan-11	2S	*13.00	11.43
7	21-Apr-11	2S	*12.00	9.87
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	-	12.04

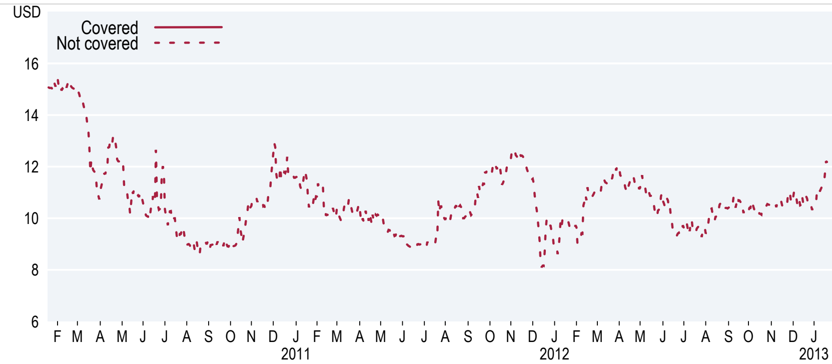
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

WNS Holdings Ltd (WNS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Accenture PLC

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Computer Sciences Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Cognizant Technology Solutions Corp

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A director of Citi serves on the board of IBM Corporation. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of International Business Machines Corp

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