

Cognizant Technology Solutions - CTSH

Analysis performed by: Joshua Smyser

July 2007

Company Introduction

Cognizant is a leading provider in the IT services business, and differentiates itself through its 'on-site/offshore' model. The company had revenues of \$1.4 Billion dollars in FY2006, and EPS of \$1.65. Over the past 5 years, the company has grown EPS at 53.6% per year, and analysts are expecting the company to grow at a rate of 33.3% for the next 5 years.

Products and Services

Cognizant operates in the IT Consulting and Technology Services business. Currently the demand for outsourcing services has been red hot as of late, with more and more companies farming out services to Indian and Chinese based companies, primarily due to the highly educated, but low wage-earning workers there. Cognizant benefits from this global trend of outsourcing by providing those services to customers. However, Cognizant strives to differentiate itself as more of a value-added partner and seeks to provide solutions to complex projects such as IT Program Development, using its multi-tiered model.

The company's operational model is centered around the large scale operations in India and China, with regional centers being in much closer proximity to the customer (i.e. Chicago, Toronto, Phoenix). The rationale is that the regional centers are on-call 24 hours a day for the client in case of IT 'emergencies' and are able to handle smaller projects requested by the client. For larger projects, say a system migration from one ERP to another, the regional center works directly with the client to determine the needs, objectives, and final deliverables desired and outsources the work back to the teams in India and China.

Cognizant's business model I feel is best of breed in the IT Services industry. The customer's originally come to Cognizant looking for cost reduction through the outsourcing model, but the hope is that they will continue to be a long-term partner with Cognizant due to their value-adding activities and innovation.

Analysts and Estimates:

Yahoo Finance: EPS growth of 33.34% for the next 5 years, which was relatively consistent with other analyst reports I saw. Currently analyst's have been relatively neutral over the past quarter. Three of past four analyst opinion changes have been negative, with the last upgrade/downgrade occurring in April of 2007.

My SSG Judgements:

Front of SSG

Followed the Preferred Procedures, selecting revenue growth of 32% which is slightly conservative, and I used the net profit margin of 16.3%. Ultimately I arrived at sales growth of 32% and EPS growth of 33.3%

Back of SSG

Selected a high PE of 34, which is the lowest, high PE for a given year that the stock has ever traded at.

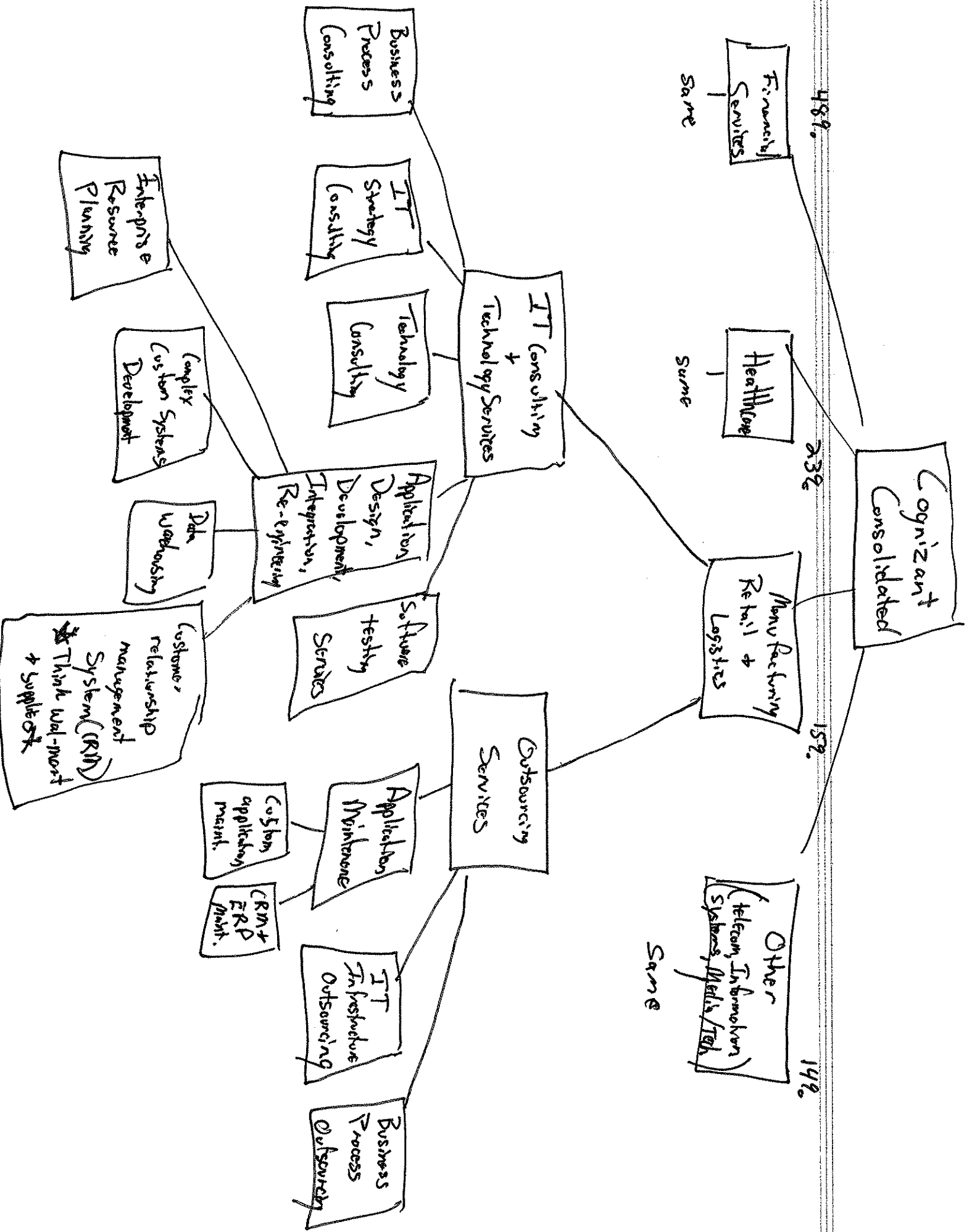
Selected a low PE using Alt M, which is the average of the middle 5 low PE's, which came to 17.3.

Changed the estimated low earnings per share to the most current 4 quarters, or 1.73

Selected the forecast low price of 29.9

Conclusion:

After all is said and done, the stock has an upside/downside ratio of 2.8, making it a hold at the current price.



Cognizant Consolidated

Finance Services

Same

Healthcare

Same

Manufacturing, Retail + Logistics

Other (Telecom, Information Systems, Media, Tech)

Same

IT Consulting + Technology Services

Business Process Consulting

IT Strategy Consulting

Technology Consulting

Application Design, Development, Integration, Re-engineering

Software testing Services

Complex Custom Systems Development

Data Warehousing

Customer relationship management System (CRM) Think Wal-Mart + supplier

Outsourcing Services

Application Maintenance

Custom application maint.

CRM + ERP Maint.

IT Infrastructure Outsourcing

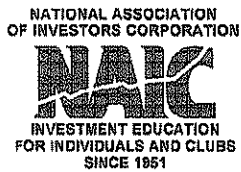
Business Process Outsourcing

489

232

152

149



Stock Selection Guide®

The most widely used aid to good investment judgment

Company Cognizant Technology Solutio Date 07/10/07

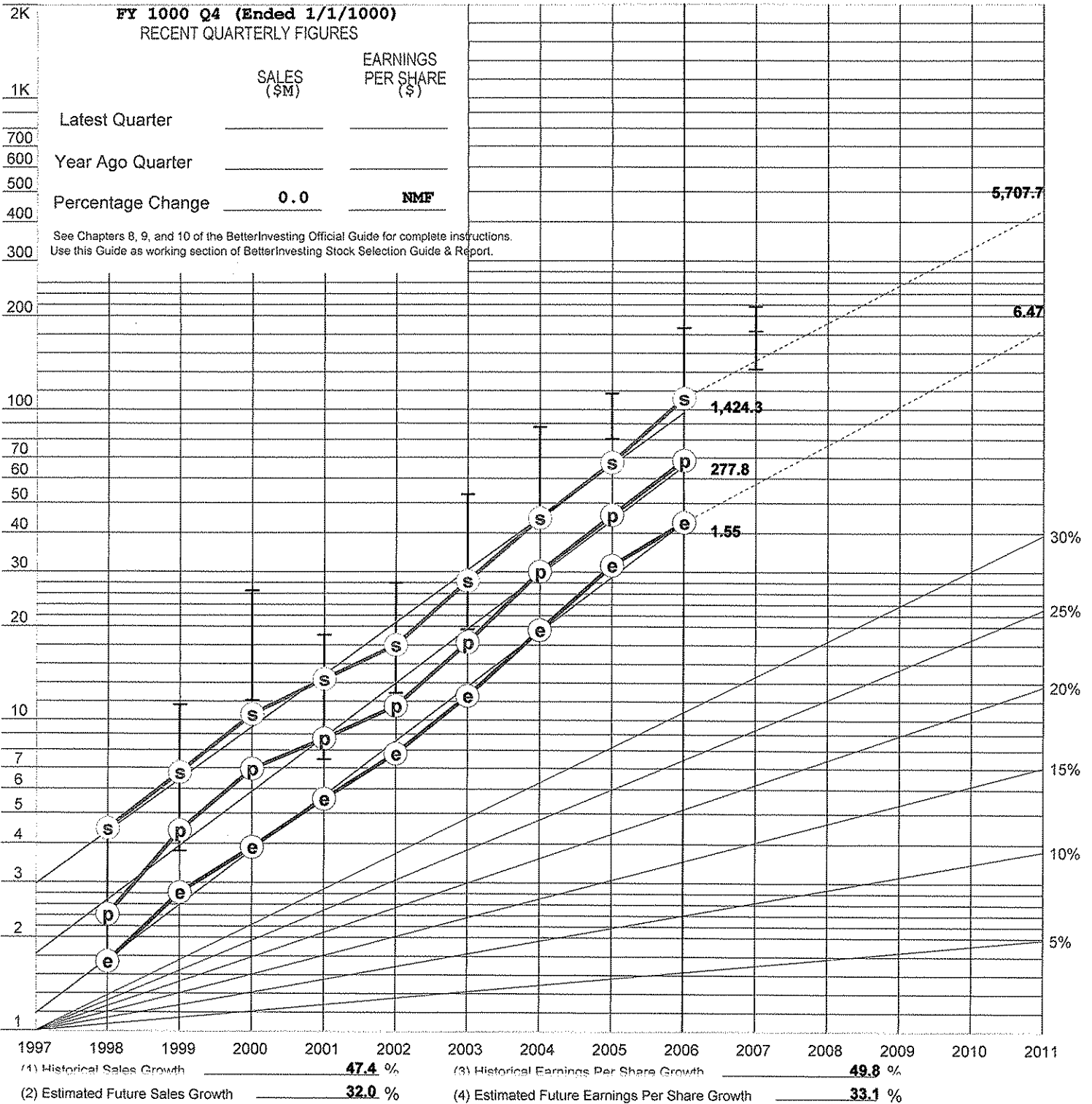
Prepared by Josh S. Data taken from StkCntrl

Where traded NASDAQ Major product/service Business So

CAPITALIZATION -- Outstanding Amounts		Reference	
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	143.7	4,000.0	96.6
Debt (\$M)	0.0	% to Tot.Cap.	0.0 % Potential Dil. None

1 VISUAL ANALYSIS of Sales, Earnings and Price

CTSH



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes + Sales)		16.4	20.1	20.6	19.9	19.7	19.6	20.8	20.9	19.5	20.1		DOWN
B % Earned on Equity (E/S + Book Value)		20.0	24.4	23.7	22.7	20.7	20.2	20.7	22.1	20.6	20.9		EVEN

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESENT PRICE		HIGH THIS YEAR		LOW THIS YEAR			
		79.960		95.550		60.170			
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F + C X 100	H % High Yield F + B X 100
		A HIGH	B LOW		LOW A+C	LOW B+C			
1	2002	12.3	5.5	0.28	43.9	19.6	0.000	0.0	0.0
2	2003	23.7	8.7	0.43	55.1	20.2	0.000	0.0	0.0
3	2004	39.2	20.4	0.70	56.0	29.1	0.000	0.0	0.0
4	2005	50.2	35.9	1.13	44.4	31.8	0.000	0.0	0.0
5	2006	81.6	48.4	1.55	52.6	31.2	0.000	0.0	0.0
6	TOTAL	118.9			252.0	131.9		0.0	
7	AVERAGE	23.8			50.4	26.4		0.0	
8	AVERAGE PRICE EARNINGS RATIO			38.4	9	CURRENT PRICE EARNINGS RATIO			NMF

4 Proj. P/E [NMF] Based on Next 4 qtr. EPS [NMF] Current P/E Based on Last 4 qtr. EPS [NMF] EVALUATING RISK and REWARD over the next 5 years PEG=0

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~50.4~~ ^(3D7 as adj.) 34.0 X Estimate High Earnings/Share 6.47 = Forecast High Price \$ 220.0 ^(4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~26.4~~ ^(3E7 as adj.) 17.3 X Estimated Low Earnings/Share ~~1.55~~ ^(3B7) 1.73 = \$ 29.9

(b) Avg. Low Price of Last 5 Years = 23.8

(c) Recent Severe Market Low Price = 35.9

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}}$ = $\frac{0.000}{0.000}$ = 0.0

Selected Estimate Low Price = \$ 29.9 ^(4B1)

C ZONING

^(4A1) 220.0 High Forecast Price Minus ^(4B1) 29.9 Low Forecast Price Equals ^(C) 190.1 Range. 1/3 of Range = ^(4C1) 47.5

^(4C2) Lower 1/3 = ^(4B1) 29.9 to ^(4A1) 77.4 (Buy) Note: Ranges changed to 25%/50%/25%

^(4C3) Middle 1/3 = 77.4 to ^(4A1) 172.5 (Maybe)

^(4C4) Upper 1/3 = 172.5 to ^(4A1) 220.0 (Sell)

Present Market Price of 79.960 is in the Hold ^(4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price ^(4A1) 220.0 Minus Present Price 79.960 = 140.0
 Present Price 79.960 Minus Low Price ^(4B1) 29.9 = 50.1 = 2.8 To 1 ^(4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price ^(4A1) 220.0 = (2.751) X 100 = (275.1) - 100 = 175.1 % Appreciation ^(4E)
 Present Market Price 79.960

Relative Value: 0.0% Proj. Relative Value: 90.3%

5 5-YEAR POTENTIAL This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 0.000
 Present Price of Stock \$ 79.960 = 0.000 X 100 = 0.0 Present Yield or % Returned on Purchase Price ^(5A)

B AVERAGE YIELD OVER NEXT 5 YEARS
 Avg. Earnings Per Share Next 5 Years 3.65 X Avg. % Payout ^(3G7) 0.0 = 0.0 = 0.0 % ^(5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

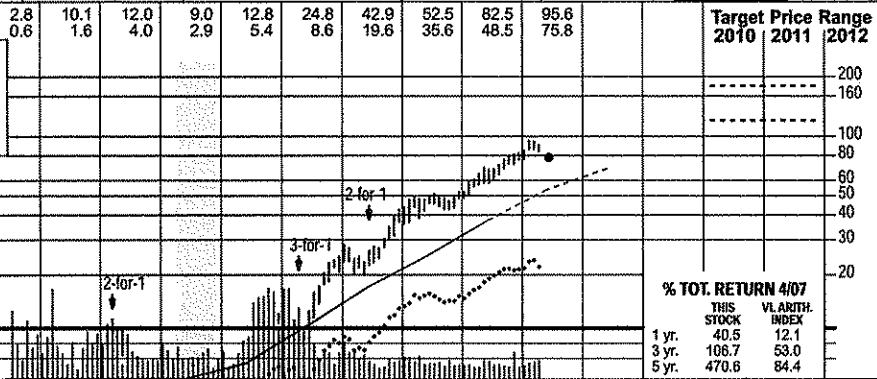
		P.A.R.	Tot. Ret.
5 Year Appreciation Potential ^(4E) 175.1			
Average Yield ^(5B) 0.0 %	35.0 %	Average Yield 0.0%	0.0%
Average Total Annual Return Over the Next 5 Years ^(5C) 35.0 %	0.0 %	Annual Appreciation 15.7%	22.4%
		% Compd Ann Rate of Ret 15.7%	22.4%

COGNIZANT TECH NDQ-CTSH

RECENT PRICE **78.29** P/E RATIO **38.4** (Trailing: 45.3 Median: NMF) RELATIVE P/E RATIO **1.98** DIVD YLD **Nil** VALUE LINE

TIMELINESS 2 Lowered 4/27/07
SAFETY 3 Raised 2/28/03
TECHNICAL 3 Raised 3/16/07
BETA 1.10 (1.00 = Market)
2010-12 PROJECTIONS
 Price Gain Ann'l Total
 High 180 (+130%) 23%
 Low 120 (+55%) 11%

LEGENDS
 20.0 x "Cash Flow" p sh
 Relative Price Strength
 2-for-1 split 3/00
 3-for-1 split 4/03
 2-for-1 split 6/04
 Options: Yes
 Shaded area indicates recession



Insider Decisions

	J	A	S	O	N	D	J	F	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	5	2	4	1
to Sell	0	0	0	0	0	5	2	4	1

Institutional Decisions

	2Q2008	3Q2008	4Q2008
to Buy	195	191	227
to Sell	169	176	194
Hld's(000)	131995	128076	131627

Percent shares traded

75
50
25

Cognizant Technology was formed as an in-house information technology unit at Dun & Bradstreet and came public through an initial public offering of 35 million shares of Class A stock in June, 1998 at \$.84 a share, of which 30 million were sold by Cognizant Technology and 5 million by the parent company. The stock trades on the NASDAQ under the symbol CTSH. (Share data is split adjusted.)

CAPITAL STRUCTURE as of 12/31/06

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales per sh	.32	.53	.80	1.23	1.53	1.87	2.86	4.35	6.32	9.99	14.45	19.20
"Cash Flow" per sh	.03	.08	.13	.20	.26	.36	.55	.86	1.25	1.93	2.70	3.45
Earnings per sh ^A	.01	.06	.10	.15	.19	.29	.44	.70	1.05	1.55	2.20	2.90
Div'ds Decl'd per sh	--	--	--	--	--	--	--	--	--	--	Nil	Nil
Cap'l Spending per sh	.04	.03	.05	.10	.13	.18	.23	.35	.51	.74	.75	.80
Book Value per sh	.04	.30	.41	.59	.85	1.35	2.13	3.36	5.10	7.53	10.75	14.65
Common Shs Outst'g ^B	78.00	109.60	110.94	111.31	116.13	122.52	128.67	134.93	140.12	142.51	144.00	146.00
Avg Ann'l P/E Ratio	--	24.8	31.0	52.4	33.1	30.6	34.5	39.6	43.3	42.6	Value Line estimates	30.0
Relative P/E Ratio	--	1.29	1.77	3.41	1.70	1.67	1.97	2.09	2.31	2.30	Value Line estimates	2.00
Avg Ann'l Div'd Yield	--	--	--	--	--	--	--	--	--	--	Value Line estimates	Nil
Sales (\$mill)	24.7	58.6	88.9	137.0	177.8	229.1	368.2	588.7	885.8	1424.3	2080	2800
Operating Margin	14.1%	19.0%	21.5%	22.4%	23.6%	23.2%	22.9%	22.9%	22.5%	20.6%	21.5%	21.5%
Depreciation (\$mill)	1.4	2.2	3.0	4.5	6.4	7.8	11.9	16.4	21.4	34.2	40.0	45.0
Net Profit (\$mill)	1.0	6.0	11.2	17.7	23.4	36.3	59.4	100.2	153.9	232.8	340	450
Income Tax Rate	27.0%	37.4%	37.4%	37.4%	37.4%	22.5%	20.0%	17.9%	17.0%	16.2%	18.0%	18.5%
Net Profit Margin	4.2%	10.3%	12.6%	12.9%	13.2%	15.8%	16.1%	17.1%	17.4%	16.3%	16.3%	16.1%
Working Cap'l (\$mill)	5.7	29.4	42.9	61.5	95.6	134.3	215.9	338.9	509.6	790.9	1150	1640
Long-Term Debt (\$mill)	--	--	--	--	--	--	--	--	--	--	Nil	Nil
Shr. Equity (\$mill)	3.9	32.6	45.5	66.1	98.8	165.5	274.1	453.5	714.1	1073.5	1545	2140
Return on Total Cap'l	26.7%	18.5%	24.7%	26.7%	23.7%	21.9%	21.7%	22.1%	21.5%	21.7%	22.0%	21.0%
Return on Shr. Equity	26.7%	18.5%	24.7%	26.7%	23.7%	21.9%	21.7%	22.1%	21.5%	21.7%	22.0%	21.0%
Retained to Com Eq	30.1%	18.5%	24.7%	26.7%	23.7%	21.9%	21.7%	22.1%	21.5%	21.7%	22.0%	21.0%
All Div'ds to Net Prof	--	--	--	--	--	--	--	--	--	--	Nil	Nil

MARKET CAP: \$11.2 billion (Large Cap)

CURRENT POSITION

	2004	2005	12/31/06
Cash Assets	314.8	424.0	648.2
Receivables	96.4	154.0	259.2
Inventory	--	--	--
Other	42.8	85.4	133.0
Current Assets	454.0	663.4	1040.4
Accts Payable	11.2	16.4	27.8
Debt Due	--	--	--
Other	103.9	137.4	221.7
Current Liab.	115.1	153.8	249.5

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06
of change (per sh)	46.0%	42.0%	32.0%
Sales	53.0%	47.0%	30.5%
"Cash Flow"	63.0%	50.0%	31.5%
Earnings	--	--	Nil
Dividends	--	54.0%	34.5%
Book Value	--	--	--

QUARTERLY SALES (\$mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	119.8	138.7	155.4	172.8	586.7
2005	181.7	211.7	235.5	256.9	885.8
2006	285.5	336.9	377.5	424.4	1424.3
2007	460.3	495	535	589.7	2080
2008	620	660	720	800	2800

EARNINGS PER SHARE^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.14	.17	.18	.21	.70
2005	.22	.25	.28	.30	1.05
2006	.32	.37	.40	.46	1.55
2007	.50	.52	.56	.62	2.20
2008	.64	.68	.74	.84	2.90

QUARTERLY DIVIDENDS PAID

2003					
2004					
2005					
2006					
2007					

BUSINESS: Cognizant Technology Solutions Corp. provides full life cycle solutions to complex software development and maintenance problems that companies face as they transition to e-business. 2006 revenue breakdown by segment: financial related services, 48%; healthcare services, 23%; retail/manufacturing/logistics, 15%; other, 14%. Services are provided by on-site technical and account

Cognizant Technology continues to progress at a solid pace. Share earnings in the first quarter leaped 56% from a year earlier, to \$0.50. These stellar gains were driven by a 61% jump in the top line, as the company strengthened its position in the retail, healthcare and financial markets, among others. In particular, demand remains healthy for Cognizant's ERP/CRM, complex system development, testing, high-end vertical BPO, and IT management solutions. Meanwhile, geographic growth remained strong, with an 84% rise in European revenues leading the way. **Growth prospects for the coming year are bright.** Cognizant recently announced that it expects headcount to increase by 42% this year, compared to its previous estimate of 44%. The news caused the stock to sell off a bit, but we believe the reaction was overblown. Indeed, we think this reduction is more likely a way to offset the margin impact from an appreciating Indian rupee than a reflection of lowered demand for the company's services. In addition, Cognizant plans to spend approximately \$200 million in India through 2008 to expand its infrastructure and create ca-

management teams in conjunction with development centers located primarily in India. Has about 38,800 employees. FMR Corp. owns 12.7% of common stock; officers & directors own 1.8% (4/06 proxy). President & CEO: Francisco D'Souza. Incorporated: Delaware. Address: 500 Glenpointe Centre West, Teaneck, NJ 07666. Telephone: 201-801-0233. Internet: www.cognizant.com.

capacity for more than 30,000 new employees. These investments will probably be made in special economic zones where the company is expected to receive substantial tax benefits. Also, we anticipate greater geographic expansion in the years ahead, especially since Cognizant recently opened its first development center in South America.

The company's finances are secure. As of the end of 2006, Cognizant had over \$600 million in cash assets and no debt. Furthermore, it is generating solid cash flow that should not only help it to develop more service offerings but also make additional acquisitions in the United States, Europe, and India. Overall, we think that ongoing expansion efforts will be the catalyst for the annual bottom-line advances that we foresee over the 3- to 5-year haul. **Although these shares have pulled back since our February report, they are ranked favorably for year-ahead price performance.** That said, appreciation potential over the 2010-2012 pull is also appealing, but the equity's higher-than-average volatility should be noted.

Randy Shrikishun May 25, 2007

(A) Diluted. Excludes non-recurring impairment loss on investment: '01, \$0.02. Excludes non-recurring gain/(loss): '02, (\$0.08); '03, (\$0.03); '05 \$0.08. Next earnings report in late July.

(B) In millions, adjusted for stock splits.

Company's Financial Strength	B++
Stock's Price Stability	35
Price Growth Persistence	100
Earnings Predictability	95

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