

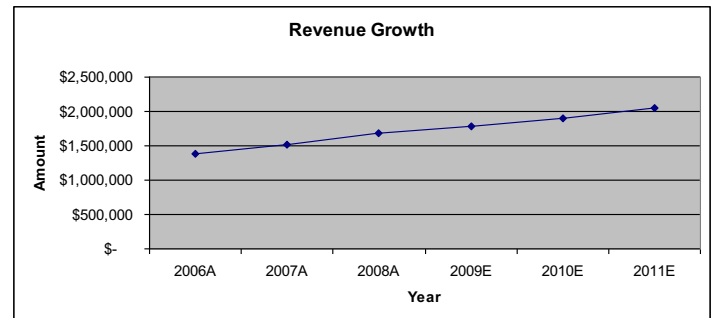


Stock Data		Exchange: NASDAQ	
Company	Cerner Corporation		
Ticker	CERN		
Recommendation	<b>BUY</b>		
Date	3/29/2009		
Current Price (3/27/09)	\$43.75		
Target Price (12/31/09)	\$65.48		
52-Week Range	\$30.37 - \$50.00		
Shares Outstanding (Million)	82.9		
Market Cap (Billion)	\$3.51		
Ratios	Comps	CERN	
TEV (2008)	\$ 10,175,000	\$ 3,119,014	
Forward P/E (2009)	10.00	18.00	
EV/EBITDA (2008)	3.80	6.74	
Profit Margin (2008)	4.44%	11.26%	
Operating Margin (2008)	4.90%	16.64%	
ROA (2008)	6.29%	10.03%	
ROE (2008)	16.74%	14.39%	
Comparables:			
Accenture Ltd., Ingram Micro Inc., Tech Data Corporation, Cisco Systems Inc., Express Scripts Inc., and Medco Health Solutions Inc.			

that Cerner Corporation will take advantage of the increased spending in the industry. The company projects a revenue stream between two and three billion as a result of the stimulus package in the next four year period. We believe that this is a conservative estimate and is appropriate.

It is important to note that Cerner will not directly receive stimulus from the government. The stimulus money will be paid to health care providers who are in compliance with government technology guidelines. To receive this stimulus money the healthcare providers must be compliant and operational by 2011. This will likely not increase revenue stream of Cerner Corporation in 2009. However, the company can expect additional revenue starting in 2010 as healthcare providers work to reach compliance.

## Revenue



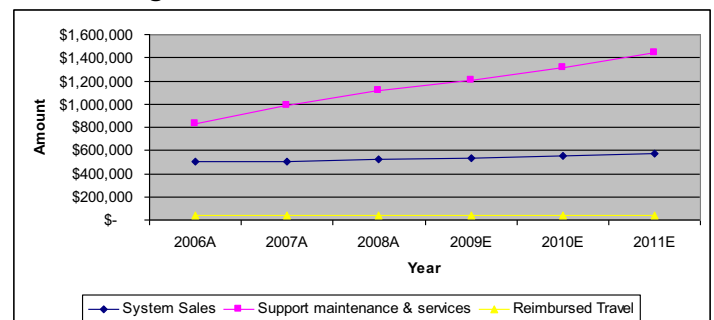
We recommend a **BUY** on Cerner Corporation for the following reasons:

## Investment Thesis

- We believe that Cerner is positioned at the center of the healthcare information technology marketplace. Expected government funding for HCIT will boost revenues for Cerner by as much as three billion dollars in the next four years.
- Cerner's large customer base along with their product and geographic diversity has helped them withstand economic downturn along with decreases in hospital spending.
- Cerner's CareAware strategy, which involves connecting medical devices to the patients' electronic medical records, is starting to roll out revenues. It brought in \$20 million in revenue in 2008 and is expected to continue growth.

We believe the company will continue to grow revenues through 2011. We expect the growth of their revenue to flatten in 2009 and increase thereafter.

## Revenue Segments

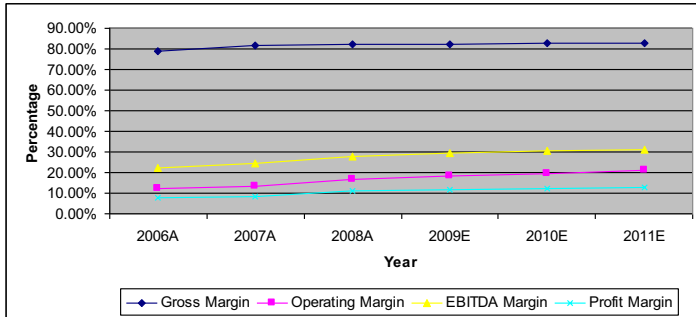


## Economic Overview

We believe that the current economic crisis will last through the middle of 2010 with a small recovery seen starting in the 4th Quarter of 2009. We are of the opinion that the Obama stimulus package will greatly benefit the healthcare industry. As a leader in the industry, we expect

We forecast that a majority of the company's future revenue will come from its support maintenance and services segment. We believe this segment will also be the driver that increases the company's overall revenues.

## Margins



We forecast that the company's margins will improve slightly through 2011. We believe this as the company has traditionally shown the ability to grow revenues faster than expenses. We believe that management will be able to continue this trend in the future.

## Valuation

We performed multiple valuation techniques to determine our target price. The target prices calculated from each method ranged from \$8.26 to \$73.12.

One method we performed was a discounted cash flow. The following graph shows our key assumptions we used with this technique:

DCF Key Assumptions			
Cost of Debt	5.13%	Growth Rate	2.00%
Cost of Equity	8.62%	Tax Rate	33.00%
WACC	8.28%	Market Return	10.00%

According to our forward looking estimates of the company's revenue and margins we believe the company will have positive free cash flows through 2011:

Free Cash Flows (millions)						
	2006A	2007A	2008A	2009E	2010E	2011E
EBITDA	\$ 306.0	\$ 372.0	\$ 462.8	\$ 522.3	\$ 580.5	\$ 644.4
- Cash Taxes	\$ 2.0	\$ 3.1	\$ 2.9	\$ 3.6	\$ 4.5	\$ 5.5
- Capex	\$ 131.5	\$ 180.7	\$ 108.1	\$ 145.9	\$ 153.2	\$ 160.9
- Δ NWC	\$ 21.9	\$ 255.5	\$ (61.1)	\$ 58.4	\$ 60.3	\$ 65.9
- Cash Flow	\$ 150.6	\$ (67.4)	\$ 412.9	\$ 314.4	\$ 362.5	\$ 412.0

Using these estimates in our discounted cash flow model we arrived at a target price of \$73.12. Based on the current stock price of \$43.75, this indicates that the stock is currently undervalued by 67.1%.

## Sensitivity Analysis

To test how our assumptions of growth rate and WACC affected the target price of Cerner Corporation we performed a sensitivity analysis. It should be noted that in all cases we found that Cerner Corporation is currently trading at a discount.

WACC	Growth Rate			
	0.00%	1.00%	2.00%	3.00%
7.28%	\$ 65.10	\$ 74.54	\$ 87.57	\$ 106.67
8.28%	\$ 56.87	\$ 63.90	\$ 73.12	\$ 85.96
9.28%	\$ 50.42	\$ 55.84	\$ 62.74	\$ 71.85

## Exit Multiple

In our discounted cash flow model, we also found a terminal value of the company using our estimated 2011 EV/EBITDA as an exit multiple. Using our expected 2011 EV/EBITDA multiple of 7.64 we calculated a target price of \$57.83. This would indicate that the stock is currently undervalued by 32.2%.

## Relative Valuation

We also performed four relative valuations to calculate a target price of Cerner Corporation. In this analysis the following multiples were used: TEV/EBITDA, P/E, P/B AND P/S. The comparables used in this analysis included Accenture Ltd., Ingram Micro Inc., Tech Data Corporation, Cisco Systems Inc., Express Scripts Inc., and Medco Health Solutions Inc. The target prices calculated in these relative valuations can be seen in the Valuation Summary.

## Valuation Summary

Model	Target Price	Undervalued/(Overvalued)
DCF: 2% Growth	\$ 73.12	67.1%
DCF: 7.64 Exit Multiple	\$ 57.83	32.2%
Relative: TEV/EBITDA	\$ 25.04	-42.8%
Relative: P/E	\$ 28.03	-35.9%
Relative: P/B	\$ 29.85	-31.8%
Relative: P/S	\$ 8.26	-81.1%

When determining our final target price we placed more emphasis on the prices calculated in the discounted cash flow analysis. We did this as Cerner Corporation has traditionally recorded better margins and multiples than the comparables.