CERNER CORPORATION
NDQ-CERN

RECENT PRICE $65.56 P/E RATIO 25.5 TRAILING 27.4 (Medium: 30.4)
RELATIVE P/E RATIO 1.38 DIVIDEND YLD Nil

TARGET PRICE RANGE 2021 2022 2023
160 160 160
150 150 150
140 140 140
130 130 130
120 120 120
110 110 110
100 100 100
90 90 90
80 80 80
70 70 70
60 60 60
50 50 50
40 40 40
30 30 30
20 20 20
10 10 10
0 0 0

Company’s Financial Strength
A+ Stock’s Price Stability 70
Price Growth Potential 75
Earnings Predictability 90
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Cerner Corporation disclosed profitable financial results for the second quarter. The top line came in slightly ahead of our estimate, advancing nearly 6.0%. That said, the year-over-year figures are not necessarily comparable, given the company's move to use a new revenue recognition standard for 2018. Nonetheless, the company posted sequential growth in licensed software, subscriptions, professional, and managed services, and low-margined technology resale, with only a slight decline in support and maintenance (which is not indicative of any particular problem). In addition, contracting activity was healthy, with bookings advancing 23% and benefiting from the initial task contract from the Department of Veteran Affairs. Meanwhile, customers expressed interest across the range of Cerner's products and services in the June period. In this regard, the vendor of clinical information systems and services remained successful attracting business outside its installed base. Finally, as expected, operating expenses reflected the company's current investment phase, and adjusted share earnings essentially met our call.

Our estimates for this year and next are basically unchanged. A glance at the annual estimate array indicates that profitability at the operating level will take a step back in 2018, with the potential for improvement in 2019. This situation reflects Cerner's internal investments to meet the requirements of some large service contracts. At this juncture, the company believes that the rate of the investment is likely to decline in 2019 and beyond, though our projections suggest the operating margins recorded prior to moving more deeply into a services orientation may not return. Nonetheless, earnings growth averaging around 10% seems to be in the cards, even if the company's share repurchase program only offsets stock option exercises.

What about Cerner stock? Investors warmed to the June-period financials, with the stock receiving renewed support. As a result, our projections, which tend to be conservative, suggest new commitments are now less interesting at the recent quote. If the stock is already owned, though, we would continue to hold it. Charles Clark

September 7, 2018