

Cerner Corp



Recommendation



Price

\$51.35 (as of Jan 13, 2017 4:00 PM ET)

12-Mo. Target Price

\$65.00

Report Currency

USD

Investment Style

Large-Cap Growth

Equity Analyst **Jeffrey Loo, CFA**

GICS Sector Health Care
Sub-Industry Health Care Technology

Summary This company is a leading supplier of health care information technology (HCIT) solutions, health care devices and related services.

Key Stock Statistics (Source S&P Capital IQ, Vickers, company reports)

52-Wk Range	\$67.50– 47.01	S&P Oper. EPS 2016E	2.30	Market Capitalization(B)	\$17.592	Beta	0.57
Trailing 12-Month EPS	\$1.89	S&P Oper. EPS 2017E	2.60	Yield (%)	Nil	S&P 3-Yr. Proj. EPS CAGR(%)	12
Trailing 12-Month P/E	27.2	P/E on S&P Oper. EPS 2016E	22.3	Dividend Rate/Share	Nil	S&P Quality Ranking	B+
\$10K Invested 5 Yrs Ago	\$16,683	Common Shares Outstg. (M)	342.6	Institutional Ownership (%)	81		

Price Performance



Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **Jeffrey Loo, CFA** on Nov 07, 2016 01:47 PM, when the stock traded at **\$52.49**.

Highlights

- We expect sales, inclusive of Siemens Health, to rise 8.5% in 2016 to \$4.8 billion, on robust system and services sales, demand for value-based purchasing, accountable care organizations and data analytics. In July 2015, CERN and its partners, Leidos Holdings and Accenture, were awarded a large Pentagon contract, potentially up to \$9.0 billion, but initially worth \$4.3 billion over 10 years. In 2017 we see sales rising 9.4% to \$5.25 billion. We see gross margins rebounding 70 and 20 basis points in 2016 and 2017, to 83.7% and 83.9%, respectively, following the 110 basis point decline in 2015 on lower margin Siemens products. But, we look for operating margin to decline 60 basis points to 23.7% in 2016 on higher costs, but expect a rebound to 24.5% in 2017. Backlog, inclusive of Siemens, rose 11% to \$15.47 billion, as of September 30, 2016.
- In February 2015, CERN completed the acquisition of Siemen AG's Health Systems unit for \$1.3 billion, creating a company with a presence in over 18,000 client facilities. The combination will allow ample opportunities for CERN to significantly expand its global presence.
- We see EPS of \$2.30 and \$2.60 in 2016 and 2017.

Investment Rationale/Risk

- We recently lowered our opinion on the shares to Hold from Buy as we see bookings moderating while backlog conversion extends due to longer-term contracts. We now believe the shares, trading at 20.9X our forward 12-months EPS estimate of \$2.51, near the low end of its five-year range of 20X-38X, are near fair value. However, although the Siemens Health Systems unit is growing slower than we expected, we still view the acquisition positively as this deal positions CERN beyond the meaningful use era with Siemens' extensive presence in numerous countries, including Germany, Sweden, Austria and the Netherlands. We still see solid growth in the Health Care IT industry, and believe CERN is well-positioned to gain market share due to the breadth and depth of its product and service offerings.
- Risks to our recommendation and target price include potential cutbacks in health care funding, including meaningful use funding.
- Our 12-month target price of \$65 is based on a PE of 25.9X our forward 12-months EPS estimate, above peers, but near the low-end of five-year range of 21X-38X.

Analyst's Risk Assessment

LOW **MEDIUM** **HIGH**

Our risk assessment reflects CERN's established market position in the HCIT market and its broad customer base, weighed against a highly competitive environment for its products and services, as well as the risk of technological obsolescence.

Revenue/Earnings Data

Revenue (Million U.S. \$)		1Q	2Q	3Q	4Q	Year
2016	1,138	1,216	1,185	--	--	--
2015	977.9	1,126	1,109	1,158	4,352	
2014	784.8	851.8	850.2	926.0	3,403	
2013	680.0	707.6	727.8	795.3	2,911	
2012	629.7	637.4	676.5	710.4	2,665	
2011	491.7	524.2	571.6	615.6	2,203	

Earnings Per Share (U.S. \$)

2016	0.43	0.48	0.49	E0.61	E2.30
2015	0.32	0.33	0.42	0.48	1.54
2014	0.34	0.37	0.37	0.42	1.50
2013	0.31	0.32	0.33	0.17	1.13
2012	0.26	0.28	0.28	0.32	1.13
2011	0.19	0.21	0.23	0.26	0.88

Fiscal year ended Dec. 31. Next earnings report expected: NA. EPS Estimates based on S&P Capital IQ Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

No cash dividends have been paid.

Past performance is not an indication of future performance and should not be relied upon as such.

Cerner Corp

Business Summary November 07, 2016

CORPORATE OVERVIEW. Cerner Corp. is the largest standalone health care information technology (HCIT) company providing health care information technology solutions and devices and related services to health care organizations and consumers. Domestic (U.S.) revenues account for about 88% of the company's total; however, the February 2015 acquisition of Siemens Health Systems, will expand its international sales.

Revenues are derived from system sales, support, maintenance, and services. System sales includes sales of software, deployment period upgrade rights, installation fees, content subscriptions, transaction processing and hardware and sublicensed software. Support, maintenance and services includes ongoing support and services provided to clients. Services includes professional services excluding installation, and managed services. Reimbursed travel, which includes reimbursable out-of-pocket expenses related to client service activities, accounted for the remaining.

CORPORATE STRATEGY. Cerner intends to increase its market share by providing innovative solutions and services to existing and new clients as well as by capturing some potential clients who wish to upgrade their systems to avail themselves of the incentives offered by the Health Information Technology for Economic and Clinical Health Act (HITECH) provisions of the American Recovery and Reinvestment Act (ARRA).

Cerner, currently operating in over 25 countries, plans to increase its sales outside the U.S. as other countries realize the importance of HCIT. It also expects to increase its market share by making its offerings affordable to smaller community hospitals, critical access hospitals and physician practices, as well as by selling software as a service. It also plans to offer solutions beyond the HCIT market, similar to its current offerings, in the form of clinic, pharmacy and wellness services provided directly to employers.

IMPACT OF MAJOR DEVELOPMENTS. The HITECH provisions within ARRA are expected to drive demand for HCIT solutions, as they provide some \$35 billion of financial incentives to encourage health care organizations to acquire and adopt HCIT. These incentives are available starting in 2011 for eligible professionals, who must qualify by 2012 to receive the maximum incentives of \$44,000 over four years; and for hospitals, who must qualify by 2013 to receive the maximum estimated incentive of \$4 million over four years. Health care organizations are subject to penalties beginning in 2016 if they fail to adopt HCIT. In July 2010, the U.S. Department of Health and Human Services issued a final meaningful use ruling. Hospitals have to meet 14 core requirements, and eligible professionals -- such as doctors and nurse practitioners -- must meet 15 core requirements.

The Centers for Medicare and Medicaid Services (CMS) has decided to define "meaningful use" using three-stage criteria. Stage One will focus on recording health information in a coded format, using the information to track conditions and coordinate care, implementing clinical decision support tools to facilitate disease and medication management, and reporting clinical quality measures and public health information. CMS's goal for Stage Two is to improve the quality of care through the exchange of information in a coded format and interoperability among different electronic health record systems, and for Stage Three to improve quality, safety and efficiency through decision-support tools and patient self-management tools.

FINANCIAL TRENDS. In the three-year period from 2012-2015, sales grew from \$2.66 billion to \$4.4 billion, representing a compound annual growth rate (CAGR) of 18.4%. Operating margins widened from 21.4% in 2012 to 24.2% in 2015, on sales growth and operating leverage. EPS, inclusive of stock compensation expense, grew from \$1.20 in 2012 to \$2.11 in 2015 (accounting for a 2-for-1 share split effective July 1, 2013), representing a CAGR of 20.7%.

Corporate Information

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Chrmn & CEO N.L. Patterson	Pres Z.M. Burke
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Domicile
Delaware

Founded
1980

Employees
22,200

Stockholders
960

Cerner Corp



Quantitative Evaluations

S&P Capital IQ Fair Value Rank	4	1	2	3	4	5
		LOWEST				HIGHEST

Based on S&P Capital IQ's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation **\$58.70** Analysis of the stock's current worth, based on S&P Capital IQ's proprietary quantitative model suggests that CERN is slightly undervalued by \$7.35 or 14.3%.

Investability Quotient Percentile	92
	LOWEST = 1 HIGHEST = 100

CERN scored higher than 92% of all companies for which an S&P Capital IQ Report is available.

Volatility	LOW	AVERAGE	HIGH
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Technical Evaluation **BEARISH** Since September, 2016, the technical indicators for CERN have been BEARISH.

Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2015	2014	2013	2012
Price/Sales	4.85	6.84	6.75	5.11
Price/EBITDA	17.51	23.55	26.36	19.11
Price/Pretax Income	27.02	29.26	33.39	23.17
P/E Ratio	39.15	43.12	49.29	34.28
Avg. Diluted Shares Outstg (M)	350.9	350.4	352.3	351.4

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	31.38	17.36	17.31	12.98
Net Income	2.65	12.69	17.77	20.23

Ratio Analysis (Annual Avg.)

Net Margin (%)	12.39	13.98	14.15	12.75
% LT Debt to Capitalization	11.70	NA	4.19	5.86
Return on Equity (%)	NA	NA	14.72	14.21

Company Financials Fiscal Year Ended Dec. 31

Per Share Data (U.S. \$)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Tangible Book Value	5.36	7.88	6.89	6.36	5.24	4.39	3.55	2.78	2.31	2.34
Cash Flow	2.49	2.07	1.61	1.53	1.27	1.06	0.95	0.86	0.68	0.72
Earnings	1.54	1.50	1.13	1.13	0.88	0.70	0.58	0.57	0.38	0.34
S&P Capital IQ Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Prices:High	75.72	66.45	59.42	44.16	37.20	24.44	21.49	14.95	16.54	12.65
Prices:Low	55.82	48.39	39.36	29.68	23.02	18.01	8.35	7.59	11.03	8.13
P/E Ratio:High	49	44	53	39	42	35	37	26	43	38
P/E Ratio:Low	36	32	35	26	26	26	14	13	29	24

Income Statement Analysis (Million U.S. \$)

Revenue	4,352	3,313	2,911	2,665	2,203	1,850	1,672	1,676	1,520	1,378
Operating Income	1,206	962	745	713	589	480	418	412	303	291
Depreciation	333	199	169	141	133	124	126	96.7	153	125
Interest Expense	11.8	3.99	4.23	5.07	5.34	6.91	8.49	10.6	11.9	0.70
Pretax Income	781	774	588	588	470	362	293	281	204	52.2
Effective Tax Rate	31.0%	32.1%	32.3%	32.4%	34.7%	34.5%	33.9%	33.0%	37.7%	NM
Net Income	539	525	398	397	307	237	193	189	127	110
S&P Capital IQ Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Balance Sheet & Other Financial Data (Million U.S. \$)

Cash	513	1,421	879	1,037	775	571	559	309	345	163
Current Assets	1,828	2,349	1,762	1,791	1,502	1,146	1,146	859	819	746
Total Assets	5,562	4,531	4,098	3,704	3,000	2,423	2,149	1,881	1,690	1,491
Current Liabilities	778	634	640	580	439	306	358	341	288	301
Long Term Debt	513	NA	15.3	30.0	86.8	67.9	95.5	111	178	187
Common Equity	3,870	3,566	3,168	2,834	2,311	1,905	1,581	1,311	1,132	918
Total Capital	4,383	3,580	3,198	2,888	2,437	1,998	1,701	1,454	1,326	1,176
Capital Expenditures	362	277	353	183	105	102	131	108	181	131
Cash Flow	872	724	567	538	440	362	319	285	226	235
Current Ratio	2.4	3.7	2.8	3.1	3.4	3.8	3.2	2.5	2.8	2.5
% Long Term Debt of Capitalization	11.7	Nil	0.5	1.0	3.6	3.4	5.6	7.7	13.4	15.9
% Net Income of Revenue	12.4	15.9	13.7	14.9	13.9	12.8	11.6	11.3	8.4	8.0
% Return on Assets	NA	12.2	10.2	11.9	11.3	10.4	9.6	10.6	8.0	7.9
% Return on Equity	NA	15.6	13.3	15.4	14.6	13.6	13.4	15.4	12.4	13.1

Data as originally reported in Company reports.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Sub-Industry Outlook

We have a neutral fundamental outlook for the health care technology sub-industry for the next 12 months. Our view reflects our belief of moderating benefits from the federal government's Health Information Technology for Economic and Clinical Health (HITECH) Act within the American Recovery and Reinvestment Act of 2009 (ARRA), which offers financial incentives to hospitals and physicians to adopt and utilize health care information technology.

Under the HITECH Act, eligible doctors and hospitals received substantial financial incentives to adopt health care information technology equipment and services. The HITECH Act drove demand for health care IT (HCIT) solutions, as it provided some \$27 billion of financial incentives over five years to encourage health care organizations to acquire and adopt HCIT. These incentives were available starting in 2011 for eligible professionals, who had to qualify by 2012 to receive the maximum incentives of \$44,000 over five years; and for hospitals, which had to qualify by 2013 to receive the maximum estimated incentive of \$4 million over five years. Health care organizations are subject to penalties, including lower Medicare reimbursement rates, beginning in 2016 if they fail to adopt HCIT.

To receive the financial incentives, eligible providers need to attest to "Meaningful Use," defined by the U.S. Department of Health and Human Services and the Center for Medicare and Medicaid Services (CMS). CMS has decided to define "meaningful use" using three-stage criteria. Stage One focuses on recording health information in a coded format, using the information to track conditions and coordinate care, implementing clinical decision support tools to facilitate disease and medication management, and reporting clinical quality measures. Stage Two is to improve the quality of care through the exchange of information

in a coded format and inter-operability, and Stage Three is to improve quality, safety and efficiency through decision-support tools and patient self-management tools. According to CMS, more than 90% of eligible physicians and over 90% of eligible hospitals have attested to Stage One of meaningful use as of August 2016. CMS has paid out \$23.8 billion in incentive payments through October 2016.

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) becomes effective in 2017. MACRA replaces the Sustainable Growth Rate (SGR) formula that determined Medicare Part B reimbursement rates for physicians and replaces it with new payment methods. Under MACRA, providers will not be reimbursed on a fee-for-service basis, but will be paid based on the quality and effectiveness of care (valued-based payment). The Merit Based Incentive Payment System (MIPS) combines various part of the Physician Quality Reporting System, the Valued Modifier and the Medicare Electronic Health Record (EHR) incentive program into one. Under MIPS, reimbursement will be based on quality, resource use, clinical practice improvement, and meaningful use of certified EHR technology.

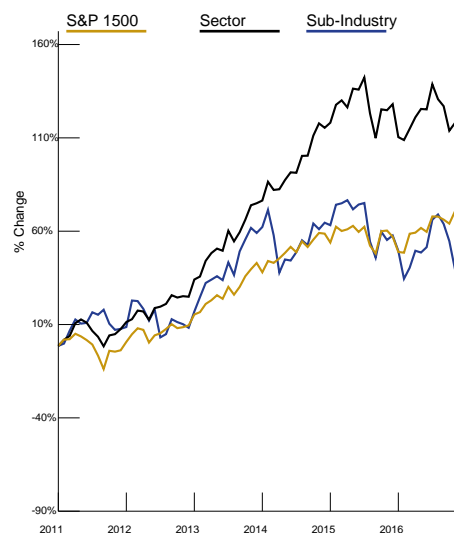
In 2015, the S&P Health Care Technology Index fell 4.1%, vs. a 1.0% decline in the S&P 1500 Index. Year-to-date through December 9, 2016, the S&P Health Care Technology Index declined 13.1% vs. an 11.8% rise in the S&P 1500 Composite Index.

--Jeffrey Loo, CFA

Industry Performance

**GICS Sector: Health Care
Sub-Industry: Health Care Technology**

Based on S&P 1500 Indexes
Five-Year market price performance through Jan 14, 2017



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Past performance is not an indication of future performance and should not be relied upon as such.

Sub-Industry : Health Care Technology Peer Group*: Based on market capitalizations within GICS Sub-Industry

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
Cerner Corp	CERN	17,592	51.35	67.50/47.01	0.57	Nil	27	58.70	B+	92	12.4	11.7
Allscripts Healthcare Solutions	MDRX	2,228	11.73	15.17/9.80	0.99	Nil	NM	14.00	NR	21	NM	30.0
Castlight Health	CSLT	415	4.00	5.50/2.54	NA	Nil	NM	NA	NR	5	NM	NA
Computer Programs & Sys	CPSI	254	23.00	59.16/18.25	0.42	4.2	56	34.10	A-	94	10.1	NA
Cotiviti Holdings	COTV	2,678	34.67	36.44/17.00	NA	Nil	89	NA	NR	23	2.5	56.2
Evolent Health 'A'	EVH	786	18.95	26.84/8.14	NA	Nil	NM	NA	NR	20	343.2	NA
HMS Holdings	HMSV	1,629	18.58	24.00/10.16	0.55	Nil	45	23.70	B	84	5.2	27.4
HealthStream Inc	HSTM	762	24.00	28.84/18.67	1.09	Nil	NM	14.70	B	84	4.1	NA
Inovalon Holdings	INOV	1,647	11.20	20.05/8.60	NA	Nil	40	NA	NR	59	15.1	26.1
Medidata Solutions	MDSO	2,522	52.71	57.85/30.22	0.91	Nil	NM	NA	NR	67	3.4	47.1
NantHealth Inc	NH	5,412	10.00	21.00/9.51	NA	Nil	NM	NA	NR	26	NM	NA
Omniceff Inc	OMCL	1,218	33.35	40.50/25.06	0.93	Nil	NM	NA	B	88	6.4	NA
Quality Systems	QSII	853	13.74	17.28/10.61	0.67	Nil	NM	20.50	B	82	1.2	28.1
Veeva Systems 'A'	VEEV	1,225	44.51	47.95/19.97	NA	Nil	99	42.10	NR	72	13.3	NA
athenahealth Inc	ATHN	4,761	121.01	152.17/90.11	0.96	Nil	NM	102.70	B-	75	1.5	34.1

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Analyst Research Notes and other Company News

December 1, 2016

PerfectServe announced that Greg White has been appointed its Chief Operating Officer (COO) to lead the company's next phase of growth, operations excellence and momentum, expanding its PerfectServe Synchrony" solution to the health enterprise system, ambulatory and post-care provider markets. White is responsible for driving product innovation, sales, professional services, client services, research and development, and network operations. Previously, White was senior vice president and general manager of Allscripts Healthcare Solutions' TouchWorks EMR Division, where his team focused on revenue growth, product quality and Meaningful Use regulatory compliance. He also served in rising leadership roles at Cerner Corporation, most recently as managing director of Cerner Middle East and Africa, Dubai, UAE.

November 2, 2016

09:45 am ET ... S&P CAPITAL IQ LOWERS OPINION ON SHARES OF CERNER CORPORATION TO HOLD FROM BUY (CERN 57.34****): We lower our 12-month target \$11 to \$65 on 25.9X our next 12-months EPS estimate of \$2.51, above peers but at the low end of its 5-year range of 24X-38X on slowing growth. Q3 EPS of \$0.59 vs. \$0.54 is \$0.02 below our estimate. We lower our 2016 and 2017 EPS estimates \$0.05 and \$0.11 to \$2.30 and \$2.60. Sales rose 5%, slightly lower than we expected on softer system sales, down 7%, and technology resales, down 21%. Bookings of \$1.43B were the second highest in CERN's history, but down 10% and below our expectations. We see CERN gaining share but think industry growth is slowing. /Jeffrey Loo, CFA

August 3, 2016

01:01 pm ET ... S&P GLOBAL REITERATES BUY OPINION ON SHARES OF CERNER CORPORATION (CERN 66.24****): We raise our 12-month target \$11 to \$76 on 30.3X our forward 12-months EPS estimate of \$2.51, above peers but within its 5-year range of 24X-38X. Q2 EPS of \$0.58 vs. \$0.52 is \$0.01 ahead of our estimate. Sales rose 8%, in-line with our growth forecast, and we view 9% growth in bookings, as solid. Only 28% of bookings came from long term contracts compared to 35% a year ago, which should drive near term sales. We believe CERN continues to gain market share, particularly in the electronic health records replacement market and in international markets. /Jeffrey Loo, CFA

July 20, 2016

Cerner Corporation announced that Jeff Hurst will join the company on Sept. 1, 2016 as senior vice president, Cerner Revenue Cycle Management and president of Cerner RevWorks. Hurst is currently the senior vice president of finance at Florida Hospital, where he directs all financial and clinical revenue cycle functions. Additionally, Hurst has responsibility for key organizational strategies, including capacity and throughput, ED utilization, care coordination, patient advocacy and pricing transparency. Jeff has worked at Florida Hospital for more than 19 years and has previously served as senior vice president of fiscal services, vice president of revenue management, assistant vice president of revenue management and director of patient financial services. Prior to joining Florida Hospital, Jeff spent 10 years serving in the United States Air Force.

May 6, 2016

09:27 am ET ... S&P GLOBAL KEEPS BUY OPINION ON SHARES OF CERNER CORPORATION (CERN 55.46****): We lower our 12-month target \$5 to \$65 on 26.7x our forward 12-months EPS estimate, above peers but at the low end of its 5-year range of 24x-38x. Q1 EPS of \$0.53, vs. \$0.45, is \$0.01 below our estimate. Q1 sales rose 14%, slightly below our forecast on a decline in technology resale. Bookings of \$1.17B were flat and met our forecast, but was at the low-end of CERN's guidance. But we believe CERN is making good progress in diversifying its client base and is gaining market share. CERN Q2 bookings guidance of \$1.35B-\$1.48B is up 10% at the mid-point. Backlog rose 12% to \$14.6B. /Jeffrey Loo, CFA

February 17, 2016

09:58 am ET ... S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF CERNER CORPORATION (CERN 55.46****): We lower our 12-month target \$10 to \$70 on above peers 29.8X our revised 2016 EPS estimate of \$2.35, down \$0.11, but near the mid-point of its 5-yr range of 24X-38X. We also lower our 2017 EPS \$0.25 to \$2.71. Q4 EPS of \$0.61 vs. \$0.47 is \$0.03 ahead of our estimate. Sales rose 27% and bookings rose 16% to \$1.35B, driving full year 2015 booking to \$5.43B, up 28%. However, Q4 bookings were below our forecast as an ITWorks deal and a large professional services contract didn't close. We anticipate these deals closing in

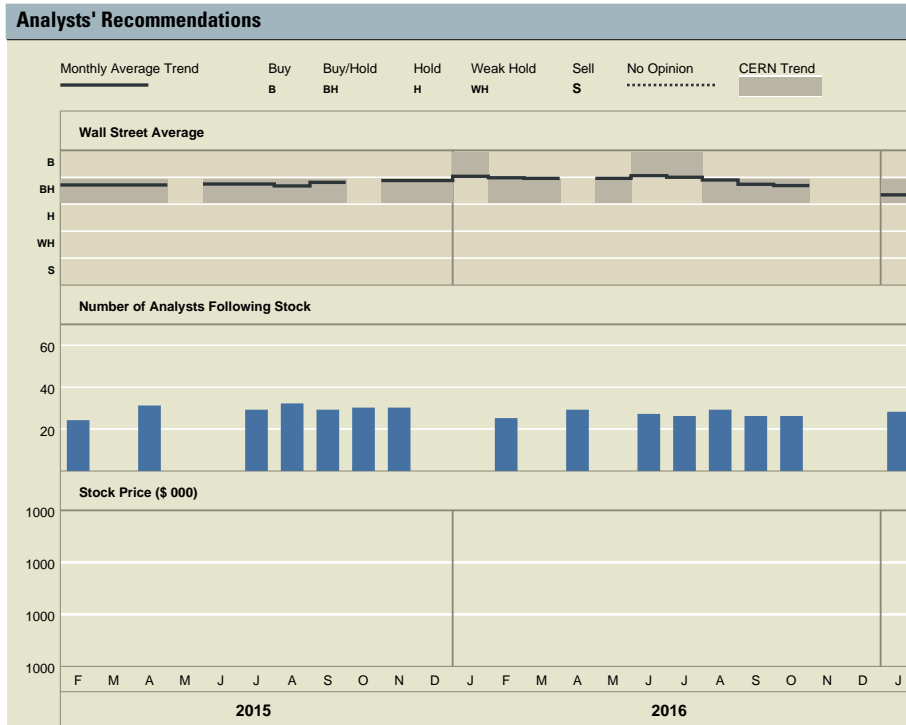
future quarters. CERN guides 2016 EPS of \$2.30-\$2.40. /Jeffrey Loo, CFA

November 3, 2015

05:27 pm ET ... S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF CERNER CORPORATION (CERN 66.09****): We keep our 12-month target price at \$80 on above peers 1.7X PEG ratio, warranted on faster growth. Q3 EPS of \$0.54 vs. \$0.42 is in-line with our estimate. We lower our 2015 EPS estimate \$0.01 to \$2.09. Q3 Bookings increased 44% to \$1.59B and CERN guides Q4 bookings of \$1.45B-\$1.55B, up 29% at its mid-point. However, we expect the shares to be under pressure tomorrow as CERN guides 2016 EPS of \$2.30-\$2.40, which is below our forecast of \$2.52, on sales above \$5 billion. We lower our 2016 EPS estimate \$0.06 to \$2.46 as we note CERN typically provides conservative guidance. /Jeffrey Loo, CFA

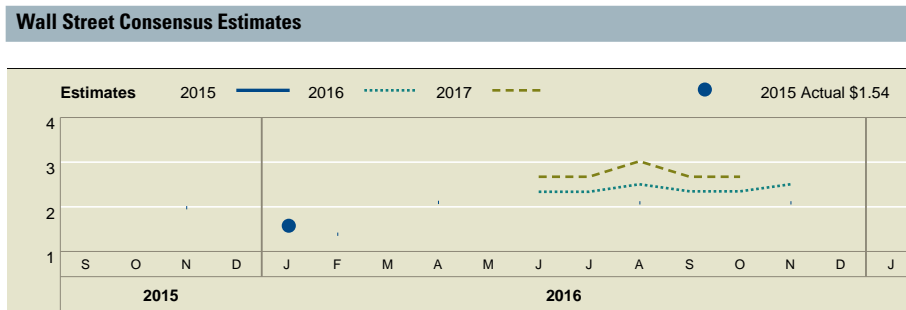
August 5, 2015

09:15 am ET ... S&P CAPITAL IQ MAINTAINS BUY OPINION ON SHARES OF CERNER CORPORATION (CERN 70.32****): We keep our 12-month target price at \$80 on above peers 1.7X PEG, on faster growth. Q2 EPS of \$0.52 vs. \$0.40 is in-line with our estimate, but sales, including recently acquired Siemen's Health System, rose 32% was below our 40% growth forecast on lower service revenue and higher percentage of long term contracts that take longer to ramp up sales. Bookings rose 20% to \$1.29B driving backlog up 37%, and encouragingly, included a record number of new clients. CERN and its partners won the large pentagon contract, potentially up to \$9.0B, but initially worth \$4.3B over 10 years. /Jeffrey Loo, CFA



Of the total 27 companies following CERN, 27 analysts currently publish recommendations.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	11	41	0	14
Buy/Hold	5	19	0	3
Hold	9	33	0	9
Weak Hold	1	4	0	0
Sell	1	4	0	0
No Opinion	0	0	0	0
Total	27	100	0	26



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2017	2.57	2.68	2.45	26	20.0
2016	2.30	2.32	2.29	25	22.3
2017 vs. 2016	▲ 12%	▲ 16%	▲ 7%	▲ 4%	▼ -10%
Q4'17	0.68	0.74	0.64	14	75.5
Q4'16	0.61	0.62	0.60	24	84.2
Q4'17 vs. Q4'16	▲ 11%	▲ 19%	▲ 7%	▼ -42%	▼ -10%

A company's earnings outlook plays a major part in any investment decision. S&P Capital IQ organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- Argus Research Company
- Avondale Partners
- Barclays
- BofA Merrill Lynch
- Canaccord Genuity
- Cantor Fitzgerald & Co.
- Citigroup Inc
- Cowen and Company
- Deutsche Bank
- Evercore ISI
- Goldman Sachs
- Hilliard Lyons
- JP Morgan
- Jefferies LLC
- KeyBanc Capital Markets Inc.
- Leerink Partners LLC
- Morgan Stanley
- Morningstar Inc.
- Oppenheimer & Co. Inc.
- Piper Jaffray Companies
- Raymond James & Associates
- Robert W. Baird & Co.
- Stifel
- SunTrust Robinson Humphrey, Inc.
- UBS Investment Bank
- Wells Fargo Securities, LLC
- William Blair & Company L.L.C.

Wall Street Consensus vs. Performance

For fiscal year 2016, analysts estimate that CERN will earn US\$ 2.30. For the 3rd quarter of fiscal year 2016, CERN announced earnings per share of US\$ 0.49, representing 21% of the total annual estimate. For fiscal year 2017, analysts estimate that CERN's earnings per share will grow by 12% to US\$ 2.57.

Glossary

S&P Capital IQ STARS

Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has ranked Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Capital IQ Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

S&P Capital IQ EPS Estimates

S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Capital IQ Core Earnings

S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

S&P Capital IQ 12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Capital IQ Fair Value.

S&P Capital IQ Equity Research

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Abbreviations Used in S&P Capital IQ Equity Research Reports

CAGR - Compound Annual Growth Rate
 CAPEX - Capital Expenditures
 CY - Calendar Year
 DCF - Discounted Cash Flow
 DDM - Dividend Discount Model
 EBIT - Earnings Before Interest and Taxes
 EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

EPS - Earnings Per Share
 EV - Enterprise Value
 FCF - Free Cash Flow
 FFO - Funds From Operations
 FY - Fiscal Year
 P/E - Price/Earnings
 P/NAV - Price to Net Asset Value
 PEG Ratio - P/E-to-Growth Ratio
 PV - Present Value
 R&D - Research & Development
 ROCE - Return on Capital Employed
 ROE - Return on Equity
 ROI - Return on Investment
 ROIC - Return on Invested Capital
 ROA - Return on Assets
 SG&A - Selling, General & Administrative Expenses
 SOTP - Sum-of-The-Parts
 WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

S&P Capital IQ Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STAR (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STAR (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STAR (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STAR (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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STARS Stock Reports:

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of September 30, 2016

Ranking	North America	Europe	Asia	Global
Buy	25.0%	29.3%	16.1%	24.6%
Hold	50.6%	53.7%	77.4%	54.7%
Sell	24.4%	17.0%	6.5%	20.7%
Total	100%	100%	100%	100%

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