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CERN.OQ - Q2 2021 Cerner Corp Earnings Call

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OVERVIEW:

Co. reported 2Q21 revenue of $1.46b and 2Q21 adjusted diluted EPS of $0.80. Co. expects full year revenue to grow by mid-single digit and 3Q21 revenue growth of approx. 6% vs. 3Q20. Co. also expects full year 2021 adjusted diluted EPS to be approx. $3.25 and 3Q21 adjusted diluted EPS growth of 12-15% vs. 3Q20.

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PRESENTATION

Operator

Welcome to Cerner Corporation's Second Quarter 2021 Conference Call. Today's date is July 30, 2021, and this call is being recorded. I'd now like to turn the call over to your host, Allan Kells, Senior Vice President, Investor Relations.

Allan Kells - *Cerner Corporation - Senior VP, IR*

Thank you. Good morning, everyone, and thank you for joining us. On the call with me today are Brent Shafer, Chairman and CEO; Mark Erceg, our Chief Financial Officer; Don Trigg, our President; and Travis Dalton, our Chief Client and Services Officer. Brent will begin the call with observations on our business and marketplace, then hand it over to Mark to provide more detail on our results and outlook. We'll then transition to Q&A and be joined by Don and Travis.

Before we start, I'd like to remind you that our comments will contain forward-looking statements, including projections for our business and other statements about future events. These comments are based on our current expectations and assumptions and are subject to risks and uncertainties. Our actual results could differ materially from those indicated by our forward-looking statements due to those factors identified in our earnings release which is posted to the Investors section of cerner.com and other filings with the SEC. Cerner assumes no obligation to update forward-looking statements or information, except as required by law.

We will also be referring to adjusted or non-GAAP financial measures on this call for a discussion of operating margin, earnings per share and free cash flow. A reconciliation of non-GAAP financial measures to GAAP financial measures can be found in our earnings release. These non-GAAP financial measures are not meant to be a substitute for or superior to financial measures prepared in accordance with GAAP. With that, I'll turn the call over to Brent.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Allan, thanks very much, and good morning, everyone. On our last call, we talked about our sharpened focus and increased sense of urgency to deliver value to our clients and shareholders. And as Mark will discuss, this increased focus and urgency helped us deliver very solid results in the second quarter.

All key metrics reflected good progress on our transformation initiatives and a strengthening market presence. And based on this progress, we have increased our earnings outlook for the year again. What pleases me most is that as we undergo our transformation, we're maintaining an unwavering focus on client success, which is truly our North Star.

Our key initiatives, which include product rationalization, driving operating efficiencies and continuing to refine our operating structure, all revolve around creating client value through accelerated innovation. And we expect these same efforts to also drive sustainable and profitable growth that should create value for our shareholders.

I'd like to share some examples of progress we're making. Through improved focus and structure in our client organization, Travis and his team have grown our sales funnel and improved sales and client relationship management resulting in 24 new client footprints so far this year while reducing client attrition.

We've also improved our overall Net Promoter Score by 5 points and have delivered 49 major client go-lives. Don and his team have made meaningful progress on several fronts as well, including advancing our product rationalization work which is creating better focus and freeing investment dollars for products that create the most value for clients and driving good sales and go-live activity in key areas such as real-time health, behavioral health, consumer, health network and data, with the progress in data space including a successful onboarding of Kantar Health during the second quarter.

Now in our technology organization, Jerome Labat, who is our CTO, has made good progress on solution and platform modernization, including being ahead of schedule on migrating CareAware to the cloud, also improving our ambulatory solution and increasing the scale of CommunityWorks, all while maintaining 99.99%, 4 9s of incident free time for our clients. He's also advanced our digital factory, which is a set of capabilities and services that power the product life cycle from initial requirements to building, delivering and running our products.

This important work should drive R&D efficiencies, improve quality, increase innovation velocity and speed to market and lower cost of running and supporting our products. These leaders have made this progress while also delivering cost savings through restructuring and flattening their organizations, centralizing functions and also implementing tools to increase efficiency and improve the way we are running our business. And further, Tracy Platt, our Chief Human Resources Officer, has helped us navigate these changes while staying focused on culture and ensuring Cerner remains a great place to work. Now this is reflected in being named one of the world's best employers by Forbes. And we've also just recently received recognition by Forbes as one of the top 60 best employers for diversity. And also for being among the best employers for women.

In summary, we continue to make very good progress, both inside Cerner and in the marketplace. Our products and services are well aligned with our clients' needs as they face pressure to control operating costs, address provider burnout, meet increasing consumer demands, expand service lines and also to build networks to improve performance in the evolving reimbursement environment.

Now I'd like to provide an update on our federal business. The Department of Defense continues to move at full speed with deploying MHS GENESIS, their Cerner-powered EHR. In late April, DoD went live with Wave Carson, which included 25 military treatment commands, 148 physical locations across 11 states and 2 time zones. In total, the DoD is now live at 42 commands, 663 locations, with more than 41,000 activated users; demonstrating that the system can be deployed at scale and on schedule. And later this year, DoD plans to go-live at facilities in Hawaii and the U.S. Coast Guard has planned go-lives for both their Pacific and Atlantic waves, which will complete the Coast Guard deployment as planned.

Moving to the Department of Veterans Affairs. The VA recently completed their strategic review, which we strongly supported, and issued a comprehensive report. And importantly, the findings were generally not technology-related. Instead, they were more focused on governance, training and site readiness and were consistent -- highly consistent with the findings of our own internal assessment conducted earlier this year.

We're working very closely with the VA on the project plan and ensuring we properly address all identified issues so we can deliver a lifetime of seamless care for our veterans. Secretary of Veterans Affairs, Denis McDonough has reiterated his commitment to the program and to Cerner and, in return, Cerner has reiterated our commitment to the VA and our nation's veterans. And while the VA finalizes their new governance and management structure, we will continue our pre-deployment efforts, including technical development and enhancements, solution readiness and site preparation, but no further go-lives are expected until 2022. And as a result, we now expect another half point of impact on our 2021 revenue growth, which is reflected in our updated guidance for the year.

Now before turning the call over to Mark, I'd like to quickly comment on the status of my transition and the search for a new CEO. The search process has been very active since we announced it last quarter. And as you can imagine, it is difficult to provide an exact timeline given the sensitivity and importance of the search, but I believe the Board is making very good progress. I personally remain actively engaged and believe the team has been executing very well. So I'm confident we will continue to advance our key initiatives as the search continues. And as a result, I believe my successor will step into the role with Cerner well positioned for success.

In summary, I'm very pleased with Cerner's progress so far this year. We have demonstrated the ability to execute on near-term deliverables while also driving meaningful organizational change that is positioning Cerner to realize our potential and to have a much bigger impact on health care. Mark, I'll turn it over to you.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Thanks, Brent. Good morning, everyone. Today, I'll cover our second quarter results and provide a guidance update.

Overall, we are pleased with our second quarter results. Bookings were up 2% versus a year ago to $1.36 billion, which brings year-to-date bookings growth to 7%. Importantly, we believe this represents a positive inflection point since total bookings were down during fiscal 2019 and fiscal 2020. The higher rate of bookings added to our revenue backlog, which ended the second quarter at $13.2 billion, which is 1% up sequentially and down slightly versus a year ago, due primarily to divestitures.

Revenue of $1.46 billion was up 10% over the year ago quarter, which was admittedly heavily impacted by COVID. The increase in revenue was driven in large part due to strong growth in federal services. In addition, it is worth noting that virtually all of the growth we experienced during the second quarter was organic, with $45 million of incremental revenue from the Kantar Health acquisition being largely offset by $39 million of divested revenue.

Gross margin was down 200 basis points from a year ago at 82.1%, primarily due to the mix of revenue in the quarter. Specifically, higher levels of lower-margin technology resale, third-party services and reimbursed travel. Adjusted operating margin, however, expanded 220 basis points from 18.4% to 20.6%, driven primarily by tight expense control and a negatively impacted year ago margin due to COVID.

Now to build on this progress, we took bold action across our largest spend pools during the second quarter. For example, we incurred $54 million of employee separation costs due to a sizable reduction in force related to productivity improvements we recently implemented. We also incurred a charge of $68 million to reduce the properties line on our balance sheet to fair value in connection with the sale of 1 property and the designation of 2 other properties as held for sale. Since the start of the year, we have sold 260,000 square feet of office space and have earmarked an additional 750,000 square feet of space for future sale. Lastly, we recorded a charge of $48 million to reduce the carrying amount of certain capitalized software development costs to estimated net realizable value as part of our comprehensive product portfolio rationalization work, which is designed to improve over time, the return on our nearly $800 million annual R&D investment. Each of these actions and the related charges are captured in our reconciliation of GAAP to non-GAAP results. These actions are also consistent with our previously communicated efforts to operate more efficiently, drive more value for clients and better position Cerner for sustainable, long-term profitable growth.

Wrapping up the P&L, adjusted diluted EPS was $0.80 per share, which is up 27% over last year due to stronger adjusted operating earnings, a lower non-GAAP tax rate and a lower share count.

Moving to our balance sheet. We ended Q2 with $885 million of cash and short-term investments, which is down from $1.47 billion last quarter. There are 2 things that account for the change: first, we used $350 million to close on the Kantar Health acquisition; second, we spent $400 million on share repurchases during the quarter, which brings our purchases through the end of the second quarter up to $750 million.

We have been using a large portion of our excess cash and short-term investments throughout the year to repurchase shares because we continue to believe that Cerner stock at current trading levels represents a good return on investment for our shareholders. Sequentially, our quarter ending debt position was unchanged versus Q1 at $1.84 billion.

Operating cash flow for the quarter was $369 million. After $123 million of capital expenditures and $84 million of capitalized software, free cash flow came in at $162 million. This brings year-to-date free cash flow to $453 million, which is more than double the amount we generated during the same period last year. The significant increase in year-to-date free cash flow was driven by strong operating cash flow growth against a COVID impacted first half of 2020.

Moving to guidance. We expect revenue in Q3 to grow approximately 6% compared to Q3 of 2020. This includes just over $40 million of revenue from Kantar Health, slightly offset by a partial quarter of impact from a 2020 divestiture, bringing third quarter organic growth to the low to mid-single-digit range.

For the full year, we continue to expect mid-single-digit revenue growth. This range is consistent with our prior guidance, but we do now expect to be approximately a half point lower within that range due to the impact of the VA assessment that Brent discussed during his prepared remarks.

Despite our slightly lower revenue expectations, we are confident in our ability to more than offset this top line impact with ongoing expense control as reflected in our enhanced EPS outlook.

That outlook calls for third quarter adjusted diluted EPS growth of 12% to 15% over Q3 of 2020.

And for the full year, we now expect adjusted diluted EPS to be approximately $3.25, reflecting growth of about 14% over last year and up from our prior guidance of more than $3.20 per share.

For the third and fourth quarters, we expect our tax rate to be approximately 19% to 20%, and we expect to generate approximately $900 million of free cash flow for the full year, up from $857 million last year.

Finally, we remain on track to repurchase up to $1.5 billion of stock this year, which we believe will make better use of our strong balance sheet and free cash flow while still maintaining ample access to capital to fund high-return organic growth opportunities and potential future acquisitions provided, of course, that those acquisitions are attractive both strategically and financially.

In summary, I am pleased with our second quarter results and believe the work we have done and are continuing to do will position us and our clients for success in the second half of 2021 and beyond. We are making good progress against our strategic focus areas behind disciplined operational execution during a time of significant change.

Personally, I am very proud and genuinely appreciative of the dedication and professionalism we are seeing each and every day from Cerner associates all around the world, and I want to take a moment to thank all of them on behalf of Cerner's entire executive leadership team. With that, I'll turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Elizabeth Anderson with Evercore.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

I guess I got a question about the overall demand environment. One, can you talk about sort of how hospitals are engaging at this point and where we are with COVID? And two, can you talk about the confidence in the top line in the back half of the year? What are you seeing in different sectors? What's resonating with clients? That would be helpful.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Yes. Let me ask Don and then Travis to comment a little bit.

Donald D. Trigg - *Cerner Corporation - President*

Elizabeth. So one, I think, as you've seen from some of the investor-owned provider organizations that have reported out, and I think they track with our conversations with CEOs in the market. I think volume levels are returning to pre-COVID levels. And so people are feeling good about core aspects of the business on the provider side and how it's recovering from the disruption last year. I think, at the same time, sort of watching with the weary eye as the Delta variant plays forward and certainly disrupt certain hotspots. So I think broadly, volumes feel good. There's a lot of areas, I think, that have momentum and focus, some of which Brent articulated in his script, I think, a lot of interest in real-time hospital strategies in part because of the workforce disruption that they're dealing with, with their providers. Strong and ongoing interest in consumer strategies. As I've had to think through now what that is going to look like in a post-pandemic new normal. And then I think interestingly, a lot of conversations and active conversations about value-based care and how they want to think about a business model going forward, particularly as it relates to areas such as Medicare Advantage. So it's an interesting landscape. I think people feeling good in the main about how they've recovered in the first half and asking, I think, some questions about where they want to take the business that create real opportunities for us.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Great. Travis, do you want to add to that?

Travis S. Dalton - *Cerner Corporation - Executive VP, Chief Client & Services Officer and President of Cerner Government Services*

Yes. Thanks, Brent. Thanks, Don. Yes, I think our ability to be confident in the top line the work we're doing is directly related to our ability to meet our clients' needs. Brent had noted some of those in the script. Don reiterated that. My goal and our focus really is on improving our funnel health. So we're focused on sufficiency of the funnel velocity through our sales process and growth of that funnel. I think we've got improved process discipline and inspection inside of our business and our forecast processes. And so we're really working to underpin our plans and our forecast with tools, automation and discipline. And that will give us greater confidence as we move in visibility to the top line forward. I think Don is spot on. I mean we're seeing in our U.S. client base, though the first half was some challenges in our federal business, although I'm confident in that business holistically moving forward. But we were able to perform well in our U.S. client business in globally. And so we see good opportunities and a large expansion and extension base inside of our U.S. client. We're focused on that. We see great opportunities to campaign around client value with our strategic growth businesses and products. I think there's buying opportunity in CommunityWorks that we expect to go and be aggressive and win. And then our federal business and global business has been very robust this year as we've had great wins in the Middle East, U.K. and other parts of the globe in Canada. So I'm confident in the second half of the year. I think we've accurately reflected the nature of the federal business and been transparent about that. And so I think it's underpinned well and resilient, and we'll continue to move forward.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. And then maybe just as a follow-up. Is there anything to think about in terms of pacing of the gross margin line in the back half of the year between the third and fourth quarter?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

I think what I would say is that I expect to see those relatively comparable in the both third and fourth quarter.

Allan Kells - *Cerner Corporation - Senior VP, IR*

And one thing to note on gross margin is Kantar uses a fair amount of third-party services and about 80% of the revenue is services. So that's just a location on the P&L issue. So it's really -- they're overall upper teens margin at the operating margin, but it does dilute at the gross margin level just a little bit.

Operator

Our next question comes from Sandy Draper with Truist Securities.

Alexander Yearley Draper - *Truist Securities, Inc., Research Division - MD of Equity Research*

Just wanted to see if I could get a little bit more color on the comments that you brought up about looking at potential M&A strategic and financial. One, I guess, do you have specific financial targets that you're willing to share, whether it's ROIC revenue, contribution, earnings accretion and anything along those lines. And then I would assume, strategically, they would be primarily focused on the new strategic growth areas, but just any other commentary maybe from Don or whoever else on that line would be great.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Yes. As far as the criteria, I think we articulated 4 in the first earnings call, we said that for us to action something, it would have to enhance our competitive position in the marketplace, first and foremost. Second, it would have to exceed our cost of capital. Third, it would need to be accretive over time. And then fourth, we would have to clearly create shareholder value. As far as like where we might be looking currently, I will defer to Don at this point.

Donald D. Trigg - *Cerner Corporation - President*

And so, one, I think if you just think about the core enterprise business, I think we like aspects of that space of areas like cyber and cybersecurity are areas where we've seen traction inside both our native strategies and some of our third-party partner strategies in that space. I think once you move outside the 4 walls, we -- as I said earlier, I think there's a lot of traction and trend around provider network and what it looks like to make those operate in an integrated fashion for fee-for-service and fee-for-value. So that's an area we like quite a bit. And then I think the Kantar post-close integration work has given the team a very good view of what the opportunity set looks like in the data space, and that's an area where I think we'll look to take a hard look at how inorganic acquisition can help us go faster.

Operator

Our next question comes from Donald Hooker with KeyBanc.

Donald Houghton Hooker - *KeyBanc Capital Markets Inc., Research Division - VP & Equity Research Analyst*

Yes, I just wanted to maybe hear maybe a little bit more on the VA, as we think about maybe next year, is the hope -- can you maybe just elaborate on all the moving parts of the VA. It seems like you lost some revenue due to the pause in deployments, but it sounded like there are some other stuff you're doing that maybe offset that? And can we -- what do you think about next year? We're going to get back to a normal cadence? Can you just elaborate your thoughts there.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Travis, will let you take that.

Travis S. Dalton - *Cerner Corporation - Executive VP, Chief Client & Services Officer and President of Cerner Government Services*

Yes, absolutely happy to take it. Thanks for the question. I always appreciate the opportunity to discuss the business. I think about our federal business holistically. It is encompassed by DoD, VA and other opportunity. As Brent noted, we're very pleased with the DoD space. I mean, that Wave Carson go-live was probably the single largest go-live that we've ever had in my 20 years that I've seen in the industry. And so we're moving forward very well with DoD, which bodes well for us as it relates to our VA business as well. For those that can recall, and I was on the journey, we -- after our Fairchild go-live with DoD, we are in a similar position to we are -- to what we are in VA. And we took about 12 months to work on a lot of the similar things we're working on at VA. And so as Brent noted in his opening remarks, the strategic assessment wasn't a surprise to us. We supported it. We both need to be ready to move forward collectively. And as the administration came in and the Secretary, the Deputy Secretary who we've spoken to and expressed mutual support have come in, we're really going to be focused on governance, training, site readiness, change management. To your question directly, I think on the second half, we expect to continue to do value-add work. We've got opportunities and we've got backlog service work that we're doing. We've got readiness assessments that we'll be doing. We'll be doing technical and solution configuration and deployment. So it will all be very productive work in support of going forward in '22. We've noted the wave impact to the right. I'll also note that the VA contract is a 10-year IDIQ contract. The revenue opportunities and the other opportunities aren't lost. Those are deferred into out years. I expect that we'll exit this year with a good plan with better alignment at the agency level with governance collectively. And we'll start to move into wave activity and go-live activity in '22. And then I really think we'll start to hit industrial strength and pick up in '23, '24 and beyond similar to like we did on the DoD business.

Donald Houghton Hooker - *KeyBanc Capital Markets Inc., Research Division - VP & Equity Research Analyst*

Okay. And I'll just ask one follow-up on that. That's good clarity. And then would you -- you may not know the answer to this, but just your -- any thoughts you have would be interesting. Just do you think there would be a catch-up, maybe they sort of delayed some of the deployments where we could get maybe kind of more of a bolus in some future period because maybe they want to keep the overall timetable stable. What do you think about that?

Travis S. Dalton - *Cerner Corporation - Executive VP, Chief Client & Services Officer and President of Cerner Government Services*

Yes. I think our goal is to finish the program on time and on budget on a 10-year basis, as we've noted collectively. I think that, as I noted, '22, we'll see continued increased activity. And our hope and our goal with VA is similar to DoD is to speed up activity and be able to do more than we originally planned in out years. When and exactly how that comes together, I can't say it today, but that is our expectation. That is our goal in the middle of the program.

Operator

Our next question comes from Anne Samuel with JPMorgan.

Anne Elizabeth Samuel - *JPMorgan Chase & Co, Research Division - Analyst*

Mark, I was wondering if you could maybe quantify some of the expense reduction actions that you took in the quarter for the model. And then also, is there anything else that you think that there is left to do, any low-hanging fruit?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No, I appreciate the question. So we talked about 3 principal items. One was the $48 million charge for the capitalized R&D, and this is related to the optimization work we're doing on the portfolio itself, where there's a lot of redundant products and features, and we're finding ways to drive that into a more normalized state. That probably has about $8 million to $9 million of annual savings associated with it. On the property side, we talked about the $68 million adjustment there to bring the 1 property that we're marketing largely in line with fair value based on the assessments that we've had done and the appraisals that we've received. That's probably going to save us about $10 million annually between depreciation and operating costs. At this point, we plan to action roughly 15% of our total owned office space. We had about 6.5 million square feet before the actions we took. And as I cited, we sold 260,000 square feet of space and we now have another 750,000 square feet that is being marketed for sale. And then on the reduction in force, we talked about a $54 million charge. That covered a little bit north of 500 people. We also eliminated about 300 open positions. And normally, what you see in something like that is that the annualized savings is roughly equal to amount of the severance cost themselves. So maybe call that an additional $50 million. So between those 3 items, that's probably about $70 million of annualized savings that we've been able to capture.

Anne Elizabeth Samuel - *JPMorgan Chase & Co, Research Division - Analyst*

That's really helpful color. And then I guess, as you think about cost -- streamlining the cost structure going forward. Is it still fair to think about low double digits, is the target for bottom line growth? Or do you think that you can achieve something higher on mid-single-digit revenue growth?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No, I think that's probably right. When you look at it all in, and you look at what we're doing with respect to the balance sheet, right, where we should be able to increase our dividend payout ratio a little bit each year, where we should be able to continue to buy back shares at attractive prices and where we should be able to monetize that mid-single-digit revenue growth by expanding margins towards our goal of being in the mid-20s by fiscal '24. Yes, I think that low double-digit EPS progression is just about right.

Operator

Our next question comes from Charles Rhyee with Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes. Maybe just thinking about -- I think this summer is the start of the enforcement of interoperability rules across the industry. Can you talk about sort of the readiness for your clients? And what does that -- what kind of extra services are they looking from you guys to help them comply with all the new rules coming through? And then secondly, particularly as it relates to your data business, can you talk about what kind of opportunities this has created for you particularly as you integrate Kantar into the business? And maybe just a little bit more around that area.

Donald D. Trigg - *Cerner Corporation - President*

That is a fantastic question. So one, I think we have been making some material investments around 21st Century Cares and what it looks like for our end-to-end product set to be fully compliant with it. I think clients are early in terms of really thinking through magnitude and impact of those changes which are not just technical in nature, but as your question implies, also has big implications for them in terms of how they think about master data management across their enterprise assets and their provider network. So I think we're early in that conversation with our clients and they're kind of thinking around it. I think it sets up a ton of business opportunities for us. So first and foremost, it's a good example of where the relevance of our technology assets to a regulatory action make us center -- front and center in terms of how clients need to think about their strategies and approach. So we're right in the middle of that conversation, and we're relevant to it by definition. It then sets up some of those growth opportunity dialogues that I described earlier, it has been thinking about cyber and how they want to think about security risks associated with data management. It has been thinking about near real-time data strategies for how they tackle things like capacity management workforce. And importantly, it has them thinking about the role of data, not just in terms of transforming their hospital operations, but also larger commercial opportunities for provider organizations in that space. So it's a great example of where if we can be smart around regulatory landscape, understand it better than early-stage companies or big tech companies who want to get into this vertical and then have the right conversations with our clients. It can be a huge tailwind for us from a booked revenue and revenue perspective over the next 36 months.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

That's helpful. And just a follow-up there. And you kind of alluded to it as that with these changes, it does kind of even up the vertical to other players who have not traditionally been in health care, let's say, new startups and big tech where they don't have to have that the integration part is made a lot easier, I guess. What does the competitive landscape look like right now? And do you find that your clients are coming to you first before looking out? Or is it that you are hearing lots of different new competitors coming in and pitching our existing client to talk about services they can now start to provide. What does that landscape kind of look like today?

Donald D. Trigg - *Cerner Corporation - President*

Well, look, there's a lot of noise. I agree with you there. But I think we're set up to have this conversation with our clients well. They look to us for strategic clarity around how they ought to be thinking about it. and our systems, as I said earlier, are central to what their operational strategy needs to look like. At the end of the day, particularly as you see its trend outside the hospital in the provider network space, they're looking for integration. Is there someone who has the size and scale capabilities to integrate and make that provider network operate effectively against their contract strategies. And we're set up incredibly well to do that, not only with the EMR assets but also with CareAware and with more importantly, healthy intent. So that's where this market is going to move away from hundreds and hundreds of point solution buying decisions to looking to who is someone who I can count on to drive integration. And importantly, that really understands the provider workflow integration opportunities, both within the standards that exist today, but also the integration that needs to occur to actually profitably manage a patient for fee-for-service or take first dollar risk in an area like MA.

Operator

Our next question comes from Kevin Caliendo with UBS.

Adam Chase Noble - *UBS Investment Bank, Research Division - Equity Research Associate of Healthcare*

Great. This is actually Adam Noble in for Kevin. I was curious if you could comment on the recent announcement by Amazon of general availability for HealthLink and whether, in your view, that complements what you're offering and then looking to develop with Amazon or whether that more competes with you? And just beyond that, if you could just give us an update on the replatforming efforts with -- onto AWS and where those stand at this point?

Donald D. Trigg - *Cerner Corporation - President*

Yes. Thanks, Adam. Great question. So as Brent framed up in his remarks, we now not only have publicly cloud-enabled HealtheIntent, but we've also now had a second successful platform move with CareAware, which drives not only our device integration strategies, but also is core to our sort of growth strategies in that space around real-time hospitals. So I think that has been a really good technical learning for us in terms of what path to modernization looks like. It's also surfaced some really important nontechnical capabilities that we need to build out in terms of how we think about contract management and other parts of what it looks like to go work through that strategy across our client base. So I would say the progress there has been positive, including some important milestones in the first half of this year. In terms of Amazon and AWS' sort of strategies around the health care vertical, again, as I said earlier, there's a long history of big cap entry and big cap exit from health care. There's an inherent complexity at the intersection of health care and IT. I see market interest in areas that we're focused on is very validating of the growth opportunity that exists. And what we need to be able to do is be smart around where we can competitively differentiate from a fire-based strategy for data aggregation, that's interesting. But in our case, where we have deep competency around the very dirty data in health care and what it looks like to normalize that data around master data management and have a level of clarity around it that you could imagine it being pushed into the provider workflow and being leveraged as part of a care process. Those are very different things.

Adam Chase Noble - *UBS Investment Bank, Research Division - Equity Research Associate of Healthcare*

Got you. That's super helpful. And if I can just sneak one more question in. There's been a rush of companies that have come to the public market over the past year in the tech-enabled primary care space. And so I'm just wondering if that's a market and service you think would be attractive to you guys, given your health system relationships and technology assets. And I guess, more broadly than that, can you envision Cerner getting more deeply into care delivery over time as you explore additional growth opportunities?

Donald D. Trigg - *Cerner Corporation - President*

So I think you're right, that has absolutely been a trend. Again, what are the strategies going to look like outside the 4 walls of the hospital and how are these provider networks going to get built out on a market-by-market basis? I think we're incredibly well positioned to be the technical foundation of those strategies to help with systems level thinking and design and activation. We have strategies today where we partner with players like Lumeris, where they're signing up for performance risk around managing lives, and we use that as a way to refine our own thinking to Mark's point around where and how we want to play to drive the right level of profitable growth around our provider network strategy. So I think that's how we're moving our way into it. What's the technology and services strategy need to look like to support it and is attractive for us to start to think about taking performance risk around provider networks. I think when you deliver a lot of value, you start thinking about how you can benefit and profitably take advantage of it.

Operator

Our next question comes from Sean Dodge with RBC Capital Markets.

Sean Wilfred Dodge - *RBC Capital Markets, Research Division - Analyst*

Mark, maybe just to clarify one of your earlier comments around the cost action. The cost savings you mentioned coming from the facility rationalizations, I think you said $10 million. Is that just tied to the 260,000 square feet you've already sold? Or does that include what should be realized once you sell the 750,000 square feet you currently have for sale?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Yes, we expect that to be the annualized savings when we affect the sale of the additional properties being marketed for sale.

Sean Wilfred Dodge - *RBC Capital Markets, Research Division - Analyst*

Okay. So that's all in. And then maybe staying on the cost sections. Brent, maybe if you could talk a little bit more about what's happening across the R&D organization. You're spending $800 million annually there. It sounds like there's been a lot of work to rationalize lower ROI projects and reinvest that in the higher ones. I guess do you see an opportunity to reduce your R&D budget at some point? Or do you think you're spending the right amount and you just need to kind of focus a little bit better on kind of more of the optimal projects.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

I think it's a great question. I think it's one that we're going to continue to work through and process a little bit, right? We know we've been spending $800 million a year in the R&D area. We talked about the fact that our product portfolio at this point is very dispersed. We took 25,000 features. We combine those into 400 different products that were assembled into 82 different product groups. And those top 25 product groups accounted for 85-plus percent of our revenue. We also talked about the fact that one of the opportunities we have is to dramatically enhance our management reporting systems, and that's one of the things that we've been spending a lot of time doing so that we can really allocate that $800 million specifically to projects. And one of the things I'm really excited about that we've been able to bring forward here in just the last few weeks, frankly, is we now have an internal system that lets us look at every single one of our scrum teams, 641 of them to be exact. And we can now know exactly what those scrum teams are doing each and every week. There's clear milestones and markers for the work that needs to be delivered and we can literally penetrate that at a very, very granular level now, which was a capability we didn't previously have. So I think the answer is probably going to likely be yes, in the sense that we are going to be able to do a whole lot more with that money. And if in fact, that's true, we might be able to do it with a little less. We've been spending roughly 14% of sales on R&D each and every year. That's a very large number. But we'll see as it plays itself out. The great thing is, is that we're getting a lot of visibility and line of sight. Don and his team is leading a very comprehensive review of that product set. And then Jerome, with the work he's doing on the digital factory is going to make the dollars we are spending a whole lot more efficient. It's just is a matter of course. So I'm very excited about what's happening in that whole area.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

To add to the whole issue of time to market, you talked about velocity and time to market, that is a huge win for us. Because as we've gotten larger and with the scale, the better processes, better ways of managing, it will help tremendously. We're just working through the development cycle.

Operator

Our next question comes from Jeff Garro with Piper Sandler.

Jeffrey Robert Garro - *Piper Sandler & Co., Research Division - Senior Research Analyst*

Maybe I'll continue on the innovation front. And it seemed like there were a few remarks in the script on the strategic growth areas, although Don definitely mentioned some of those here in the Q&A. But we'll like an update on how those areas are progressing and being addressed operationally.

Donald D. Trigg - *Cerner Corporation - President*

Jeff, so yes, I absolutely did speak to a couple of those earlier. I think we're still very excited in the core enterprise space around some of the things, frankly, we're doing around the core offer in areas like front-end access management and engaging access with kind of a patient-centric lens around the revenue cycle space. Lot of traction and trend there from a -- with Travis' team in the market. So excited about that, certainly, excited about what we're doing in the RTHS space. And consumer more broadly has been a very strong space for us, not only native capabilities but also partner capabilities inside our consumer framework and a ton of traction and trend around unified communications. So some really nice momentum, I think, around enterprise capabilities and enterprise capabilities that extend out into the provider network space as we get over on to the continuum side and we start thinking about the provider network landscape, we're seeing a lot of traction and trend around behavioral health. A huge successful outcome there with longtime partner, UHS in the second quarter that we're very excited about really gives us a chance to build out end-to-end venue capabilities from a BH perspective in an area that, as you know, has a lot of COVID-related tailwinds, I'll say, but obviously, the complexity and crisis of behavioral health and mental health coming out of COVID. So I really like that area. And then look both the organic update as we think about the data space and data strategies around intelligence, but also some of the inorganic activity that we alluded to, both today as it relates to the integration of Kantar but also how we think about putting the balance sheet to work in the future. So we're happy with the progress in this space. We see some nice traction in the first half of the year around areas where we've made bets. And now we need it to go further faster for scale impact over the next 2, 4, 6 quarters.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Yes. Maybe just to pick up on that, your question about the operational view. I think one of the things we -- when Don set up the group, it's set up a bit to give a fair amount of autonomy allowing speed, development and a bit of a skunkworks approach. I think as we've benefited from having Jerome joined us CTO level, we've found that I think some of the standard tools and processes also can help us with velocity, consistency working across that portfolio. So we are applying those same concepts through those groups, and we see benefit, I think, that will help us ultimately with speed to market and consistency development.

Donald D. Trigg - *Cerner Corporation - President*

Yes, absolutely. We talk a lot about at the business group level about entrepreneurial scale. So when we have market strategies that are non-provider in their orientation, so when we're -- in selling to life sciences and pharma less relatively through Kantar, we imagine the level of autonomy around the operating model that allows them to move at pace and operate in a very different market with a very different buyer type. But we're also thinking about scale attributes and what it looks like to leverage some of the benefits of things like the investment that Jerome and Keith Jahn are making in the digital factory. And so that gives us scale attributes across all the platforms. and at the same time, allows us to be efficient in terms of how we think it costs the sale inside the enterprise space, but also to operate with a little bit more autonomy and flexibility in areas that are very different than our core provider market.

Jeffrey Robert Garro - *Piper Sandler & Co., Research Division - Senior Research Analyst*

Excellent. I appreciate all the comments there. One more for me on customer retention. Any customer leaving seems to make it into the press, but you've cited stronger retention today. So I was hoping you could tell us what's working to improve retention? And then any update you could give us on your intent to improve competitive dynamics against your primary competitor?

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Maybe, Travis, I'll let you comment. This has been a multiyear effort to really put in place focused metrics, focused teams around client retention and there's been a lot of work done there. But Travis, let me ask you to comment

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Travis S. Dalton - *Cerner Corporation - Executive VP, Chief Client & Services Officer and President of Cerner Government Services*

Yes, happy to. I think that was the first question I got on the first earnings call. What are you going to do different? So we're -- I'm going to talk about what's improved. I've talked in the past. And these are matters of discipline and the matter of focus. I think that we're doing more in terms of how we're aligning to our clients. So we've mentioned earlier some of the actions we've taken. Those actions really, in my view, were to improve our client alignment. So we flattened out our client organization. We've tried to eliminate the number of touch points to our clients, to really be more strategic with how we engage with them. We think that's important not only to -- on a value retention level, but also to expand strategies that Don and team have noted prior. So better client alignment, our end-to-end delivery commitments are crucial. We not only sell in the client organization, but we deliver on our promises. And so we're really focused on how do we take our managed services, consulting and support businesses and deliver to our clients on an end-to-end basis to where we not just get to go-live, but we actually get there by meeting our commitments with good data insights along the entirety of that path. And so an end-to-end focus on delivery is also crucial for us as we continue to meet and keep client commitments. And then we have a set of I think, great tools and capabilities that we weren't getting to our clients, I think, in the most efficient manner. So we've got data-driven insights. We have a treasure trove of data through our lights on network. And we're working closely to develop comprehensive programming at a client level. So specific client strategic planning based on their needs and their value needs and then bringing the right tools and tool sets market-enabled to those clients. And we've done a lot of targeted work around blueprint activity in the clinical space around configuration evaluation around upgrades and uplifts. It's all of those things collectively together that improve the client experience. And I think we're in the -- we're heading in the right direction. That work is never done. There's always work to do to proceed in that area. But I like how we're thinking about it in a holistic manner, and I like how we're more strategic, I think, in our approach with clients individually. But we've got ways to go. And to your second half of your question, I think back to the earlier question, I like how we're competing. I like our focus. I think that winning in the market is driving value for our clients. And we know our clients' needs. I think we've got better market insights, working closely with our marketing organization. I think that we're improving the way that we think about sales enablement. And so as we work on our IP infrastructure, as we sharpen our product focus, we're also working on how do we generate demand and lead, but also how do we get to market more quickly as Brent noted, with Velocity. And so the work that we've been doing the last 3 years, frankly, is starting to come to fruition, and we've seen really good progress, as Don noted, with real-time health system. I think we'll campaign around remote patient monitoring, referral management. Key areas that are outside the traditional kind of EMR space that will really allow us to add more value, which makes us more productive with our clients and more competitive. And I'll just say our win rate is very good. I'm very happy with how we competed in the CommunityWorks on new footprints. Our global footprint is outstanding. Our teams are really competing well there. So good progress, lots to do. We're in a highly competitive environment. We've got a tough competitor, but we welcome the competition. It makes us better and we're seeking to get better and win every day.

Operator

Our next question comes from Steve Halper with Cantor.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

When we think about the $70 million of savings that the cost actions are going to take. Is it safe to assume that some portion of that will be redeployed? Or will that, at some point, impact -- the whole amount impact the profitability of the company?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

I mean we're constantly looking to recycle and redirect dollars towards areas within the company that we think we can drive organic revenue growth through. But I would contend that in this particular case, much of this will likely go to the bottom line, right? We talked about the fact that during the year of COVID, we really didn't make a lot of margin progress, but we still have set our sights on that mid-20s by fiscal '24. And so we have a little bit of ways to go. And so this will help us in that regard, most specifically.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

Right. And then if that's the case, how long of a time period, right, should that hit the income statement? I'm assuming most of it is going to hit the income statement, is it all going to hit in 2022 or you'll get to that in 2023?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No. Great question. So what I would say is that the reduction in force that we affected has been completed at this point in time. So as you think about our third quarter, fourth quarter run rates, that should be reflective. As you think about the charge we took on the capitalized R&D, that rolls forward immediately in effect because that amortization isn't there to flow through the P&L. And then on the property side, I appreciated the clarifying question earlier. We did sell a campus earlier that didn't have a huge amount of carrying value associated with it yet. And so once we find ourselves in a position to actually affect the sale then you'll start to see the benefit of that $10 million largely roll through. So that one is a little bit more time-determinant.

Operator

Our next question comes from Eric Percher with Nephron Research.

Eric R. Percher - *Nephron Research LLC - Research Analyst*

Mark, the progress on cost is increasingly clear, especially after the commentary this morning. I'd welcome your thoughts on the process for evaluating mid- to long-term revenue growth opportunities. And have your thoughts evolved in early '21? Or is this kind of a process that's ongoing? And is there a moment traditionally, it was around HIMS. But I know you also have the CHC conference coming up, where we might look to you for evolved thoughts on revenue growth.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No, I appreciate that. You made a comment about the margin progression and the cost takeout. And I know we had it in the prepared remarks, but I might just bear repeating here. In Q2, our gross margin was down 200 basis points year-over-year, right? But despite the fact that gross margin compressed by 200 basis points, our adjusted operating margin was actually up by 220 right? That's a 400 basis point reversal in effect. Now only 30 of that came from divestitures, right? So a lot of this was just hard work being done by the team broadly speaking. As we think about the revenue plot going forward, one of the things that we're doing is we are also, like I said, strengthening our management reporting capabilities to allow us to have better understanding of the different growth vectors that we have organically. So we right now, are building out what I'll call, 16 fully allocated business group P&Ls within the company, which we never had before. We are going to be able to have 16 businesses that we have general managers effectively in charge of with full accountability with multifunctional resource teams that we can use for our planning processes. And right now, we are going through that process to build out our 3-year plan. We have a December due date with the Board, whereby we are going to share our fiscal '22, '23 and '24 plans at a level that we've never built them up before, right, with full involvement across the full entire broad-based leadership team so that we have clear revenue bridges and everything else that goes along with it. So I think us taking that step to get to the 16 internal fully allocated P&Ls for the business groups will be a big enabler for us as we think about where do we want to really drive a point of impact across the business itself. And that will then inform, I think, also our strategic M&A process because once we have a better understanding of what we can really expect internally, we have a better line of sight into what we might need to enhance our capabilities with respect to. So more to come on that. Certainly, we need time to build out that next 3-year plan at a very, very detailed level and I'm committed to doing that.

Operator

Our next question comes from George Hill with Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

Mark, 2 quick ones for you. I think you said that there were 24 new sites live in the quarter. I would first ask, is that a gross number or a net number? And maybe talk a little bit more about what's going on with the footprint and attrition, given the declining maintenance revenue line?

And number two, have you guys quantified a COVID impact for 2021, whether it's either a headwind or a tailwind? And should we think of the $3.25 numbers, the rate jumping off point for -- rate jumping off point in '21 for '22 estimates?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Travis, I think that first part was directed towards you.

Travis S. Dalton - *Cerner Corporation - Executive VP, Chief Client & Services Officer and President of Cerner Government Services*

Thanks, Mark. I appreciate the question. Yes, 24 new client footprints in the first half of the year. I also would be remiss if I didn't know, we also had 51 extensions and 120 expansions. So we had a whole bunch of clients have made commitments to us on a go-forward basis based on our work together. That was a gross number, the 24 new. I think we can meet or exceed that in addition to the second half of the year. We've got good opportunities, as I've noted, going forward. The attrition -- in terms of attrition, I'd say we've made vast improvements over where we've been over the last several years. I can't say specifically where we're at. But our net gains have been double digits in terms of our net on that. And it's also obviously been revenue-positive for us on the net versus attrition versus gain for the first half of the year. That's a good positive turn in trend for us. The last 3 or 4 years, as many of you know, were tough for us, and we had some downward momentum on that. But I feel like we're starting to turn that back towards a positive. And so I like -- I made notes earlier around our competitiveness and how I like how we're focused on competing. And so I think that, that bears that out, our first half performance, and we have to continue that and we have to continue to improve in a highly competitive environment.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

With respect to your second question on the $3.25, I guess what I'd say is this at this point, this is the new normal, so to speak, and the $3.25, I think, is a pretty good baseline to use for our forward projections. I don't think you're going to hear us talk a lot about year-over-year differentials driven by COVID impacts, knock on wood, as we start talking about the '22 plans and everything that comes thereafter. Certainly, we were heavily impacted in the prior year. We have been making adjustments to that with our workforce as it relates to flexible working arrangements. We've obviously been adjusting our properties and our footprint as it relates to that as well to take that into account. But I think at this point, we're going to say $3.25 is a pretty clean base to build on.

Operator

Our next question comes from Dave Windley with Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

I wanted to drill in on the Data-as-a-Service business with, one, are you getting -- are your -- in terms of your revenue models there, are you getting paid basically for the data you're providing and maybe some analytics on top of that? Or do you also have revenue opportunity for -- I'm thinking about the life sciences space mostly, but like for bringing trials to your community provider clients and/or identifying patients for -- specifically identifying patients for trials to your life sciences clients. I'm just interested in the revenue a little more detail around the revenue model.

Donald D. Trigg - *Cerner Corporation - President*

Yes. Thanks, Dave. So just to level set, you've got the -- a fairly small release of information business that sits inside kind of how we define the Data-as-a-Service business. But as you said, the lion's share of the revenue is sitting over around the strategies associated with life sciences and pharma. So we have a set of provider organizations that participate in our Learning Health Network. So we're targeting 80 participants by the end of the year. We're well on path based on first half performance, including 6 new clients in Q2, who have said, hey, we want to participate in research-related economics. That drives a couple of different kind of business model opportunities for us. One, we have some partner economics that sit in that strategy related to our partnership and investment with Elligo. So they have to do some work often. If you're not IUH or you're not Banner with the UFAA asset or you're not MedStar with Georgetown, those midsized provider organizations have to do some work around site readiness and what it looks like to be educated for how to participate, document and deal with audit-related realities of what it looks like to participate in the clinical trial. So we have some small economics associated with that. And then, yes, we're creating trial opportunities with our Kantar business where we're going in and engaging with life sciences and pharma, those top 25 players and bringing those opportunities back to those learning health network members, and we're actually sharing in those economics around that research activity. And then finally, Kantar obviously has a stand-alone set of businesses that predate their integration into Cerner that include, as Allan alluded to, strategic consulting work that are the final component of the business model.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

Very helpful. Back to the core business. When you think about replacement market at this point and hopefully, closer to the end of the pandemic than the beginning, do you assess that replacement decisions have legitimately been pushed to the right? And is that opening up now? I'm just kind of curious what you're now seeing percolate.

Donald D. Trigg - *Cerner Corporation - President*

Yes. Well, Travis did a really nice job kind of framing up net new footprint activity, extensions and then importantly, expansion. So every time we're going in to have a term-driven conversation with a client, it affords us a chance to talk about expansion of capabilities around things like RTHS and CareAware and probably most importantly, capability sets that we have in the provider network space associated with HealtheIntent. So there's an appetite to want to have those conversations period. They also always feature in any sort of a dialogue around renewal with a client. And I think to Mark's point and to Travis' point, I think we're pushing hard to get better discipline in terms of how we have that conversation and make sure that we're maximizing the value of those futures and also have clear path to actually deploy and deliver value around them as part of that extension conversation.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

And Dave, since we're on the topic of Data-as-a-Service and Kantar, I'm going to do my friend and colleague, Allan a favor and answer a question for you all that, otherwise, you'll probably get individually from each of you. We said that we were using $350 million of cash to close on Kantar. And previously, we talked about $375 million. The difference between those 2 points in time is that we're going to end up with $14 million of cash acquired as part of the transaction, and there's 2 smaller international markets that haven't yet closed due to some regulatory process work that we're going through. So that bridges the $375 million we previously spoke with versus the $350 million net that I talked to today.

Operator

Our next question comes from Stephanie Davis with SVB Leerink.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

Mark, as a lot of folks have mentioned a bright spot in the quarter with how quickly you hit the ground running on the cost takeout side. A quick one on that form of the strategy. Given the maintained EPS guidance on software revenue, how should we think about the op margin expansion opportunity and a more normalized top line growth year? Like if you didn't have VA headwinds where would we have ended up?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Well, I think what we had said was we lost about a half point of our revenue in the first earnings release as it related to the VA assessment. And now subsequently, we probably added another half point to that. So I think at this point, it would be fair to say there would be almost another full point of revenue growth. At this point, we've simply said that the full year will be mid-single digits. If you added it...

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

On the op margin side.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

I guess what I'd say -- yes, yes, I guess what I'd say is an extra point of revenue is, call it, $60 million. And you guys know kind of what the pass-through rates generally look like. And so that would be the way I would model that for you.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

All right. Helpful. And then on the strategy side, Don, I think you mentioned cybersecurity earlier on the call. So what is your strategy for competing against the large tech incumbents who have already made some early moves in the cybersecurity health care space? And given the lack of scale health care-specific cybersecurity companies, is it safe to assume that this is going to generally be a build over a buy decision?

Donald D. Trigg - *Cerner Corporation - President*

Yes. That is an awesome question, Stephanie. So I mean, one, just observationally, you're making a great point. Isn't it interesting that we don't have any $1 billion-plus scale impact, cyber businesses specific to health care. I think that's -- it's really interesting. And do you think we're going to continue to see significant tailwinds there around breach activity, absolutely. And when you think about hybrid environments with a combination of on-prem and cloud, the opportunity set to manage those environments is very high. So a really interesting space. The second thing I would say is we've done some really good work, I think, methodologically to take the NIST framework and really say, what would it look like to look at this space from a systems level and really try to think about what the holistic opportunity looks like. And then finally, a lot of what we're doing in that space modestly today from a top line perspective is down market. It's with our smaller and midsized hospital clients where we're going in and providing those as-a-service capabilities. And really, I think using it as an opportunity to say, what would it look like to do this upmarket for larger clients inside our client community. And then importantly, how do you also think about it for provider network and all the technology heterogeneity and complexity of what it looks like to do this with a combination of owned and affiliated facility footprint. So this is an interesting space. Our competency in it is growing, both in terms of what the business opportunity looks like. But also, candidly, in terms of some of the public sector work that Travis is driving in terms of what it looks like to fulfill the needs, the DoD, the VA and really imagine what it would be like to do it at scale. So I like the space, and we're thinking a lot about it. And we see organic opportunities to drive a bigger business there.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

Do you think the large health systems are ready to actually look at cybersecurity as something important for their core strategy?

Donald D. Trigg - *Cerner Corporation - President*

I think so. I think it tends to be at the, I'll say, at NPR levels greater than $2 million. This is really the big opportunity on a 90-day basis for the CIO and the CISO to get in front of senior leaders to be visible to the Board. So they care a lot about it. We know how to sell to that buyer type. And so yes, our level of conversations around it are increasing. That's a little bit of a different point than you're implicitly making, which is, hey, are they ready for it. No, they're looking for a strategy and they're looking for capability sets.

David Brent Shafer - *Cerner Corporation - Chairman & CEO*

Well, listen, thank you all for your time and energy today. I appreciate it. Let me just take this opportunity to thank the leadership team for all the hard work over the last 90 days, a lot of great progress in a great team, really gaining traction together. So -- and also shout-out to associates worldwide for all the great work. Do you take care, and we'll close now. Thanks.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
