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CERN - Q4 2015 Cerner Corp Earnings Call

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OVERVIEW:

Co. reported 4Q15 revenues of $1.18b and GAAP net earnings of $166m or $0.48 per diluted share. Expects full-year 2016 revenues to be $4.9-5.1b and adjusted EPS to be $2.30-2.40. Expects 1Q16 revenues to be $1.15-1.20b and adjusted EPS to be $0.52-0.54.

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PRESENTATION

Operator

Welcome to Cerner Corporation's fourth-quarter 2015 conference call. Today's date is February 16, 2016, and this call is being recorded. The Company has asked me to remind you that various remarks made here today constitute forward-looking statements, including, without limitation, those regarding projections of future revenues or earnings; operating margins; operating and capital expenses; product development; new markets or prospects for the Company's solutions and services; and plans and expectations related to the health services business and other client achievements. Actual results may differ materially from those indicated by the forward-looking statements.

Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements may be found under Item 1A in Cerner's Form 10-K, together with the Company's other filings. A reconciliation of non-GAAP financial measures discussed in this earnings call can be found in the Company's earnings release, which was furnished to the SEC today and posted on the investors section of cerner.com.

At this time, I'd like to turn the call over to Marc Naughton, Chief Financial Officer of Cerner Corporation.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Thank you, Vince. Good afternoon, everyone; welcome to the call. I will lead off today with a review of the numbers. Zane Burke, our President, will follow me with results, highlights, and marketplace observations; and then Jeff Townsend, EVP and Chief of Staff, will provide an update on Intermountain Healthcare and Cerner's innovation.

Now I will turn to our results. Q4 was a good finish to the year. Revenue, earnings, and cash flow were all at or above targeted levels. Bookings were slightly below our guided levels, primarily because we didn't have a Works deal in the quarter. The full-year bookings were very strong. Our bookings revenue in Q4 was $1.35 billion, which reflects 16% growth over Q4 2014. While that is a healthy growth rate, it is below our guided range.

There was an ITWorks deal and a large professional services contract in our forecast that would have led us to comfortably achieving our guidance range. While they didn't close in Q4, we do expect them in future quarters. For the full year our bookings revenue was $5.43 billion, which is 28% growth over 2014 and reflects more than $200 million of upside to the bookings guidance we provided throughout the year, including Q4.

Our revenue backlog ended the year at $14.2 billion, which is up from $10.6 billion a year ago. Revenue in the quarter was $1.18 billion, which is up 27% over Q4 of 2014, in the middle of our guidance range.

The revenue composition for Q4 was $382 million in system sales, $247 million in support and maintenance, $528 million in services, and $18 million in reimbursed travel. Revenue in the quarter includes approximately $245 million from health services. This is down from approximately $250 million in Q3, but note that the deferred revenue adjustment was higher in Q4, so health services's revenue was basically flat sequentially on an operational basis -- which is in line with our expectations.

For the full year, revenue grew 30% over 2014 to $4.4 billion and includes approximately $930 million from health services. System sales revenue reflects a 36% increase over Q4 of 2014, with the growth mainly driven by an increase in subscriptions, which is where the addition of health services has had the biggest impact as well as strong growth in licensed software. For the full year, system sales revenue grew by 36% over 2014. Our system sales margin percent in Q4 was 68.4%, which is up from 67.5% in Q3 due to strong sequential growth in licensed software. Full-year system sales margin percent was 66.4%, which is basically flat compared to 2014.

Moving to services, total services revenue, including professional and managed services, was up 23% compared to Q4 of 2014. Full-year services revenue was up 28% over 2014. Support and maintenance revenue increased 25% over Q4 2014 and 35% for the full year, with the lower growth in Q4 due to the extra week in Q4 of 2014.

Looking at revenue by geographic segment, domestic revenue increased 28% over the year-ago quarter to $1.04 billion, and global revenue grew 21% to $134 million, both driven largely by the addition of health services. For the full year, domestic revenue grew 29% and global grew 37%.

As a preview to the annual update of our detailed business model that we'll provide at our investment community meeting on March 2 at HIMSS, I'd like to provide you with the total revenue and growth by business model for the full-year 2015. Licensed software grew 24% to $564 million. Tech resale grew 21% to $330 million. Subscriptions increased 76% to $388 million.

Professional services grew 13% to $1.24 billion. Managed services increased 56% to $858 million. Support and maintenance was up 35% to $976 million. And reimbursed travel was $73 million, which is down 19%.

Moving to gross margin, our gross margin for Q4 was 83.0%, which is up from 81.3% in Q4 of 2014, reflecting strong licensed software growth. Full-year gross margin of 83% was up from 82.2% in 2014.

Looking at operating spending, our fourth-quarter non-GAAP operating expenses, which exclude share-based compensation expense, voluntary separation plan expense, and acquisition-related adjustments, were $686 million, which is up 31% compared to adjusted Q4 of 2014 operating expenses. This growth was primarily driven by the addition of the health services business.

For the full year, operating expenses before share-based compensation expense, voluntary separation plan expense, and acquisition-related adjustments were up 33% to $2.6 billion. The total year-over-year growth for each expense category in Q4 on a non-GAAP basis was 26% for sales and client service, 33% for software and development, and 59% for G&A. Amortization of acquisition-related intangibles, the new line we added in Q2, was basically flat. For the full year, sales in client service grew 29%, software development grew 38%, and G&A grew 54%.

Moving to operating earnings and operating margins, our operating margins before share-based compensation expense, voluntary separation expense, and acquisition-related adjustments was 24.7% in Q4, which is flat to the year-ago period and up 20 basis points from Q3 of 2015. Full-year operating margin came in at 24.3%, which is basically flat compared to last year.

Moving to net earnings and EPS, our GAAP net earnings in Q4 were $166 million or $0.48 per diluted share. Adjusted net earnings were $2.2 million and adjusted EPS -- diluted EPS was $0.61, which is up 30% compared to Q4 of 2014. Adjusted net earnings excludes share-based compensation expense, which had a net impact on GAAP earnings, up $13 million or $0.04 per diluted share; as well as the voluntary separation plan expense, which had a net impact on GAAP earnings of $861,000 or less than $0.01 per diluted share.

Adjusted net earnings also reflect adjustments related to Cerner's acquisition of health services, including health services's acquisition-related amortization, which reduced GAAP net earnings and diluted earnings per share by $15 million and $0.04, respectively; other acquisition-related adjustments, which reduced GAAP net earnings and diluted earnings per share by $4 million and $0.01, respectively; and the acquisition-related deferred revenue adjustment, which is not included in GAAP net earnings but increased adjusted net earnings and diluted earnings per share by $13 million and $0.04, respectively. For the full year, adjusted net earnings were $741 million. And adjusted EPS was $2.11, which is up 28% from 2014.

Q4 tax rate for adjusted net earnings was 27%, which is lower than a normal range, primarily due to the R&D tax credit being reinstated in Q4. The R&D tax credit benefited EPS by approximately $0.04, with about $0.03 related to the first three quarters before the reinstatement of the credit. Therefore, we view our normalized adjusted EPS for the quarter as $0.58 instead of $0.61.

Now I'll move to our balance sheet. We ended Q4 with $686 million of total cash and investments, which is down from $766 million in Q3, primarily due to the use of cash for our stock repurchase program. During the quarter we finished the remaining $145 million of stock repurchases authorized in September of this year, repurchasing 2.5 million shares at an average price of $58.40. For the year we repurchased 5.7 million shares for $345 million or an average price of $60.39.

Moving to debt, our total debt, including capital lease obligations, is $605 million, which is down slightly compared to Q3. Total receivables ended the quarter at $1.03 billion, which is down $19 million from Q3. Our Q4 DSO was 80 days, which is an improvement of five days compared to Q3. We are targeting DSO in the 70s in 2016.

Operating cash flow for the quarter was extremely strong at $353 million, up from $272 million in Q3. Q4 capital expenditures was $107 million, and capitalized software was $60 million. Free cash flow, defined as operating and cash flow, less capital expenditures and capitalized software, was $186 million for the quarter, driven by strong operating cash flow.

For the full year, operating cash flow was $948 million. And free cash flow was $321 million, with capital expenditures of $362 million and capitalized software of $265 million. As previously indicated, we expect capital expenditures to increase in 2016, primarily due to construction of a new campus. We still expect to generate solid free cash flow, with growth in operating cash flow offsetting most of the increase in capital expenditures.

Now I'll go through Q1 and full-year 2016 guidance. For Q1, we expect revenue between $1.15 billion and $1.2 billion, with the midpoint reflecting growth of 18% over Q1 of 2015. For the full year, we expect revenue between $4.9 billion and $5.1 billion, reflecting 13% growth over 2015 at the midpoint.

We expect Q1 adjusted EPS before share-based compensation and acquisition-related adjustments to be $0.52 to $0.54 per share, with the midpoint reflecting 18% growth over Q1 2015 adjusted EPS. For the full year, we continue to expect adjusted EPS before share-based compensation and acquisition-related adjustments to be $2.30 to $2.40, as initially stated on our Q3 earnings call, with the midpoint reflecting 11% growth over 2015.

Moving to bookings guidance: we expect bookings guidance in Q1 of $1.15 billion to $1.25 billion. The midpoint of this range is flat to Q1 of 2015 bookings. Given a very tough comparable established in Q1 of last year, with 32% bookings growth and 28% growth for the full year in 2015, there will be some quarters this year with flat or low growth. We do expect growth for the year, but note that even flat bookings would lead to a two-year

CAGR of 13% -- also given that nearly 80% of our guided revenue is scheduled to come out of backlog. We believe we can deliver our revenue and earnings guidance even if bookings were flat.

With that, I turn the call over to Zane.

Zane Burke - *Cerner Corporation - President*

Thanks, Marc. Good afternoon, everyone. Today I'll provide color on our results and make some marketplace observations, starting with our bookings.

Our bookings revenue in Q4 of $1.35 billion reflects 16% growth over Q4 2014. As Marc mentioned, this is slightly lower than expected, primarily due to less long-term bookings -- but still a strong level of bookings that contributed to our excellent growth for the year of 28%. Bookings this quarter include another all-time high level of large contracts, with 46 contracts over $5 million, including 29 over $10 million. For the year, we had 153 contracts over $5 million, with 102 million of those being over $10 million. This reflects 37% growth in contracts over $5 million and 62% growth in contracts over $10 million.

For long-term bookings, we had a strong quarter for remote hosting, but we did not have a new ITWorks or RevWorks deal. So the percent of bookings from long-term contracts was 27%, which is about 7% lower than the average of the first three quarters. For the year, long-term bookings were 32% of the total bookings, which is 2% higher than last year, reflecting full-year strength in Works deals.

We continued our new business momentum in Q4 with 36% of our bookings coming from outside our core Millennium installed base. 2015 was by far the best year in our history from a new business standpoint. During the year we signed more than double the number of new footprints than any year in our history, which we believe is evidence of our strong competitiveness and the large opportunity for competitive displacements.

Our success was very broad during the year, with new business coming from IDNs, regional hospitals, children's hospitals, community hospitals, state and federal, behavioral health, ambulatory surgery centers, and physician groups. I believe 2015 was a breakthrough year from a competitiveness standpoint.

I believe our success is driven by several factors. First, we are much better in key areas because our R&D investments. In the past five years, we've invested more than $2 billion in R&D, with a focus on population health, physician and clinician experience, revenue cycle, consumer, interoperability, open platforms, and mobility. These investments are leading to much better performance in traditional competitions for EHR and revenue cycle, and further differentiation in areas like population health and open platform capabilities. We have also focused on predictable delivery capabilities, cost of ownership, and delivering measurable value, which is critical in an environment where ROI is increasingly important.

Finally, the marketplace becoming more aware of our primary competitors' higher cost of ownership, lack of system openness, and a lack of investment in cloud-based systems to support population health. We believe this is leading to more success against our primary competitor in EHR procurements and opportunities in their installed base for population health.

Turning to population health, 2015 was a great year. We had 30% bookings growth, and we now have 85 clients that have chosen to help the Intent platform to support their population health strategy. A highlight of 2015 was success outside of our EHR installed base, with one example being Geisinger Health System choosing HealtheIntent to extend their data-driven population health capabilities. This announcement made a clear statement to the market and has already added to our long list of opportunities outside of our EHR base.

We currently have more than 20 opportunities outside our installed base, most of which use our primary competitor's EHR. I believe this activity is validating the broad opportunity for HealtheIntent and the shortcomings of our primary competitor.

Another highlight was that we were recently selected to support the health insights of a state-wide Medicaid population. The state will use HealtheIntent's enterprise data warehouse solution to gain insights and intelligence from claims and clinical information across the state's Medicaid population, which will enable them to manage outcomes at an optimal level. This is a new market entry point for Cerner and is an additional example of how HealtheIntent expands Cerner reach beyond our EHR base.

The key reason we are having so much success at selling HealtheIntent solutions is that clients who have already adopted them are getting great value and have become examples for the industry for how technology can enable a transition to quality and value-based reimbursement. A good example of this was captured at a January feature in Health Data Management magazine. The article covered Advocate Health Care's success at using HealtheIntent platform to gather more than 60 different clinical and transactional data sources and used predictive algorithms to predict risks, improve patient care, and control costs.

Moving to our revenue cycle business: we had a very good year, with bookings that were more than double 2014 levels and included several of our large clients choosing Cerner for revenue cycle. Operationally, we brought 39 acute-care sites and 455 clinics live on Millennium revenue cycle, and we now have more than 1,800 live sites. Our momentum in revenue cycle is also reflected in very strong organic revenue growth, with revenue cycle nearly doubling in the past three years. We expect continued strong growth going forward, with many large clients forecasted to transition to Cerner revenue cycle and a large volume of RevWorks and extended business office opportunities.

Moving to the ambulatory market, where we had a strong Q4 and year: for the year, ambulatory bookings grew over 50% and included 38 displacements of our primary ambulatory competitors. This included some of our largest acute-care clients choosing to replace their existing ambulatory supplier.

We also had a strong start to penetrating the health services base, with 16 health services clients choosing Cerner ambulatory. Our ambulatory business office services offering also had a strong year that included our two largest deals to date -- both of which were displacements of a certain cloud competitor.

We also had a strong year in the small hospital market, with our cloud-based CommunityWorks offering, where we ended the year with more than 130 clients. This year's success was driven by a combination of traditional new footprints, extensions through our health system clients, and health services migrations. One highlight for the year was Great Plains Health Alliance selecting Cerner CommunityWorks for their 25 critical access hospitals across Nebraska and Kansas. Looking ahead, the small hospital market remains very active, and I expect 2016 to be another good year.

Now I'd like to provide an update on the Department of Defense project. I am pleased with the work accomplished by the Leidos Partnership for Health Defense (sic - Leidos Partnership for Defense Health) over the past several months as we prepare for the pilot site rollouts. Next month at HIMSS, the Partnership will highlight many of the solutions that will be used in the implementation, including some military-specific workflows, first responder applications, mass vaccinations, and theater synchronizations.

Our collaborative effort has led to solution enhancements and data portability that are essential to achieving the free flow of information across all venues of care and creating a system that works for healthcare organizations working to improve the well-being of individuals and communities. I believe this work can benefit the entire client base and the broader healthcare industry.

Moving to health services, we had a good first year at signing Health Services's clients to migrate to Millennium. Over the year over 40 sites signed to migrate, including both IDNs and small hospitals. Operationally, I'm very pleased with how Cerner and Health Services teams have come together in the past year. Health Services associates have proven to be highly talented and are adding value in many key areas of our business.

Outside the US we had a solid year. Full non-US revenue growth was 37%, with most of this driven by the addition of health services, as organic revenue growth was limited to low single digits due to the extra week in 2014, the impact of currency fluctuations, and the lower activity in some markets where economies are struggling. Even though our non-US results tend to be lumpier, we continue to believe the global markets represent a large opportunity for growth for both EHR and population health, and Cerner is well positioned for this opportunity, with associates or offices in more than 25 countries and a strong market position in many of them.

Now I'd like to provide several marketplace observations. The first is that health systems are increasingly being asked to live in two worlds: a future state driven by reimbursement models aligned to risk and quality outcomes, and a current state where fee-for-service is still the predominant model. To bridge the gap between the present and the future, health systems need to solve the same problem: how to effectively manage and make disparate data meaningful and derive appropriate action from it. Solving current-state problems such as proactively identifying reimbursement opportunities, driving efficiency across venue-specific workflows, and true visibility into the quality of care being delivered are critical to enable health systems to outperform their peers in an increasingly competitive healthcare market.

To make the pivot, health systems will compete by proactively identifying populations at risk, redefining clinical engagement to preempt problems, and enabling the person to be a more active member of the care team. We believe clients are looking for a platform to help bridge these worlds, compete more effectively in quality and efficiency in today's environment, and more actively engage in managed populations in the future state. And HealtheIntent is a perfect fit for satisfying these needs.

Second, the EHR replacement market remains very active. While regulatory pressures and solutions being sunset by competitors continue to drive opportunities, we are also seeing more purchasing behavior driven by value and vision, which is positive for Cerner. Almost all EHR replacements also represent a revenue cycle opportunity, as providers prefer integrated clinical, ambulatory, and revenue cycle systems.

Third, consolidation in the hospital market has remained active, and this is creating opportunities for Cerner. In the past three years, Cerner clients accounted for nearly 50% of the hospital buying activity, creating an opportunity for more than 100 new footprints. Consolidation is not isolated in the provider markets, with payors and HCIT suppliers also actively merging in an attempt to attain scale to compete in the evolving healthcare market.

Fourth, we believe that EHR will evolve from a transactional system to an intelligent, activity-based system that will enable faster adoption of best practices, reduced variance, personalized care, improved outcomes, and the ability to identify unit costs -- which will be critical as reimbursements shift to outcome-based and bundled payments. This is consistent with the direction Cerner has been headed and has been a focus of our efforts with Intermountain Healthcare.

Finally, we believe openness and interoperability continue to become increasingly important. This benefits Cerner because of our longtime commitment to interoperability and open systems. This commitment was recently advanced by our launch of our Cerner Open Developer Experience, which is an open site designed to enhance collaboration with third-party and client developers with SMART-on-FHIR applications. We believe this open platform has the potential to unlock future cutting-edge solutions that can benefit not only our client base but the entire industry.

In summary, there is a significant amount of change occurring in healthcare. There will be more change in the next five years than the last several decades, and Cerner is very well positioned to benefit from these changes.

With that, I'll turn the call over to Jeff.

Jeff Townsend - *Cerner Corporation - EVP and Chief of Staff*

Thanks, Zane. Today I'm going to provide an update on our collaboration with Intermountain Healthcare, and what they refer to as their iCentra project, and how it is advancing Cerner's methodologies and our pace of innovation. After completing a second regional deployment in Q4 of 2015, we are now headed down deploying an ever-improving model system designed across Intermountain in 2016 while continuing to innovate and improve in parallel.

The component of how we're doing both at the same time will be a topic that Marc Probst, the CIO at Intermountain, and I will be co-presenting at HIMSS in an education session titled: What it Takes for Success -- sharing our joint experiences and approaches to shift traditional information technology to improvement technology that will better align with Intermountain's journey to a learning healthcare system. By applying a hybrid of agile development concepts with continuous quality improvement, it has significantly changed the pace of both innovation and adoption. As a byproduct of this work, the models and methods have continued to shape Cerner's next generation of continuous improvement methodologies, which are represented within our model system framework.

The library of process models, workflows, configuration, and best practices are all part of a comprehensive kit that is applicable and measurable across our client base to speed our lifecycle from innovation to adoption at scale. As this foundation of techniques, tools, and measurements are utilized across multiple organizations, Cerner has continued to build on our ability to measure the experience of an end user as they navigate through our applications.

This suite of analytics is called Cerner Advance, which includes a set of solutions that has leveraged our learning in the population health space. The difference is that this is the population of clinicians using the systems, and the health status is how effectively they are utilizing the features and preferences of the system within their workflow. It also allows us to identify and personalize improvement interactions at the individual user level, just like you would with care management for patients.

We all learn at a different pace in different ways. This technique applies an Amazon-like consumer profiling for clinicians, which we think is a key component of accelerating adoption.

As I've shared before, a core component of our relationship with Intermountain has been the ability to advance innovation of clinical computing models more quickly. Within Cerner, we have started to use the term model practice to represent the focus on contextual, clinical decision-making within the workflow as a seamless byproduct of patient care. In the case of Intermountain Healthcare, this is where their care process models surface naturally.

As Zane outlined, the evolution of reimbursement models is increasing the demand to remove unnecessary variance in both costs and outcomes, which is shifting the focus to greater predictability and intelligence within the EMR experience. We are now far enough along in our journey together that we have represented a breadth of structured care models from simple to complex and have extended the platform capabilities with a small set of Cerner clients that cover the continuum of care models, guidelines, pathways, and predictive algorithms.

This suite of clinical decision support solutions is called CareDecisions. This covers a continuum of capabilities that can range from highly contextual, point-in-time decisions, like a patient with pneumonia presenting in the ED for treatment, to a series of nested pathways that would cover chronic conditions or diseases like cancer that could span several years. The architecture of this platform is based on open principles, allowing for both portability of predictive models that run from the cloud across multiple clinical data sets that span enterprises to something we call a Smart Zone, which is face-up within the physician workflow and contextual to the moment.

Through this coordinated set of CareDecision capabilities we think we can deliver intelligence that would create what Clayton Christensen refers to as the facilitated network in his book The Innovator's Prescription. We anticipate this configuration and collection of open systems will make up the model practice layer of our model efforts and enable clinical evidence to be shareable, portable, and programmable across Cerner clients and the industry.

Finally, I wanted to briefly share the growing capabilities of advancing an activity center design within the EMR. We have found that the ability to link measurements from application experiences, process variation, clinical evidence, and outcomes provide significant new insights into our ability to achieve business and clinical objectives. This, too, is becoming part of the evolution towards a learning healthcare system, with priorities being established based on desired outcomes versus implementation of technology. In many cases this inverts the model that most have chased in the area of meaningful use.

What we found is that while independently, a workflow may be followed, it may not be timely -- which in turn impacts the effectiveness of adopting clinical evidence. This in turn produces a suboptimal outcome, even though several of the process center metrics may have indicated a good result. This concept is shaping a new understanding in critical thinking in how clinical integration evolves in an environment where everything is connected and instantaneously aware with the depth and breadth of data that is significantly larger.

As the boundaries move from patient-centered visits to the continuous engagement of population health, there's no question it will require this next layer of intelligence in context. Our ability to predict and dynamically adapt the healthcare ecosystem based on activities in context is what we think drives the next tier of outcome improvement.

Before handing the call over to questions, I wanted to provide a brief update on Neal. His initial treatments have gone well, and he is progressing as expected. He is very appreciative of all the well wishes that he has received from associates, clients, and investors, and pleased with the excellent care he has received. At Cerner, we have no doubt that his experience will further fuel his desire to continue to improve the system.

With that, I'll turn the call over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jamie Stockton, Wells Fargo.

Jamie Stockton - *Wells Fargo Securities, LLC - Analyst*

My first question -- Marc, how much of the slowdown in bookings growth in 2016 is a result of long-term deals going down as a percentage of the overall bookings mix?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Keep in mind, we're talking about Q1. And the long-term bookings do have a various impact on quarters. The deals we talked about relative to not happening in Q4 are not slated to happen in Q1. So we're not going to get those just rolling over a quarter. They're going to probably happen in the first half of the year.

So when we talk about Q1 bookings, it likely is going to be slightly lower. But it's not unusual for a Q1 to be somewhat cyclical and a little bit lower than we've experienced. I think when we look at the first half of the year, and we see the pipeline that we have, I think we're very confident that we'll see growth in bookings. So Q1 is more a reflection of us telling you kind of exactly what we're seeing without any of the carryover deals from Q4 benefiting us.

Jamie Stockton - *Wells Fargo Securities, LLC - Analyst*

When we look back at the last four or five years, and that kind of long-term component of bookings has been around 30%, is that a reasonable expectation for people to model out in 2016?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes, I think in 2015 it was probably closer to 32% or 34%, so it was a little over 30%. I think for the year, it was 32%. So I think if you stay -- if you are using 30%, you're going to be within range.

We have got opportunities for Works deals. Some of them -- you know, a lot of the new deals that come to us have a long-term component. So I think using 30% is pretty reasonable. Keep in mind, we don't expect for next year to have flat bookings. But our backlog currently will supply 79% of next year's revenue just coming out of that backlog.

So from an income statement perspective, we are well suited even if bookings happen to be flat, as we always indicate when we talk about our guidance. But we do see as -- you know, in the first half of the year, certainly, as we -- that gives us our best visibility -- would expect to exceed and grow bookings for that period.

Jamie Stockton - *Wells Fargo Securities, LLC - Analyst*

Okay. And then maybe just one other question, and I don't know if this is for you or Zane, but 2015 was a good year for Cerner as far as footprint expansion is concerned. You guys touched on that with your prepared remarks. If we set aside the DoD deal, because that seems to be relatively one-time, and just look at the success that you've had outside of that, can we expect 2016 to be as successful?

You know, Zane, I think you throughout a relatively large number for the number of facilities that you guys brought on, with incremental deals somewhere in the kind of the kind of 170 range at an investor conference earlier this year. Is 2016 going to be a very similar year the way that you guys are seeing it play out? Or are we going to see it be a year where maybe there is a little bit of a slowdown, and then 2017 reaccelerates?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Well, I would first start -- thanks, Jamie, for the second question. I would first start by saying the DoD accounted for eight sites for 2015. So in my count, it was the -- we took the first work order, and that only represented eight sites that we counted for actually the 238 sites. So kind of updating what we would have said at a previous conference -- that would have been through the third quarter.

We are at 238 sites for the year, so that represented eight of those 238. So a very small percentage of those were related to the DoD in 2015. As we have success moving forward with the DoD, we'd anticipate those additional sites coming into play. We see great market opportunity in 2016, similar to 2015 in terms of the opportunity that we see, particularly as we look out in the first nine months of the year. And so I feel very strong about the opportunity and really our competitors and that.

So I think we would expect to see similar numbers. It's hard to get at -- with each opportunity, number of sites is a little challenging, because that can differ based on the mix that you have in there. But we see the same kind of levels of new market opportunity. So I think that kind of site-level performance will be pretty similar.

Jamie Stockton - *Wells Fargo Securities, LLC - Analyst*

Okay, thank you.

Operator

Michael Cherny, Evercore ISI.

Michael Cherny - *Evercore ISI - Analyst*

Thank you for all the color so far on the call.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Sure.

Michael Cherny - *Evercore ISI - Analyst*

So we are coming up, obviously, on the one-year anniversary of the Health Service acquisition. Actually we have passed it, but more thinking from a P&L perspective: as you think about the business now versus where you were maybe a year ago, or even when you announced the deal, can you maybe talk about the positives and negatives you've seen relative to the Health Services business being onboarded -- and what it does on a go-forward basis related to what you think the true run rate of the business is? And if you're going to update that at the analyst day, I apologize for getting ahead of myself.

Zane Burke - *Cerner Corporation - President*

Well, we be providing -- this is Zane. We will be providing some update as it relates to Health Services, but I'll give you some of the -- it's a great question.

From a positive perspective, it's done what we set forth to do, which is bring on the client base that the Health Services folks had; don't disrupt the growth of Cerner and the trajectory we are on; and make sure that we retain the talent at Health Services, which were critically important elements. And I feel very good about those components.

The number of migrations that we had, as I mentioned in my prepared comments, was over 40. If you have looked at the previous five years combined, we had more conversions to Millennium than we had in the previous five years combined, from just natural takeover, or what happened from a migration perspective in the open marketplace. So I would look at that as incredibly positive on the moving the traditional Siemens Health Services clients to a Millennium platform.

The combination clients that have Cerner as a core EMR solution and as a revenue cycle client -- we have done a lot of work in terms of taking out the pain points for those clients, for managing those two different databases, now that we are under one Company and able to help those clients and really kind of derisk that base from the revenue cycle perspective. So I feel really good about the overall performance of health services. And certainly from a financial performance, we've met or exceeded our targets in terms of what we were attempting to accomplish from a bottom-line perspective.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes, Michael, this is Marc. Since Zane is going to point out the positives, I guess he'll leave me to talk about anything that might be slightly negative. Clearly, from our perspectives, just being able to see the revenue line -- their lack of a handle on the revenue number from their side and, therefore, us having to kind of go through that, and that impacted, as we've talked about, some of our revenue projections.

The good news is that they had the same lack of visibility on spending, and that actually turned out to be better from a reduced spending standpoint than the lower revenue was. So we all ended up the year actually ahead of where we wanted from an OE perspective, as Zane said. I think that's probably the thing I would point out as something that was a little bit lower than our original expectation -- not significantly, but enough that it obviously impacted some of the guidance that we provided.

I think as far as the two companies coming together, that feels really good. I'm very impressed with both of our teams and the effort and time they have put in to achieving a kind of a One Cerner view of the world. And I think one year in -- you know, we just today upgraded our financial systems to PeopleSoft 9.1. And so we are all running on the same financial systems, and all of that is pretty impressive to get done within this 12-month period from date of close. So other than the revenue side, I'm pleased as well.

Michael Cherny - *Evercore ISI - Analyst*

And if I could sneak one more quick one in, you guys are talking a lot about the positive business momentum. Obviously, I think there's a dislocation between that and where the stock is, both heading into today as well as in the aftermarket.

Do you think any differently, given the cash flow generation, of addressing the market -- particularly taking advantage of depressed valuation to doing a type of ASR? I know you completed the buyback. Any thoughts there would be greatly appreciated.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Sure. Certainly every year we look at our capital and look to deploy it in the best possible manner. Certainly, stock repurchases are one of the things that we've been doing recently. I don't know if people -- you guys track a lot of numbers, so you probably know it exactly, but we have spent -- since 2013, 2014, and 2015, we spent $731 million buying back about 13.3 million shares.

So I think that certainly indicates that we're going to look to the market. Our normal philosophy is obviously, as we've discussed, purchasing shares to offset option dilution. I'm not sure if we would do an accelerated stock repurchase, but we might. Certainly, we have a Board meeting in March, and I would expect the Board to be looking at this year and looking at our available cash that we'd like to dedicate toward repurchase and doing -- as they have every year, consider whether that's a good investment, which in the past we have certainly thought was a good investment.

So we think the opportunities for the Company are significant. We're going to be talking about our 10 year plan at our next Board meeting. And I think based on what we see there, and some of which we will actually share at HIMSS with you guys, I think that's -- it makes sense for us to do that -- to consider that.

Michael Cherny - *Evercore ISI - Analyst*

Great, thanks.

Operator

Garen Sarafian, Citi.

Garen Sarafian - *Citigroup - Analyst*

Thanks for all the color. I guess I wanted to just touch on the sales guidance for the year. The guidance now is -- the midpoint is $5 billion, whereas last quarter it was over $5 billion. So I understand the bookings in the fourth quarter that didn't occur, but I'm wondering: is there anything else that's changed in your view? Whether it be some milestone payments that had come up, I think last quarter, that you are now not expecting in 2016, for example? Or any other factor that's impacting the current sales guidance?

Marc Naughton - *Cerner Corporation - EVP and CFO*

This is Marc. No, from a revenue perspective, our number has always been right around the $5 billion number. So clearly in Q3, it was our preliminary view. This quarter is certainly more locked down relative to our plan. And in our minds, it's basically unchanged.

Garen Sarafian - *Citigroup - Analyst*

Got it. Okay, fair enough. Then did you mention -- the bookings were impacted by an ITWorks deal that did not occur, as well as -- I think you had mentioned another project, which I didn't catch. But could you just elaborate on both? Because it sounded like at least the ITWorks deal -- you didn't expect it in 1Q, but you sounded very confident that it was to happen rather than if it would happen. So just trying to get a little bit more clarity as to what was the delay? And what gives you confidence that it will indeed occur?

Zane Burke - *Cerner Corporation - President*

This is Zane. We expect both of those opportunities to close the first half of the year, and so that is the statement. It is not a lose-or-go-away, but absolutely, we expect both of those to occur. The timing of the ITWorks opportunities in particular are somewhat -- can be somewhat tricky. And we actually entered the quarter with a couple of opportunities -- entered the fourth quarter with a couple of opportunities to close. And neither of those came forward, but both of those are still in our pipeline, and we feel very bullish on closing those in 2016.

These are big decisions. They create lumpiness in our bookings, because they tend to be very large numbers. And that's why when you track the -- we are at 27% long-term bookings, and so that is reflected -- that lack of ITWorks deals is reflected in that. Doesn't have a lot of near-term impact on the financials or our outlook of the business. It's more of a longer-term aspect. So it's very normal with -- unfortunately, they just happened to be very large transactions and create some lumpiness in the model. That's why when we talk about first half of the year, I felt very good about bookings growth in the first half of the year.

Marc Naughton - *Cerner Corporation - EVP and CFO*

This is Marc. Just a comment on ITWorks. Just keep in mind, we are re-badging workforce. And so it's not just doing a transaction; it is actually getting in HR, just trying to time a variety of internal reasons that they might have relative to that. So they are by their nature lumpy. It's not something that we can push and make happen or not make happen. And sometimes it's hard to predict exactly when it will happen.

Zane Burke - *Cerner Corporation - President*

Sorry, Marc -- the other piece I'd say, this is an ultimate relationship play.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes.

Zane Burke - *Cerner Corporation - President*

So you're playing for the long-term; you're part of this organization's business. We become one. And so it's not subject to the similar kinds of end-of-the-quarter -- those types of elements. It's just one of those things where -- and it's never fun when we are reporting every 91 days, when we give our best view of that as we enter that period.

But there's not going to be a lot of pushing on those kind of opportunities, because it's the ultimate relationship play. And it is one of those things that is -- we just have to live with in terms of being --.

Garen Sarafian - *Citigroup - Analyst*

But I guess, just to clarify, doesn't sound like it was a competitive situation in terms of the reason why it didn't go through. Sounds like there were some other -- you mentioned relationship; you mentioned it's complicated deals, in terms of structuring, not necessarily a competitive situation. So I just wanted to clarify: is there any other -- I understand the confidentiality of the specific relationship, but is there any other color you can share to shed some light as to the validity of my understanding of it so far?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Sure. These deals are typically noncompetitive. So what you're really attempting to do is help that organization move faster in what they're doing from an IT perspective: create a known kind of expense stream to them, accelerate the capabilities of Cerner. There's a ton of work around it.

So they're not competitive scenarios. They really are -- and then I would say in both of these -- the cases that we had here, it's not an if, it's a when conversation. And both of those are moving forward. And you'll see those come through in 2016.

Garen Sarafian - *Citigroup - Analyst*

That's very useful, thank you.

Operator

Charles Rhyee, Cowen and Company.

Charles Rhyee - *Cowen and Company - Analyst*

Thanks, guys, for taking the question. You know, I think Garen touched on it a little bit before, but around the milestone payments: I know you, Marc, you talked about that as being a little bit of an issue last quarter. The revenues came in line this quarter. Can you talk about sort of how you're performing against those milestones? And maybe just to ask if -- you know, as we think about going forward, how much of a factor you expect that the play in 2016?

Marc Naughton - *Cerner Corporation - EVP and CFO*

I expect it to play a zero factor. And we had none in Q4.

Charles Rhyee - *Cowen and Company - Analyst*

Okay. And then just secondly, earlier you did talk -- obviously you're not planning for zero growth in bookings, but you can make the revenue numbers without it. Obviously, you have a big backlog here. Can that extend also beyond 2016? Or would you assume that we have to have some rebound in growth in bookings as we think further out? Thanks.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes. If you look at our history, it tends to be: we have a strong bookings growth year, and then the next year we have a strong revenue growth year. And if someone has figured out why that happens all the time, we are interested, because it kind of sometimes comes in cycles like that a little bit -- although when you grow the bookings over 30% in a year, growing the next year is going to be challenging on those tough comps, which we still believe we can grow.

So I think from our standpoint, I think the backlog is strong. It continues to grow. It's probably got an average -- you know, once you take out the initial component that supports 79% of my revenue next year, then you basically probably have a 3.5 year average life of the remainder. So it will contribute significantly into 2017, absolutely, from a backlog perspective. There's still plenty of medium-term elements in that backlog, particularly services that roll out. And if we deliver the bookings that we expect -- certainly for this year, if we even just deliver flat bookings and don't grow bookings, we'll not only deliver 2016, but we set ourselves up well for 2017.

Charles Rhyee - *Cowen and Company - Analyst*

And just for clarification, you said the two-year [stack] was 13% in the growth. If we think about sort of a normalized -- without health services last year, would you say we were doing better than that? Or any color around that? And thanks a lot.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Just the 13% was the CAGR for two -- basically for this year and Q1 guidance next year. Keep in mind the guidance for bookings is just for Q1, very targeted on what's in there. And we look forward to talking to you at the end of Q1 about Q2.

Charles Rhyee - *Cowen and Company - Analyst*

Great. Thanks a lot.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

My first one is for Zane. And I guess, Zane, what I wanted to kind of hone in on is: where do you feel like we are in the demand environment and the demand cycle? And I don't know if you saw -- that was a chart that KLAS had out there that showed that 2016 was going to be a spike year for EMR replacements, and 2016 and 2017 were sharply down years.

I'm trying to reconcile that with kind of the booking shortfall expectation in Q4, and what would look like an expectation for a shortfall in Q1. Are we at a point now where it's harder for Cerner to escape the gravity of the macro demand environment? I guess that's the question.

Zane Burke - *Cerner Corporation - President*

I'll start with kind of part of your assessment. Thanks for the question, George. We from a new bookings perspective, new footprints were actually very strong in Q4. So it was 36% of our bookings.

So we overachieved, actually, our internal projections and plans around the new business side. So we saw very strong growth in 2015, what I would actually say was near 2011 kind of meaningful use era type decision-makings in 2015. And we expect that to continue into 2016. So our experience was really very strong opportunity in 2015, 2016 and beyond.

And from that perspective, we over-attained. When you really look at -- the one piece that doesn't get done was really, truly in ITWorks and a professional services on a deal that did get, in fact, closed. The professional services with that opportunity did not close but will close.

So those aren't reflective of the marketplace. So I wouldn't look at the bookings element and say any of that is reflective of the marketplace. I'm looking at the marketplace as hot as it's been in the past 5-plus years, in that perspective. And our competitiveness at all time highs helps us to feel very good about our position as we move in forward.

I think there's great opportunity in a number of bases where client companies have either sunset their solution, or they're trying to do upgrades to solutions and platforms to prepare for future elements. And there's just a lack of confidence in those companies' and organizations' ability to invest and deliver contemporary solutions. So the level of buying opportunity in 2016 and 2017 is very strong. And I think that will -- our viewpoint right now is that there's a very strong marketplace. And over half of the marketplace is basically up for grabs.

In addition to that, our success around penetrating the non-Cerner EHR base with our population health solutions and our CareAware solutions is very significant and represents big opportunity on the upside for us as we move forward. And I think that's another area where we'll need to continue to provide more information for you, so you get to understand the impact of what that means for us. Because we see the market unfolding probably -- I don't think I've ever seen it as robust as it is today. And as I look forward, it looks incredibly robust. I just think the makeup of that will evolve, in terms of both EHR decisions as well as population health and other solutions that we have.

George Hill - *Deutsche Bank - Analyst*

Okay, that's helpful. And maybe a quick follow-up for Marc. And Marc, we've been talking about the backlog conversion to revenue for a while. And you talked about how 79% of the revenue for next year is going to come from the current backlog. Given the size of the backlog, can you talk about how many years of visibility do you feel like you have to that 79% of next year's revenue, which is -- I guess call it $4 billion? So should we think of the backlog as representing 3.5 or 4 years, or whatever the right number is, of visibility? Like, you've basically got 80% visibility to four years of revenue. Is that the right way of thinking about it?

Marc Naughton - *Cerner Corporation - EVP and CFO*

No, I think that each year's going to be different, right? So next year, as I look at 2016, the 80% disability that I have shows up in the backlog. I've got long-term bookings. With all the bookings success we've had, I've added in a lot of long-term contracts. I mean, this year we're -- 32% of our contracts are long term.

So those aren't going to flow into all -- you know, significantly impact as a percent of the bookings number of those deals hit 2017 or 2018. So it's -- every year it's important I go out and deliver bookings to go feed the backlog to drive the next year.

So I can't tell you that I've got 80% of the next four years' revenue sitting in my backlog. That would be a really nice thing to have happen. But the reality is: the average life, once you take out the 2016 numbers, is probably a 3.5 average life. But you've got things that are 10 years in that, and things that are shorter term. So from a visibility, it still provides outstanding visibility from a backlog -- and especially from things that are in our bigger backlog, which includes support now. So I do have significant visibility. But it's not -- it wouldn't be 80%.

Certainly, when I go into next year, I'm going to have to deliver things from the $5.4 billion-plus of bookings that I expect to deliver this year that will then inform and help me on next year's numbers. So -- but certainly, I don't have a number that I could tell you right off the top of my head of the percent of revenue in backlog today that will help 2017. But it certainly isn't 80% today. But by the time I get to the end of the year, my expectation is that number keeps going up, which is impressive in an environment where I'm going to grow revenue double-digit next year.

George Hill - *Deutsche Bank - Analyst*

Thanks. I appreciate the comments.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Sure.

Operator

Sean Dodge, Jefferies.

Sean Dodge - *Jefferies LLC - Analyst*

Zane, you touched on this briefly earlier, but on the over-40 Health Services sites that have committed to migrating, can you talk about and maybe even quantify how the revenue profile of those clients are changing as they migrate? So how much extra Cerner-branded stuff have you been able to cross-sell into those sites as they migrate?

Zane Burke - *Cerner Corporation - President*

Great question. I will tell you that there was gaps in the Health Services offerings, particularly around things like population health and ambulatory; even some more mundane things, if you will, around surgery and a full-functioning ED solution. So as clients come in to do the migration, they will often procure additional software to fill out that solution set. And that's what we've seen.

And then we have additional implementation services to implement the new Millennium software. And then the recurring tends to stay fairly similar to what it has been. So the additional pops are in the professional services, and in licensed software, and then any related support fees that would go with those pieces, so -- for the long term.

And then at traditional Cerner mode, most all our clients do remote hosting. So they will come through and do the remote hosting aspect to that, and many of the Siemens Health Services clients were remote hosted previously. But some of them were not, and so we see that trend picking up as well.

So it's basically a -- there's not a cookie-cutter in terms of: I can tell you, here's the percentage increase that we see, because all clients are not created equal in terms of what they've contracted for or what they want to go do moving forward. But generally speaking, you see us rounding out the full solution set and doing the implementation and doing the hosting and ongoing maintenance. So it does represent an uplift, typically, in overall revenues.

Sean Dodge - *Jefferies LLC - Analyst*

Okay. So it has been a lucrative cross-sell. I think you guys have historically said that population health solutions currently comprise about 14% of revenue. What percentage of bookings would pop health be if you broke it out that way?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes, I don't think pop health is 14% of revenues. I think we've talked about pop health, including various consulting elements that aim for quality improvement, et cetera, that we kind of have grouped into that -- been about $450 million, so closer to 10%. Just to clarify.

Sean Dodge - *Jefferies LLC - Analyst*

Okay. Would the proportion of bookings be greater than that, though?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Well, they -- not really. I mean, I think the -- keep in mind that that -- given that that bucket includes service elements and other elements, a lot of the HealtheIntent-style population health that we're selling today is kind of being acquired by our clients in small increments initially. So a lot of those -- I don't know that they are pilots, but they're certainly smaller initial -- I'm going to try this, I'm going to target a certain area that I want to use it in.

And obviously, some of our clients are not only looking at a risk population, but they are just looking at a way to go back into their -- to identify a population where they could go actually do some proactive services for, which improves their revenue and also reduces the overall cost of whoever is taking the risk. So from a bookings standpoint, those have not been a significant contributor.

So I'd say kind of if you look at the total bookings, we give you percents of new clients, which -- most of which probably aren't having a significant component of HealtheIntent with a brand-new client. Our ITWorks clients and Works businesses, which are really not -- you know, they're separated out. And when you look at the long-term being 30%-plus, and if you look at the new client to be 30%-plus, you have kind of have got the bucket of things that are going into the base.

So as a total of -- you know, even as HealtheIntent -- you know, even if it's 10% of that number, it's a smaller number relative to the total bookings number.

Sean Dodge - *Jefferies LLC - Analyst*

Got it, understood. Thanks again.

Operator

Jeff Garro, William Blair.

Jeff Garro - *William Blair & Company - Analyst*

Question for Marc: it's something that's been talked about throughout 2015, but I wanted to ask now, after completing the full budget process, what's been learned about forecasting the health services business? And also, what's been learned about forecasting be professional services piece of revenue?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Well, I think Q4 was a good indicator that the processes that we put in place and the additional scrutiny and reengineering of some of those processes, particularly on the services side, have been effective. You know, I don't -- given that our additional view of our revenue ended up -- you know, we delivered kind of exactly at the midpoint of our guidance, which is -- I'm happy, obviously, about delivering the number that we guided to. So I think we certainly learned as we get bigger that you continue to scrutinize; you continue to look at the processes.

Growth can mask processes that might be as effective as they should be. And so that was a good wake-up call throughout our business, that we need to make sure that we are diving deep into how we do things and make sure that we are not only doing them most efficiently, but we are also doing it in the way to get the best answer. So I think -- I was very happy that Q4 from the revenue and income statement standpoint was kind of spot-on. So those processes and the HS delivery was good as well. So those things that had impacted us early in 2015 feel like we're in a much better place now.

Jeff Garro - *William Blair & Company - Analyst*

Well, that's great. And then just a quick follow-up. You guys have talked about some success selling the model system or model practice, and it sounds like that should translate into better visibility. But does it create some type of variation in the professional services revenue stream that you might otherwise see from a more customized implementation?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Not really. I think for the most part, we do fixed-fee implementations. So for the most part, we've got a bucket of hours, and we are working against that bucket of hours. And the revenue is that bucket of revenue, divided by however many hours you think you're going to go hit, adjusted as you gain experience on that project.

So what the model system should do is create a more predictable -- not only a higher-quality project, a better deliverable to the client, but more predictability. So to the extent we have variances today in how long it takes to put in a system based on what we project, which is normally not too significant, the model system should make those even less so.

From a revenue perspective, it should actually make our modeling better. And to the extent that we can use the model to get it done faster, then obviously that would help us on a fixed-fee contract from a margin perspective.

Jeff Garro - *William Blair & Company - Analyst*

Great. Thanks for taking the questions.

Operator

Richard Close, Canaccord Genuity.

Richard Close - *Canaccord Genuity - Analyst*

Yes, thanks. I think we're all trying to really figure out if we've hit the inflection point here. Zane, it sounds from your commentary that you're pretty excited about 2016 and 2017 from a new business opportunity.

As we look, like, maybe beyond -- as you think about two, three, four years out, where do you think the market is? I mean, do you think population health and ITWorks, and maybe RevWorks, can step it up where you continue to show $5.5 billion in bookings or plus, two to three years out?

Zane Burke - *Cerner Corporation - President*

Yes -- and we will lay out some of our plans at the HIMSS conference coming up. So I'll plug for Marc and Allan. So we'll actually lay that out as part of the HIMSS pieces.

But I'm incredibly bullish about the marketplace, and the need for healthcare technology, and the need for the solutions that we bring. Organizations need our scale to help them move faster and to have access to data no matter where the person is. And so the things that we do, both from a core EMR perspective as well as the population health -- which I think long-term will drive more EHR growth back into all bases -- in addition to the different Works pieces, are absolutely needed by our clients.

So the marketplace is very, very good. And, in fact, 2015 was a great year. I look at 2016 -- should be a very strong, strong year. It's very hard to look out in the three- to four-year range around the bookings numbers and say the exact bookings numbers. But we'll lay out exactly what we see in terms of those elements. There's just a strong need for more healthcare IT and the services that we provide.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes. And this is Marc. We've done okay in ITWorks. We're doing pretty well. We haven't got the one-quarter rhythm that I'm kind of looking for.

We really kind of paused on revenue cycles in the RevWorks deals with ICD-10. So those are all people in our client base that are interested in those services. It is a little bit a matter of not if they're going to go to a third-party service provider for some of that; it's kind of when. And then we just need to be ready to be able to attack it and to attack that market. So I think the opportunities are out there.

The good news is that except for the top two competitors in the environment, no one else stepping up and saying, oh, we are really going to be great. In our marketplace -- certainly, within the hospital marketplace, certainly, the people that have been -- are kind of not doing as well continue that trajectory.

So there is the opportunity, as we have seen in 2015, to go in and displace people -- competitors who had a footprint and have not delivered. And I think that continues; we've got that continuing through 2016 and 2017. So I don't -- you know, I think it's difficult for us to tell you what our bookings are going to be in four years. But I think the elements of things that we will be selling will be big booking opportunities. So it wouldn't surprise me to keep that at that level.

Richard Close - *Canaccord Genuity - Analyst*

Does the global market really have to ratchet up, or is the commentary surrounding the US market primarily?

Marc Naughton - *Cerner Corporation - EVP and CFO*

I think in the three- to four-year range, I think the US market can drive a lot of the growth that we're looking for. I don't think we're reliant on any of the foreign markets to come up. I think they'll continue -- as their economies start to recover, assuming they start to recover, there will be a huge interest for them to do more with information technology. But I think until that happens, we don't need that to happen to drive kind of our 10-year growth view, which is a view that we have got -- we will share with you guys an updated version at HIMSS.

Richard Close - *Canaccord Genuity - Analyst*

Thank you.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Sure.

Operator

Greg Bolan, Avondale Partners.

Greg Bolan - *Avondale Partners - Analyst*

Zane, I think you had mentioned earlier -- kind of struck a chord, this idea of health systems kind of toggling between worlds: living in the fee-for-service, but obviously dreaming or looking into the future of -- on the ACO side. And does it feel like that that is going to create -- are you guys basically describing a situation where 2015 obviously was a good public -- good purchasing market, just as a whole. You guys obviously gained share. It accentuated that growth rate in bookings.

And then in 2016, a lot of confusion, a lot of disruption coming. And this 2016 is more of a market-share-gain year, and that's why there's a little bit of hesitancy in terms of -- I know you've just finished a year you grew 28% bookings -- but there's maybe a little bit more hesitancy as it relates to, hey, we think we can grow bookings on top of the 28% growth year. This is just more of a -- I guess the evolution here is market share gain is kind of the focus on the kind of confusion that's out there in 2016. Is that a fair assessment?

Zane Burke - *Cerner Corporation - President*

Here's how I had looked at it, is -- the market -- what we talked about from the bookings perspective was Q1-related only. So as we looked to Q1 last year to Q1 of 2016, we are giving you our best guidance as it relates to the quarter. As that relates to the year, I feel very strongly that we will see bookings growth for the year. We just are not providing guidance as it relates to the year bookings. There's great opportunities out there.

In 2015 I see very similar -- around the new business opportunities that we had for 2015, I see the same dynamics at play for 2016. So there are still competitors that are sunsetting solutions. There are competitors that have not kept contemporary architectures, and they don't age like a fine wine. And so those are going to become more and more at play in that cycle. Very good about EHR market. In addition, there are all the Works pieces in the business; and the population health, which continues to get traction.

So my expectation is that we will grow bookings in 2016 on a very tough comparable from 2015. We're just looking at Q1 and providing the best guidance that we can as we look at the mix of the opportunities in there. And so the sway of kind of one services piece and one ITWorks deal really shouldn't taint how we feel about the market and does not. So my long-term view of the marketplace and, frankly, short-term view, is very, very bullish. And I feel really good about that.

Because there has never been a bigger need for healthcare IT solutions. So kind of that piece of living in the fee-for-service world and an at-risk model -- it's coming slower, but the nice part is you can utilize our population health and solutions to maximize both worlds. And really we're the only ones doing that, which is really unique, and it's creating a differentiation for us in the marketplace. And that's where I think, as people begin to understand that, you'll see even accelerated growth on top of the great growth we've seen in that space.

Greg Bolan - *Avondale Partners - Analyst*

That's great. That's all I've got. Thank you.

Zane Burke - *Cerner Corporation - President*

Thank you for the question.

Operator

Sean Wieland, Piper.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

So the $564 million in licensed software for the year: can you tell me how much of that was selling Siemens products to Siemens customers, you know -- what I would classify as inorganic?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Very little from a new software sale. Very little.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Okay, that's the answer I was hoping I would get. So that number was up 25% year-over-year, which is about the fastest growth I've seen in licensed software in quite a while. If we could just focus on that for a second, what are the kind of long poles in the tent of driving licensed software? And how sustainable is that kind of growth in 2016? And how did that number do relative to your expectations in 2015?

Zane Burke - *Cerner Corporation - President*

This is Zane. Software, as you mentioned -- thank you for saying it -- was fantastic growth in 2015, and it was directed by all the new footprints that we achieved in the year. And I think what you'll see is that fuels the rest of our businesses over the long-term, as well.

So those new clients will fuel the businesses over the long term and add additional revenues above and beyond the original initial software purchases. The sustainability is really how robust that marketplace is. And I just have commented multiple times on the bullishness of 2016 and 2017, the replacement market era. And we still have a lot of white space out there in our existing client base as well.

So I feel really good. I'm very pleased with the results on the software line. Most all is that was what I'll call Cerner solution. The health services piece was single digits, if that. I don't think it's less than a single digit, but a very small portion of that. That was Cerner Millennium and Cerner population health solutions driving the growth in that space.

And that's what I'm looking at from a marketplace -- I feel great about the bookings and the trajectory we're on. And I apologize that we missed the number that we set forth. And it's really related to some of the lumpier side on the Works side.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Super. That's all I had, thank you.

Marc Naughton - *Cerner Corporation - EVP and CFO*

Why don't we take one more question?

Operator

Steve Halper, FBR.

Steve Halper - *FBR Capital Markets & Co. - Analyst*

It's a two-part question. You talked about 79% to 80% of the revenue coming from backlog in 2016. How does that compare to previous years -- let's say before the acquisition of Health Services?

Marc Naughton - *Cerner Corporation - EVP and CFO*

It would probably be in the lower 70%s -- 72%, 73%.

Steve Halper - *FBR Capital Markets & Co. - Analyst*

So it would've been 70% plus?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes, I think coming in, we were probably -- 74% was the last number I -- before we did HS.

Steve Halper - *FBR Capital Markets & Co. - Analyst*

And obviously HS increases the number because of the base?

Marc Naughton - *Cerner Corporation - EVP and CFO*

It certainly helps from some of their long-term contracts coming in. But it's also the sale -- all of the projects we're signing up and all the services that are going to roll out of the backlog to install those. So I think that's more related to the strong bookings in 2015 and the strength it's created in our backlog as much as it is to HS. HS probably was a similar number relative to their contribution from backlog. So that alone isn't going to move us up 5, 6 points.

Steve Halper - *FBR Capital Markets & Co. - Analyst*

Okay. That's very helpful. And the other part of the question is -- again, we don't want to steal the thunder of the upcoming meeting, but post-Health Services acquisition, you talked about the Company's ability to continue to grow revenue in the double-digit range. Are you still prepared to reiterate that comment?

Marc Naughton - *Cerner Corporation - EVP and CFO*

Yes. We are.

Steve Halper - *FBR Capital Markets & Co. - Analyst*

Okay. That's good, thanks.

Marc Naughton - *Cerner Corporation - EVP and CFO*

All right. Hey, I want to -- thanks, everybody, for being with us this afternoon. 2015 was actually great year for us, with the acquisition of HS and our strong competitive performance, as evidenced by bookings growing 28% year over year. Our pipeline begins 2016 at the highest level ever, and higher than when we started 2015, even after we took the $5.4 billion out of it. So I think we are well positioned for a strong 2016.

And we look forward to sharing more about those opportunities with you at our HIMSS investor day. So have a good day.

Operator

Ladies and gentlemen, thanks for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone have a great day.
