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CERN.OQ - Q2 2020 Cerner Corp Earnings Call

EVENT DATE/TIME: JULY 29, 2020 / 8:30PM GMT

OVERVIEW:

Co. reported 2Q20 revenue of $1.33b and GAAP net earnings of $135m or $0.44 per diluted share. Expects 2020 revenue to be $5.45-5.55b and adjusted diluted EPS to be $2.80-2.88. Expects 3Q20 revenue to be $1.35-1.40b and adjusted diluted EPS to be $0.70-0.74.

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PRESENTATION

Operator

Welcome to Cerner Corporation's Second Quarter 2020 Conference Call. Today's date is July 29, 2020, 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, bookings, new solution, services and offering development and capital allocation plans, cost optimization and operational improvement initiatives, future business outlook, including the markets or prospects by the company's solution and services, the expected benefits of our acquisitions, divestitures or other collaborations and the expected impact of the COVID-19 pandemic.

Actual results may differ materially from those indicated by the forward-looking statements. Please see Cerner's earnings release, which was furnished to the SEC today and posted to the Investors section of cerner.com and other filings with the SEC for additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

A reconciliation of non-GAAP to GAAP financial measures discussed in this earnings release call can also be found in the company's earnings release. Cerner assumes no obligation to update any forward-looking statements or information, except as required by law.

At this time, I'd like to turn the call over to Brent Shafer, President and CEO of Cerner Corporation.

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

Thanks very much, and good afternoon, everyone. Thank you for joining the call.

Like most of you, we're doing this call from remote locations today, so please bear with us through any technical challenges. Hopefully, we won't have any.

I'll spend a few minutes providing my thoughts on the business and current environment before handing the call over to CFO, Marc Naughton; our Chief Client and Services Officer, John Peterzalek; and our President, Don Trigg, for more on the numbers and marketplace commentary.

While COVID has hurt our clients financially by significantly reducing elective procedures and other margin contributors, Cerner's intense focus on supporting them through the pandemic has enabled us to strengthen and extend client relationships and actually help plan for their post COVID recovery. As an example, we recently announced the expansion of our Banner Health relationship to include Cerner's Revenue Cycle Management Solution. With 28 hospitals in 6 states, Banner is one of the country's largest health systems, and we're very proud to grow our relationship with them.

In addition to clarity, alignment and focus, COVID has also produced a real burst of innovation as Cerner teams delivered critical, quick-turn projects. Our Lights On Network analytics solution released more than 15 new reports and dashboards in 45 days. We stood up a new version of our cloud-based CareAware solution to support the Center for Disease Control on a national scale in just 72 hours, and we developed and deployed new syndromic and surveillance reporting to support clients in a matter of hours.

The flexibility and commitment we've shown our clients has been inspiring, and Cerner Solutions are helping caregivers respond to the crisis and plan for recovery from its impacts. In many cases, COVID is helping our clients to actually reimagine new post-COVID business models that reflect the increasing importance of comprehensive data and network strategies. You'll hear more from Don about the forces of change impacting health care.

Cerner's flexibility is largely the result of our ability to execute and deliver our transformation efforts. We've made meaningful progress on cost optimization and business simplification initiatives that will drive efficiencies and ultimately make it easier to do business with Cerner.

Tomorrow marks an important milestone, the 1-year anniversary of our agreement with Amazon/AWS. The pandemic has underscored the value and relevancy of this relationship, and Cerner recently deployed the innovative AWS cloud-based Cerner Command Center. That's a tool that provides real-time data and predictive analytics that enable health systems to monitor and more effectively manage critical resources, such as bed utilization, ICU occupancy and staffing levels. Launched in January, Cerner Command Center is already helping health systems like Northern Light Health, Cook County Health and Hospital System and Christiana Care Health Services, and I'm pleased with the considerable interest that is coming from other clients in this tool.

Cerner's COVID task force continues to inform our clinical, business and operational decision-making. The task force regularly interacts with the CDC, the World Health Organization and other global health agencies to help guide their recommendations. And the health and well-being of our associates is a paramount concern as our workforce provides critical support to Cerner's global client base. As I mentioned last quarter, I want to again thank our Cerner associates for adapting so well into this virtual work environment. They've just done an outstanding job and deserve our robust thanks.

Since we last spoke, we've also welcomed a new Chief Technology Officer, Jerome Labat. Jerome brings more than 30 years of technology experience, including more than 10 years in cloud-based environments. And Jerome will define and implement Cerner's technology vision and strategies to deliver next-generation innovations for clients across all platforms. He will also provide leadership over all development resources and work collaboratively with our sales, marketing and consulting teams. And I can tell you, Jerome is passionate about health care, and he has a proven track record of transformational leadership. And we're really thrilled to have him on the Cerner ship team.

Finally, I'd like to recognize the work that we are doing to build a more diverse and inclusive culture at Cerner. While diversity and inclusion efforts have been underway for many years, recent events have challenged organizations to reexamine their strategies. And as I mentioned in a recent all-associate town hall, the Cerner leadership team is committed to making even more progress in our diversity and inclusion programs and policies.

For 2 consecutive years, we've been named a leading Diversity Employer by Forbes, and we will continue a series of actions that will further advance our culture and improve the communities where we live and work. Also this week, Cerner was named a technology partner in an initiative led by nonprofit Testing For America. TFA is driving an effort to safely reopen historically black colleges and universities by developing comprehensive COVID testing and safety plans for students, faculty and administrators. Cerner will play a key role in safely running test results from partner labs to the HBCUs and the other health agencies.

As for our financial results, I'm pleased that we've delivered a very solid second quarter, especially given the unique, unexpected circumstances. Our quarterly bookings reflects strength in our client relationships and our strong focus on cost control drove a favorable earnings result. We're fortunate to have a resilient business model, engaged associates worldwide, highly relevant health care technology and a solid transformation plan that positions us to manage through the pandemic with less impact than many other companies.

With that as context, I'd like to turn the call over to Marc.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Thanks, Brent, and good afternoon, everyone. I'm going to cover our Q2 results and share our updated views on the remainder of the year.

This quarter, we delivered strong bookings, but revenue came in slightly below our expectations, primarily driven by some low-margin items being impacted by the pandemic more than we expected. This was offset by expense control, and we delivered earnings at the high end of our guidance range. We've adjusted our revenue guidance to reflect a lower Q2, a more current view of the COVID impact going forward and the anticipated sale of our remaining RevWorks services business. We also tightened our full year earnings outlook while maintaining the same midpoint. Overall, we are pleased with our results and outlook given our prior guidance was provided in the early stages of an unprecedented environment.

Now I'll go through our Q2 results, starting with bookings, which were $1.34 billion, down 6% from second quarter of 2019 but above the high end of our guidance range, primarily due to strong levels of managed services bookings in the quarter. We ended the quarter with a revenue backlog of $13.66 billion, which is down 9% from a year ago, primarily due to the termination of our RevWorks outsourcing agreement that we discussed last year as well as a lower level of bookings in the first half of this year. Our backlog revenue, combined with other contracted revenue that is excluded from ASC 606 backlog definition still provides visibility to more than 85% of expected revenue over the next 12 months.

Revenue in the quarter was $1.33 billion, down 7% from Q2 of '19, driven primarily by the Q4 '19 exit of the RevWorks outsourcing contract and the impact of the pandemic. Revenue was $10 million below our guidance range, with the impact of COVID contributing to lower levels of technology resale and reimbursed travel. We also had less third-party services, licensed software and transaction processing revenue during the quarter. As I mentioned, these are primarily lower-margin revenue streams, so the impact on earnings was limited and we were able to offset it with expense control.

I'll now go through the business model detail and year-over-year growth compared to Q2 of '19. Licensed software revenue in Q2 was $152 million, down 23% from a record high of $197 million in Q2 of '19. While we expect the licensed software would be down this quarter, it did come in a bit lower than expected as strong growth in our SaaS offerings was offset by a decline in traditional licensed software.

Technology resale of $42 million in Q2 was down 31% year-over-year, primarily driven by a few anticipated new business deals pushing out of the quarter amidst the pandemic. Subscription revenue grew 3% in Q2 to $92 million. This was slightly below our expectations due to lower transaction processing revenue, which is volume-based and was impacted by the significantly lower level of ambulatory visits.

Professional services revenue was down 5% in Q2 to $461 million, largely in line with our expectations, with the decline driven by the impact the pandemic had on project activity, lower third-party services and the termination of the large RevWorks agreement. Note that while we expect implementation activity to grow in the second half of the year, total services are expected to decline due to the termination of the large RevWorks agreement, the sale of noncore assets in Germany and Spain, which closed at the beginning of Q3, and the sale of the rest of our RevWorks services business, which is expected to close during Q3. All of this activity has been factored into our guidance.

Managed services was up 3% in Q2 to $307 million, in line with our expectations.

Support and maintenance of $274 million was down 1% year-over-year and essentially flat to last quarter, which remains in our expectation range and continues to reflect the impact of attrition and reduced hardware maintenance revenue.

And finally, reimbursed travel of just $2 million was down 93% in Q2 due to travel restrictions that went into place towards the end of Q1. We had anticipated travel would be down in Q2, but the ongoing restrictions related to COVID-19 impacted our ability to travel even more than anticipated.

Looking at revenue by geographic segment. Domestic revenue was down 8% from the year ago quarter at $1.17 billion, and non-U.S. revenue of $162 million was down 2% from the year-ago quarter.

Moving to gross margin. Our gross margin for Q2 was 84.1%, up more than 200 basis points from 82% last quarter and up nearly 300 basis points from 81.2% year-over-year. This is a reflection of the overall mix of revenue in the quarter, with the largest revenue declines primarily coming from low-margin technology resale, third-party services and reimbursed travel.

Now I'll discuss spending, operating margin and net earnings. For these items, we provide both GAAP and adjusted or non-GAAP results. The adjusted results exclude share-based compensation expense, acquisition-related adjustments, organizational restructuring and other expenses, COVID-19-related expenses and other adjustments that are detailed and reconciled to GAAP in our earnings release.

Looking at our operating spending, our second quarter GAAP operating expenses of $971 million were down 6% compared to $1.03 billion in the year-ago period. Our adjusted operating expenses were down 4% compared to Q2 of '19, primarily resulting from our continued cost optimization efforts. We also had some areas where COVID drove lower expenses such as unreimbursed travel, entertainment and associate medical expenses.

Looking at the line items for Q2, sales and client service expenses decreased 3% year-over-year, driven by lower personnel and non-personnel expense. Software development expense decreased 2% from Q2 of '19, with essentially flat gross R&D and a 9% increase in amortization that was offset by increased capitalized software. G&A expense in Q2 was down 7%, driven by a decline in both personnel and non-personnel expenses.

Moving to operating margins. Our GAAP operating margin in Q2 was 11% compared to 9.2% in the year ago period. Our adjusted operating margin for the quarter was 18.4%, up from 18% in Q2 of '19, reflecting an improved revenue mix and the impact of our cost optimization efforts. We remain on track with our planned cost optimization efforts and additional measures we implemented to mitigate the impact of the crisis. As a result, we continue to expect our full year adjusted operating margin to be around 20%. This will be approximately 150 basis points of full year margin expansion, which we view as impressive given the circumstances.

For Q4, we still expect our operating margin to be 50 to 100 basis points below our original 22.5% target, reflecting the reality that even with going beyond our original optimization targets, we won't fully offset the impact of COVID-19 by the end of the year. This would still reflect strong margin expansion of approximately 150 basis points compared to Q4 of '19. We also believe the framework for ongoing margin expansion we shared at our Investor Day remains valid, and we expect to continue improving margins beyond this year as we implement additional optimization efforts and aim to realize a longer-term opportunity to benefit from platform modernization.

Moving to net earnings and EPS. Our GAAP net earnings in Q2 were $135 million or $0.44 per diluted share, which is up from $0.39 in Q2 of '19. Adjusted net earnings in Q2 were $193 million, and adjusted diluted EPS was $0.63 compared to $0.66 in Q2 of '19.

Both our GAAP and non-GAAP tax rates were 21% for the quarter. For the remainder of 2020, we continue to expect our GAAP and non-GAAP tax rates to be between 20% and 22%.

Moving to our balance sheet. We remain in a solid position. We ended Q2 with $441 million of cash and short-term investments, while our debt remained at $1.34 billion. Given our relatively low leverage, we believe we were remain well positioned to access additional capital is needed to support our growth and capital allocation strategy.

Moving to receivables. Recall last quarter, we previewed that we anticipated some impact on collections from COVID in the near to intermediate term. We did experience some of that impact in Q2 as total receivables ended the quarter at $1.18 billion, up $33 million from last quarter. Our Q2 DSO was 81 days, which is up from 74 days in Q1 of '20 and 78 days in the year-ago period. Looking forward, we expect some continued impact on collections, but we view it as more of a timing issue than the collectability issue, and do not currently expect it to materially impact our operations.

Operating cash flow in Q2 was $259 million, and capital expenditures were seasonally higher at $117 million, while capitalized software was $78 million.

Free cash flow was $64 million for the quarter. For the second half of the year, we expect higher operating cash flow and lower capex to drive stronger free cash flow.

Moving to capital allocation. As we mentioned last quarter, due to the uncertain nature of the current environment, a significant level of repurchases in Q1, we paused repurchase activity in Q2. We still have $1.03 billion remaining on our current authorization, and we'll continue to evaluate our program, which may also be impacted by the amount of funding use for other purposes such as acquisitions or investments.

Moving to our dividend program, we paid a dividend in Q2 of $0.18 per share or $55 million. And our sustained strong financial position should enable us to continue our dividend program subject to Board approval.

Before moving to guidance, and I'd like to comment on the announcement from early June that R1 RCM Inc. will acquire our RevWorks services business. This divestiture is consistent with the portfolio management activities we have discussed. As part of the transaction, Cerner will extend R1's revenue cycle capabilities to our clients and new prospects as part of an integrated offering.

The RevWorks services business represents approximately $80 million of annual revenue. This is a profitable revenue stream, but we do not expect the transaction to have a material impact on Cerner's earnings. The transaction is expected to close in Q3, and we have factored in approximately $30 million less revenue into our full year guidance to reflect this timing.

Moving to guidance. While the pandemic continues to progress, it remains difficult to precisely quantify the extent to which it will affect our business operations and financial results for the rest of the year. As we were able to demonstrate in Q2, our business is generally resilient with significant recurring elements. We believe that the largest impact from the pandemic occurred in the second quarter, and the project and sales activity will improve in the second half of the year, assuming the impact of the pandemic begins to subside during this period.

The following guidance essentially reflects minor tweaks to our prior expectations based on what we have learned during the early stages of the pandemic. While we continue to believe it is helpful to investors to provide our current view of expected results for the future, I would caution that our guidance remains subject to a higher-than-normal amount of risk, given we are operating in unfamiliar territory, especially with the recent surges in COVID cases.

Now I'll walk through the guidance for the third quarter and full year. For Q3, we expect revenue to be between $1.35 billion and $1.4 billion. As a reminder, Q3 of '19 included a little more than $80 million of revenue from our RevWorks and global divested businesses, of which approximately $70 million is not in Q3 '20 revenue. The $1.375 billion midpoint of this range reflects roughly flat growth from Q3 of '19 after adjusting for divestitures. The Q3 range reflects a slightly larger pandemic impact than we originally anticipated and factors in the pending sale of the remainder of our RevWorks services business that is expected to close in Q3, which we expect to reduce revenue by about $10 million in the third quarter and $20 million in the fourth quarter.

For the full year, we expect revenue between $5.45 billion and $5.55 billion. Once again, I would note that 2019 included approximately $330 million of revenue from our divested RevWorks and global businesses, of which approximately $220 million is not in 2020 revenue. The $5.5 billion midpoint reflects roughly flat growth from 2019 after adjusting for divestitures. This new range is down from our prior guidance range as we have factored in the sale of the remainder of our RevWorks business, the impact of the lower revenue in the second quarter and an updated outlook for the second half of 2020 to reflect our current view of the impact of the pandemic.

Recall that our full year guidance already reflected the exit of our large RevWorks outsourcing contract in Q4 of '19 and our global divestiture. As I indicated, adjusting for all of the portfolio management activities now captured in our guidance would result in roughly flat organic growth. We recognize that there are a lot of moving parts, but we do believe the actions we are taking to position us for solid growth when the pandemic impact subsides and the divested revenues out of the comparable periods.

Moving to EPS. We expect Q3 adjusted diluted EPS to be $0.70 to $0.74 per share. The midpoint of this range represents 9% growth over Q3 of '19. For the full year, we expect adjusted diluted EPS to be $2.80 to $2.88, reflecting a narrowing from the prior range of $2.78 to $2.90, while maintaining the midpoint of $2.84 and expected growth of 6% over 2019. The expected EPS growth in Q3 and for the full year reflects our ability to offset the impact of lower revenues from COVID and the lost earnings from divested businesses through our cost optimization initiatives to date.

Moving to bookings guidance. We expect bookings revenue in Q3 of $1.35 billion to $1.55 billion. The midpoint of this range represents a nice sequential increase over Q2, reflecting our expectation that activity will ramp as we move through the year. Overall, we view this guidance as solid with the lower expected revenue being offset by additional expense control, leading to our expectations for solid earnings growth in a very challenging environment.

In conclusion, we are pleased with our solid results given the circumstances and we are focused on continuing to execute throughout the second half of the year.

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

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

Thanks, Marc. Good afternoon, everyone. Today, I'll provide results highlights and an update on our federal business. I'll start with bookings.

We delivered solid bookings, given the circumstances, exceeding the high end of our guidance range. While this did not translate to revenue upside given the mix of bookings, it does feed our backlog and create visibility going forward. This mix is evident in the higher level of long-term bookings at 32% of total compared to 22% a year ago, reflecting strength in managed services.

While the pandemic did impact the volume of new footprints, we were very competitive where decisions were made, winning several new CommunityWorks footprints. We continue to see activity with larger systems, including a noteworthy win against our primary competitor at Wisconsin-based Marshfield clinics.

We had solid bookings across our strategic growth businesses, reflecting the relevance of these solutions as hospitals cope with the pandemic and continue with our long-term strategies. Additionally, we continue advancing our revenue cycle footprints with another strong bookings quarter. This was highlighted earlier this month as we announced the continued expansion of our strategic relationship with Banner Health, adding our revenue cycle solutions.

Another positive related to revenue cycle is the relationship recently announced with R1 as part of the expected divestiture of our RevWorks Services business. This puts our clients in good hands from a revenue cycle services standpoint, while allowing Cerner to focus on the continued advancement of our solutions. Additionally, we're working with R1 to bring an integrated offering combining R1's tools and services capabilities with our solutions, and we believe will further strengthen our revenue cycle value proposition. Moving to federal.

Like a vast majority of our clients in health care in general, DoD and VA have been on the frontlines of combating COVID-19. While this has required us to adapt to virtual interactions, less-intrusive user engagements and limited on-site activities, we continue to make significant progress on both programs.

On April 18, the Federal Electronic Health Record Modernization Program Office, DoD and VA launched a joint health information exchange, enabling a seamless, secure exchange of health information among each department and their expanded network of community partners. Since the launch, more than 2,000 hospitals, 8,000 pharmacies, 33,000 clinics, 1,000 labs, 800 federally qualified health centers and 300 nursing homes across the country have access to VA and DoD patient information.

Later this year, DoD and VA expect to connect to the CommonWell Health Alliance, which will add an additional 15,000 providers to the network.

We continue to work with the VA and DoD to update the go-live schedules for the impact of the pandemic. While revised go-live dates have not been announced for the VA, we continue to move forward with the VA-centralized scheduling solution go-live and our first VA program go-live.

On the DoD side, as part of the Leidos partnership for Defense Health, we are making significant progress working virtually to advance the program and have activations schedule in the coming months, including a U.S. Coast Guard pilot site.

Now I'll discuss the broader marketplace and how we are executing in this environment. As discussed last quarter, while the pandemic has created some disruption to business activity in the near term, I'm very pleased that a clear message we're hearing from our clients is they want to continue and, in many cases, accelerate their strategic plans. And Cerner is essential part of those strategic plans. We continue working very closely with our clients as they manage the challenges of response and recovery.

To date, the impact of the pandemic is playing out close to how we anticipated it would when we talked last quarter. Q2 had very little activity early in the quarter, then activity increased towards the end of the quarter. We're closely monitoring the financial and operational impact of the pandemic, including the recent surge in cases. At this point, we believe our outlook is achievable.

Overall, both Cerner and our clients have adapted to different ways of doing business. We have modified our sales and service delivery approach, and our clients have been receptive. We have shifted to virtual interactions for most contracting activity, demos, open houses and road mapping sessions.

On the project side, our professional services organization performed well in mitigating the impact of the pandemic. As mentioned on our last call, we shifted to doing as much work as possible remotely in the early stages of the pandemic. Our clients were supportive, and we quickly adapted to this approach as traditional onsite events inclusive of go-lives were done completely virtual.

As reopening occurred, we have shifted where possible and feasible to a hybrid model, combining limited on-site presence with virtual capability. This approach is proving to be effective. And given the ongoing traveler restrictions, we plan to continue this approach for the foreseeable future. Over time, I expect our on-site presence will increase from our current levels. However, I believe the hybrid model will continue, resulting in overall less travel than before the pandemic. This will be more efficient and cost-effective for both Cerner and our clients.

In summary, I am pleased with our execution in the second quarter, and I believe we are well positioned to deliver against our forecast in the second half of the year.

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

Donald D. Trigg - *Cerner Corporation - President*

Thanks, John.

I had the chance to spend the afternoon yesterday with the Chief Executive and the leadership team of one of our leading health system clients. We dove into COVID response, we dialogued on revenue recovery, we talked about what both might tell us about the chance to rethink the future of care delivery in their region and nationwide.

The current pandemic continues to showcase the very best in frontline caregivers. At the same time, it also eliminates the lack of an integrated system of health and care focused on the person. We still lack a unified health network architecture. These systems and data gaps decrease access to care, increase complexity of care and complicate the delivery of what was described by the team yesterday as the essential need for one patient experience.

As entrepreneurs, we're excited about the opportunity to solve these challenges. As our late founder, Neal Patterson, framed, health care is a system and name only. And Cerner's technology and data solutions hold the promise to change that.

Our product and larger platform vision operates at 3 levels: the person, the enterprise and the health network.

At Cerner, we always begin with the person. Only one thing is common across any health care process, the individual. Our focus is on the whole person, and they're always shifting role as a patient, as a member, caregiver for an extended family, more increasingly as a consumer. Our solutions must supply a person-centric experience that have the potential to change behavior, and over time, health care itself.

Our consumer business delivered a solid second quarter. Booked revenue was a particular bright spot, nearly doubling in the first half of 2020 compared to the same period in 2019. This growth signals that our digital front-door strategy is working. Key partnerships with industry leaders, such as our telehealth efforts with Amwell, provider matching with Kyruus, and self-monitoring with GetWell Loop all have solid momentum within our unified consumer framework.

As we elevate from the person, our next systems-level focus is the enterprise. That's here where our Cerner Millennium EMR and CareAware solutions are deployed in 1/3 of U.S. health care and key global geographies worldwide. And it's also here where we automate critical provider workflows and where we differentiate with our ability to drive decision-making within the last mile workflow of the provider.

In the second quarter, we made important progress unifying our access management solutions in the revenue cycle business with our consumer solutions. These front-end patient engagement and access capabilities move us closer to the touchless registration experience the current pandemic requires. And as we look beyond COVID, they'll ensure the person, the provider and the payer all have the right information to deliver a better experience at a lower total cost.

As Brent framed in his comments, our CareAware Solutions suite also continued to see solid demand in the second quarter. Providers are looking to our CareAware communications capabilities and our health systems operation solutions as critical for both COVID surge response and durable revenue recovery, and the business is on pace for over 30% growth for full year 2020.

As providers look to tackle the operational and financial challenges of COVID, it also is pushing them to think not just at the enterprise level but at the larger health network level as well. Success requires them to manage a patient, member or consumer across multiple organizations regardless of the core EMR. And our EMR-agnostic HealtheIntent platform was architected to enable this essential work across diverse stakeholders and payment models.

In the second quarter, HealtheIntent saw new footprints at organizations ranging from the University of Southern California to the Marshfield Clinic to Western Health in Australia. It also delivered important displacements at organizations like Aultman Health. This market is beginning to define what a total solution offering must look like and also beginning to recognize Cerner and its increasing capabilities to deliver it.

The person, the enterprise, the health network. They are the architectural building blocks that will drive Cerner forward in the decade ahead.

Finally, we believe our data business holds the potential to be the next Cerner. Our Release of Information business is on a path to exceed an aggressive 2020 revenue target, growing over 100% off a small base. The team also has meaningfully advanced our Cerner Learning Health Network, hitting their full year goal of 40 participating provider organizations by June 30. And in a strong demonstration of the real-world potential of this data, academic researchers have launched 42 active projects, leveraging our free COVID de-identified data cohort to tackle challenges ranging from racial and ethnic determinants to advancement of new COVID therapeutics.

As we look beyond the COVID crisis, we see important secular forces of change playing out. We've always understood that today's future is tomorrow's present. And that the best way to predict the future is to lead it.

Some contend the solutions to the clients' needs that framed my conversation yesterday will come from big tech. Others argue Silicon Valley start-ups will bring the next wave of change. However, I would argue that none of them have our depth of knowledge of health care and IT. None of them have the same ability to impact the last-mile provider workflow, and none of them have our combination of entrepreneurial scale.

Cerner's value proposition has never been more relevant or more needed than it is in 2020, and the current crisis is mobilizing a new generation of Cerner leaders to advance it.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Sean Dodge with RBC Capital Markets.

Thomas Michael Kelliher - *RBC Capital Markets, Research Division - Associate*

This is Tom Kelliher on for Sean. Going on, on the VA implementation, can you give a little more color on what types of projects are still active? And how long this can sort of background work continue before the on-site work becomes essential? I'm still assuming that some of this work can be done simultaneously rather than sequential as sort of a catch-up when these travel restrictions are completely lifted.

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

Yes, this is John. I'll address a couple of those issues. So the background work can continue and is continuing, and we're preparing for the first go-live and subsequent go-lives as well. And we're already making plans to be able to go on site. So we're working on everything from testing protocols and other things so that we're able to go-live. The exact dates of those, while not public, have been proposed, and we should be hearing something sometime in the near future more publicly about when those go-lives occur.

But I'm actually very pleased with how we're making progress in this sort of hybrid environment of virtual and limited on site. And we continue to progress as we would in any other project, given the types of restrictions we have, particularly around travel. But I see that moving forward, and we've already made plans to when we can go on site, how we'll activate and continue on.

Thomas Michael Kelliher - *RBC Capital Markets, Research Division - Associate*

Excellent. And then just another one real quick, and you'll spend a lot on R&D., and kind of in the past, it sounded like there's some opportunities to rationalize or refocus some of the spend. How much of this has been done? And kind of what do you think the right amount is going forward from here?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes, this is Marc. We're an innovation company, so our widget, our strength is to invest in R&D. So most of our work hasn't been necessarily focused on reducing R&D. A lot of it's been focused on how can we maintain current levels of R&D without increasing it, but deliver significantly more innovation from that spend. Certainly, the hiring of Jerome as our CTO is a great step in those -- in that direction.

We continue to work on the processes and how we develop, and certainly, with the modernization efforts that we're doing relative to our platform. The current spend level that we have, I think, is something we want to maintain. But I think for us, the goal is to figure out how we can get an even bigger bang for the buck and how we can get to market more quickly with our solutions. So we -- over time, if that doesn't grow relative to the rest of the revenue, we'll get some margin expansion opportunities. But I don't see us drastically cutting our innovation and the money we spend on R&D.

Operator

Our next question comes from Elizabeth Anderson with Evercore.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - Associate*

You talked a bunch about the demand environment as you're seeing it. But as you're looking forward, are you seeing any differentiation between places where COVID has sort of had a recent uptick versus not? Or are there any differences in terms of -- to think about in terms of like size of customer who are sort of able to look more longer term at this point versus not? Or would you say that your demand environment is fairly even all around?

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

This is John. If I understand the question correctly, I think it wouldn't come as a big surprise that where there's COVID surges and where there's not, there's differing -- different priorities in terms of what our clients are working on in the near term and those surge activities that have been occurring in different parts of the country in different parts of the world.

Now as a general statement, and I mentioned it in my side of the comments is, is that this is not stopping health care in its tracks. The initiatives that were going on, the strategies that are the broad health care environment we're embarking on, they're still incredibly relevant, if not, more relevant in the new world.

So the strategies that have been placed out in most clients, and regardless of where they are, frankly, in the U.S. or around the world, they want to continue those strategies and, in many cases, advance them more quickly. They are a big part of the recovery. So yes, there will be individual shifts as surges occur in different spots. But broadly, people remain focused and they want to advance their strategies.

Donald D. Trigg - *Cerner Corporation - President*

Yes. I'd just say one more thing, which is rather than geography, if we were to think about it relative to business model and mix, obviously, organizations that have provider-sponsored plans and are taking first-dollar risk, clearly, have had differentiated performance relative to their peers. And I think that's one of the reasons why we're excited about the capabilities that we've built off HealtheIntent, the partnership with Lumeris, we think strategies around risk will have a tailwind around them as we kind of get to that after COVID window and people start thinking about business model strategy go-forward.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Don, this is Marc. What about the Cures Act? Are we seeing a benefit from that client base?

Donald D. Trigg - *Cerner Corporation - President*

Yes, absolutely. I mean, I think there's a set of things that are having uniform impact on kind of the financial health of our clients, and they start with the fact that the stimulus dollars have had big and impacts for those organizations. And I think most organizations would anticipate that there'll be additional stimulus dollars coming forward given the essential role that they played the last 90-plus days. And then I think beyond that, obviously, very focused, to John's point, on a durable revenue recovery, elective surgery recovery. And their hotspot dynamics do a role relative to the realities of what that does or doesn't look like.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - Associate*

That's very helpful. And then just in terms of your -- as a follow-up question, just in terms of your some of your recent revenues cycle management wins at Banner and elsewhere, can you talk about what people were particularly interested in, in terms of solutions that you guys can provide, either sort of new additions or the integration with the core network or whatever the case may be? That would be helpful.

Donald D. Trigg - *Cerner Corporation - President*

Yes, it's a great question. So one of the things which clearly is top of mind right now for every health care organization is how they think about front-end access management. So strategies around how you engage the consumer, make it easy for them to think through registration and scheduling, help them think about that on a virtual basis increasingly. So I talk about touchless registration. That's the framework that I'm discussing. So the front end is a major area of focus and emphasis. And to John's point, it's one of the things that we're excited about around the R1 relationship. They have some capabilities like tonic for intake that we think will have big, big impact there. So that's a real focal point today.

And then, obviously, from a Banner perspective, beyond the front end, they're really looking for that opportunity for that integrated front, middle and back and our ability to deploy that. And we, to Marc's point, plan on delivering that from a solutions perspective, and in some cases, complemented by the capabilities of R1 as we think about the blend of technologies and services required to drive the financial metrics of those organizations.

Operator

Next question comes from Kevin Caliendo with UBS.

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

It's Adam Noble in for Kevin. I just want to talk about some of the kind of virtual go-lives or hybrid go-lives that you talked about. To what extent do you think those will really become the norm in the future? And beyond reimbursed travel, how could more virtual go-lives impact your revenue and margins for those implementations -- for that implementation?

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

Adam, this is John. I'll answer that in a general context as it relates to the go forward. And I mentioned a little bit in our -- in my comments, is that an absolute virtual, purely virtual go-live, they've actually gone pretty well. But the more complex a go-live is, the more difficult it is to do some of that stuff. So I believe that moving forward that we are going to bring this BMS hybrid model, where we don't bring as many people on-site and that we're able to use our virtual capabilities, our remote capabilities, our centralized capabilities to support these go-lives with fewer people on-site.

And they worked really well. The ones that we've done, both in a virtual, purely virtual that we did early in the quarter, they went very well. The ones that we've done in a hybrid model, they've been working very well as well.

In the context of the cost is -- travel is always a big part of the cost, both for our clients as we scope these projects out. And being able to limit that will not only be more cost-effective for our clients, but frankly, it should allow them to purchase more capability as well.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes. This is Marc. When you think about it, when we travel an associate, they're traveling a half day out and half day back. So they can, in essence, build 4 day's worth of time. If they're doing work virtually, we can get a full 5 day's worth. So that's a 25% increase in their productivity. So if we continue to leverage the virtual nature, once again, to John's point, there are things we have to go on-site for. But if we're doing 85% to 90% of the work remotely as opposed to the 60% we were doing, that's all at a much higher efficiency, and therefore, overall lower cost and higher margin. So those are the things that, at least in that business for me, are somewhat the exciting opportunities from a virtual world.

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

Great. And as a follow-up question, could you remind me what the revenue contribution of any that you guys get from your Amwell telehealth partnership? And given the major surge of telehealth demand, have you considered restructuring that relationship or finding more direct ways to participate in the telehealth market, similar to some of your EMR competitors?

Donald D. Trigg - *Cerner Corporation - President*

This is Don. So I think, one, we think about virtual health more broadly than just our partnership with Amwell. So we're really thinking about, to John's construct, what is the mix of virtual and physical activity that's going to make up strategies around the person, the enterprise and the health network. So we have big strategies and investments in that space, and we think it will be a meaningful contributor to top line.

In terms of the Amwell partnership, as I indicated, at the network level, we feel very good about that partnership and the capabilities that we've been able to take to the market around it. But I think we have a broader view of what the opportunity looks like around virtual. And we think some of those opportunities will be in higher-acuity settings like e-hospital and the e-ICU where our CareAware platform becomes particularly differentiating.

Operator

Our next question comes from Lisa Gill with JPMorgan.

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

It's Annie on for Lisa. Just one on the VA. Given some of the delays at the VA, do you see that impacting the timing of your target for a return to 5% to 8% growth?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes, this is Marc. Clearly, 2020, as we've talked about, is a reset year for the top line, right? We've just basically over the last kind of 6 quarters divested $330 million worth of revenue. So we're really re-basing the organization, focusing on the things that we think have high-growth potential and can drive operating margins. So I think from an overall revenue, to point to any particular business, we continue to be on track, relatively. I mean, we saw that as a fairly important part of our growth, and that is delivering as very close to what our expectations were, the ones that we shared with investors. So I think that continues to contribute.

But when you look at getting to the kind of the organic growth rates we've talked about, you've got to kind of -- we got to get through 2020. We've got to kind of rebase and reset our revenue. But all the things that Don is talking about, the focus that COVID is creating on the capabilities we have in our client base, some of the strategic growth initiatives that really complement that, I think we are well set up to continue growing once we get kind of the comparables wash through from these divestitures, which have all been done -- been a focus for us through the first half of the year, really getting those things taken care of.

Ideally, we're going to be able to spend the second half of the year looking for opportunities. We still like the opportunities of looking for potential acquisitions that we think can really leverage and drive forward some of our initiatives, particularly in this strategic growth area. And that will obviously contribute to some of the inorganic elements of growth.

But I think, overall, we're kind of asking investors, hey, let us get through 2020 and let's get the -- get you a good exit revenue number and then we'll lay out the growth strategies from there. But we should be consistent with what we've talked about because we don't see anything in the business or in the environment that changes our top line growth strategies, or expectations or the operating margin growth opportunities we've seen.

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

That's really helpful. And then maybe to your point on the strategic growth, are you finding that the disruption in the marketplace is opening up any potential opportunities for M&A or new partnerships?

Donald D. Trigg - *Cerner Corporation - President*

It's a great question. So I talked about some of the areas inside the strategic growth side of the business that have real traction and trend. I think in particular, we've been very excited about the communication and hospital operation capabilities off of CareAware, very excited about the dialogue that's playing out around our consumer capabilities and consumer framework and see some interesting other pockets of growth and areas ranging from behavioral health to what we're doing in the workforce health place, all of which have been catalyzed by dynamics around COVID. So that's the first thing I would say.

The second thing I would say is build by partner strategies are a dimension of how all of those organizations think about going to market. And interestingly, we think that Cerner as a destination location for partnership has really been accelerated over the last 90 days. These earlier-stage companies don't have the same access to provider clients who are focused on COVID, and they're looking for partnership opportunities with Cerner as a means by which to create access to provider client base.

And then obviously, as Marc suggested, we're going to opportunistically think about acquisition opportunities contextual for those strategies. And if they can be catalytic and help us move further faster, those are things that we're going to look at in terms of deployment of capital, not only in the second half of the year, but going into 2021.

Operator

Our next question comes from Ricky Goldwasser with Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

So clearly, a lot of uncertainty around COVID. But maybe you can help us with just giving a little bit more color on what are the underlying assumptions for trajectory of COVID that are embedded in the low end of the revenue guidance range?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes, this is Marc. I think that as we look out across our client base and we look at our -- do our fairly rigorous forecasting activities that we do on a quarterly basis, that gives us a view of what we think the business is going to do. It includes backlog, it includes projects that we think we're going to be able to go work on, it includes all of those elements relative to the timing. So

I don't know that there's anything -- certainly, we would -- don't have built into our expectations that there's going to be a second wave of COVID that's going to shut everybody down. And that basically, they're going to go back into the mode of responding and not being able -- not be in a recovery mode that most of our clients are in now. With the Cures Act and with the reinvigoration of some of the elective procedures, they're a little bit back on track to some extent at this point.

So I don't know that there's any specific COVID -- we're not doing percentage points. We're not doing those types of activities. It is -- if there's something that's material that impacts our clients' ability to focus on the projects and the things that we're bringing to bear, yes, that could impact us. And that's one of the things we're talking about when we tell you that this is an environment that's got a lot of change.

The thing we do have is 85% of our revenue plus comes out of our backlog or highly recurring revenue. So for us, we've decided we're going to give guidance because we think we have a decent view of the business. Once again, COVID puts a bigger risk range to that, and -- but we think it's important that we can give people a view of what that looks like from a guidance perspective.

So I don't know that there's anything specific. And really, when you look at our revenue, there's very little this specific to certain health care volumes. So the real impact of the increase in COVID is the focus of our clients and being able to move forward on things that are in our forecast and that we are expecting to land.

So that's -- I don't know that can be any more precise because we're not tracking and say, if this case is go to this number, then our revenue is going to go to this number. It's just not the tight coupling that you might be expecting.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

No, but it's helpful because I think the point is that it's about the second wave.

And then just in terms of clarification. You talked about 32% of contracts coming from long term. Is this just kind of like the nature of the current hospital spending environment where they're less focused on near-term projects, it's just that it's increased versus the strategic focus, right, on moving away from these long-term contracts? So is 32% just -- is a reflection of current environment? Or is this more of kind of like steady state that we should expect going forward as well?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes. Just from a percentage, really, the 32% in is a little bit higher than the year ago quarter. But 30% is pretty consistent if you look across everything, but the year ago quarter. You would see it in the upper 20s or around 30%. So I don't think it happens. And John, if you want to comment on just these longer-term bookings, they include an expansion of most of the relationships.

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

My comment would be that the longer term and expansion are very complementary. That almost without exception, that when you do an expansion, it's inclusive of new solutions, it's inclusive of new capabilities as well as the extension of the current capabilities. So it's not one or the other, they're very complementary.

Operator

Our next question comes from Steve Halper with Cantor Fitzgerald.

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

Just a quick housekeeping question on the cash flow statement. That was an acquisition for $35 million. Could you just tell us what that was?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes. No. We had -- it was a cybersecurity company that we acquired. We see that as an opportunity. We already offer those services to our professional services organization. But we think in the current environment, security has always been a big focus, and us, being able to bring on resources that have context in that, particularly context outside of our client base where we can extend that service capability beyond our existing clients with something that was attractive to us.

So pretty small, therefore, not -- other than be on the cash flow statement. It's not really something that we'd talked about a lot. But it's enhancing our capabilities in the cybersecurity space.

Operator

Next question comes from Michael Cherny with Bank of America Securities.

Michael Aaron Cherny - *BofA Merrill Lynch, Research Division - Director*

Thanks so much for the details so far. Maybe to pull at that string a little bit more from a future basis. I don't know if it was John or Don, you mentioned some of the dynamics regarding capital deployment going forward. Is there anything about COVID and the response that your customers are doing to COVID that potentially opens up various different avenues in terms of the type of acquisitions you might want to pursue in order to build out your service capabilities while also driving that incremental growth that's part of the long-term plan?

Donald D. Trigg - *Cerner Corporation - President*

That's a great question. I guess I would say -- kind of tethering to my earlier comments, I'd sort of start by saying all of the areas that we've made, capital allocation and bets in the strategic growth space are things that we like. And we felt like we're supported by macro trends that were playing out prior to COVID. So most of them, I would say, have seen acceleration as part of kind of pulling forward those secular trends that were already playing out.

So we loved the BH space before. We think it's going to be an area of growing crisis and focus going forward. The employer space was probably one that we were tooking -- took a real hard look at in terms of how to think about and focus that business. Again, that's an area where that relationship between employer and employee has never been more relevant and where that dialogue has never been more real time. So interesting dynamics there.

And then certainly, back over on the provider side of the business, interesting traction and trend around the acute assets from a CareAware perspective. The healthy intent space, we think, is interesting. This probably isn't the time when I'm going to stand up a provider-sponsored plan. I'm trying to work through a pandemic and crisis setting. But we think that's one on a 3-year basis that looks pretty interesting to providers as they really step back and say, what's it look like to take more control over my top line revenue and my go-forward business strategy.

So I think each of them have individual dimensions around them, but I think in the main, because they were tethered to larger macro trends that were playing out, we feel like most of what's playing out there has been accelerated.

And then finally, just to kind of reiterate what I said earlier, absolutely, if there's an opportunity for us to accelerate those strategies through acquisition in an area like cyber, then we're going to look to do that. And we've got a set of business leaders in space that are absolutely capable of integrating those acquisitions and using them to scale their larger growth strategies.

Michael Aaron Cherny - *BofA Merrill Lynch, Research Division - Director*

And just as a quick follow-up to that. Marc, you mentioned the capital availability you have. Obviously, the balance sheet has long been one that's been very clean. Is there any thought or any openness to more exploring utilization of the balance sheet in the event that something more sizable, whether it's an internal investment or potential acquisition, would come along?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Sure. No, I mean we've -- part of our strategy was to have dry powder available, right? So we do have a strong balance sheet. We've traditionally done kind of smaller tuck-in acquisitions. Lumeris is a larger investment that we made, similar to what Don was talking about, is an area that we see as growth, provider-sponsored plans. But I think from -- we are well situated, given our balance sheet, to be able to start looking at some things that might be more sizable. As most of you know, doing any M&A that size transaction moderately increases the difficulty. So doing things that can have a big impact on our growth and certainly help leverage some of our existing thoughts.

So I think the things that Don was talking about, I think he -- certainly, one of the additional things he would probably certainly put on that list would be the data space. Because once again, we're looking for things that we can acquire -- the issue -- for Millennium, we don't want -- we're going to innovate on Millennium. We're going to create our own modernization. But where we can invest is primarily in the things in Don's area, in the strategic growth.

And Don, I don't know if you want to talk -- hit the data topic just a little bit to give some ideas as kind of...

Donald D. Trigg - *Cerner Corporation - President*

Yes. No, it's another good example, I think, of where it has been interesting in terms of reinforcing a thesis. So if you look at the release of information side of that business, from an organic perspective, how to do virtual and touchless release of information for legal and life insurance, workmen's comp, it's got a lot of traction and trend around it.

I think more interestingly, from -- to Marc's point, from a learning health network perspective, the team setting up a structure around that with other 40 participating organizations in the first half of the year, I mean, very impressive against that full year goal achieved at the midyear. And what that tells me is that these organizations are thinking about data and analytics, contextual for what's buying out with COVID. Many of them see interesting opportunities to advance research strategies around it to participate in research economics. And those are things that aren't going to be unique or point in time to COVID. They're things that are going to absolutely accelerate on a multi-quarter basis. And if we could do an acquisition in that space and use it as a way to catalyze the move forward, we would.

Operator

And our next question comes from Jeff Garro with William Blair & Company.

Jeffrey Robert Garro - *William Blair & Company L.L.C., Research Division - Research Analyst*

A couple of quick ones for me. Managed services were mentioned a couple of times as a positive bookings area in the quarter. So I'm curious what's driving demand for what I would expect is mostly hosting, and how we should view that as a positive long-term indicator for platform modernization.

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

So in terms of managed services, it is -- there is hosting involved in that, but there's other things involved it as well as we surround most of our solutions with some type of managed services. So in many ways, I view expansion and extension of managed services directly related to expansion and extension of solutions. So for me, it's an incredibly positive thing. We need to run, care for and support all solutions we put out there.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

And this is Marc. To the extent that the element is hosting, it's definitely a positive indication of when we're moving to the cloud, right? Because, in essence, our hosted solutions are private cloud for those clients who are using it. So they're used to having someone else handle all of that and do the work and be able to depend on that infrastructure at a very high level of reliability. And we have that reputation in the industry, well earned. So that's -- so it is definitely a positive as we go forward to more of a cloud-based opportunity in the future.

Jeffrey Robert Garro - *William Blair & Company L.L.C., Research Division - Research Analyst*

Great. That makes sense. And the second one for me, probably for John. Just curious if there's any change in client receptivity to SaaS offerings versus licensed software that would require larger capital expenditures given the current environment for providers.

John T. Peterzalek - *Cerner Corporation - Executive VP and Chief Client & Services Officer*

Yes. I won't speak to the capital side, but I will speak to the receptiveness side. I think that there is a lot of interest in SaaS offerings. It's sort of a pay-as-you-go type of model. And what clients are really interested in is just being a very specific and intentional for what they use and how they use it. So yes, I think the SaaS business model or the SaaS offering, which we do offer many of our solutions in that model, is attractive and allows people to consume what they use.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes. I'd just remind people that half of our license revenue today is Saas so...

Operator

And our next question comes from Eric Percher with Nephron Research.

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

Marc, did you give a number for COVID impact similar to the $30 million? I believe you had projected something around $95 million last quarter.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

I do not recall if I did.

Allan Kells - *Cerner Corporation - SVP, IR*

Eric, this is Allan. There's really -- it's difficult to give a precise number, but I think our point is, is that we essentially flowed through for the rest of the year a similar impact and looked at our forecast a little bit differently for things like reimbursed travel that was less than half of what we had projected and adjusted for that. So for the most part, I'd say, other than taking out the sale of the rest of our RevWorks business, the rest of the change is largely COVID, inclusive of the amount we missed Q2 by relative to our guidance.

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

Got you. That's helpful. We can back into that. And then, Marc, the areas of weakness you've seen, it doesn't feel like anything that would necessarily tell us any changes in the way backlog or bookings convert into revenue. But as you've thought it through the risks to plan, how do you think about what might be meaningful in terms of changing the book-to-bill?

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Yes. I think that certainly, as we move forward and kind of resettle 2020, keep in mind that any historical bookings have -- many of them have a chunk of RevWorks sales in them, right? So those are things we're not doing now. So you're going to have a little bit of a challenge with comparability of bookings in terms of the booking ratio. But clearly, once we -- kind of we work our way through 2020, we're going to have to be growing bookings at or above the rate of which we're growing revenues. I mean that's just -- that's a given.

And I think you're taking away the appropriate point is the adjustments we're making here to are the things that are a little bit more tactical, a little bit more quarter-up type of bookings rather than some of the 12-month sales cycle type of things that we have.

And based on our pipeline, based on what we're seeing, the opportunities are still there. Clients are as excited or more excited about what's the what they can get from us and what that does to help them deliver care than we've seen. I mean, it continues to be an active environment. Clearly, our caution is that COVID is going to impact things, and we're trying to give you our best view. But our view is based on backlog, based on the hard mechanics of doing a pretty rigorous forecast.

Once again, can't foresee everything. Clearly, in Q2, we didn't see that tech resale will go significantly lower. And certainly, we didn't see that reimbursed travel was going to fall off a cliff completely as it did. So still, things that are being impacted. Even the federal business is going to be impacted at some point by the COVID. But based on our current view of what we expect to deliver, we're on track for that. So our plan is based on our best view, and our guidance is based on our plan. So that's the best we can kind of provide at this time.

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

That's helpful, particularly the federal commentary. Thank you.

Marc G. Naughton - *Cerner Corporation - Executive VP & CFO*

Why don't we take one more question?

Operator

And that question comes from George Hill with Deutsche Bank.

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

Thanks for sneaking me in under the wire. I'll let Marc and Don kind of tag team this one. I guess one of the macro themes of the COVID environment has been telemedicine. I guess, from a telemedicine perspective, can you talk about the demand that you're seeing from your clients? I guess, is this something that you guys feel like you have to own?

And maybe talk about the build versus buy approach to it? I know you guys have the relationship with Amwell and just I guess, kind of talk about how -- I remember when we used to fly out to Kansas City, when we could still all fly, we would do the pop health visits and talk about centralized patient monitoring and centers initiatives there. Just trying to think about, I guess, how you guys are bridging, what was the prior view of that business to what is the future view of that business as it relates to telemedicine post COVID? I know that was complicated.

Donald D. Trigg - *Cerner Corporation - President*

No, that's a good question, George. Maybe I'll start, and if Marc wants to amplify on it, he can. But first and foremost, I think this concept of a virtual health system or system of health is one that's been sort of central to the thinking of the company for a long time. You're right, we've had strategies, both in low-acuity settings that we've experimented with over the years, we've had strategies tethered to intensivist dynamics around virtual Inet and other strategies in the space. So I think we have a pretty informed view, in my opinion, about what it takes to deliver on the provider supply side and what the expectations around clients are going to look like.

Having said that, you've got accommodative, administrative environment relative to tele, a major shift in reimbursement, shifts in licensure. Those things are all playing out. And I think organizations are experimenting with a lot of different strategies. So it would be very typical for John and I to have conversations with a client and for them to have multiple telehealth strategies that they're pursuing in the current environment.

At the end of the day, what we think that ends up netting out to, George, is, a, better sophistication around these organizations around what the combination of virtual and physical needs to look like. Most importantly, contextual for the regulatory and the reimbursement model. We think that certain areas of this space, particularly higher-acuity areas in the enterprise setting and at the network level, sensitive areas like BH, end up being areas where we can particularly create niche capability with the margin profile that we're looking for.

And then I think importantly, just to tether to something that John said earlier, we're going to think about it from a total solution perspective. So the accommodative environment that we have around things like cyber and security right now, that pendulum will swing back. And so it will create interesting opportunities for us to think about, areas like cybersecurity, where we've made big investments contextual for strategies like tele as we see increased sensitivity to what the go-forward strategies need to look like in a different regulatory and administrative environment.

So we think we have multiple strategies afoot. We think those strategies are going to have interesting top line and bottom line dynamics to it. And it's not as binary as build or buy, I think we're going to do a mix of things to create something that's going to have tangible impact on the top line.

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

Well, I want to thank everyone for their time this afternoon. Once again, please be safe and take care of yourself and your families, and good afternoon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
