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CERN - Q1 2020 Cerner Corp Earnings Call

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OVERVIEW:

Co. reported 1Q20 revenues of $1.41b and GAAP net earnings of $147m or $0.47 per diluted share. Expects 2020 revenues to be $5.55-5.70b and adjusted diluted EPS to be $2.78-2.90. Expects 2Q20 revenues to be $1.34-1.39b and adjusted diluted EPS to be $0.60-0.64.

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PRESENTATION

Operator

Welcome to the Cerner Corporations First Quarter 2020 Conference Call. Today's date is April 28, 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 new markets or prospects for the company's solutions and services; the expected benefits of our acquisitions, divestitures and 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 is 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 the non-GAAP financial measures discussed in the earnings 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, Chairman and CEO of Cerner Corporation. You may begin.

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

Thank you very much. Good afternoon, everyone, and welcome to the call. And before we start, I'd just like to express our appreciation for you being with us and hope that you and your families are healthy and safe.

Like most of you, we're doing this call from different remote locations, so please bear with us if we have any technical challenges today. We'll do the best we can to make it smooth. I'll spend the first few moments just giving my thoughts about the business and our current environment, then hand it over to the leadership team, including our CFO, Marc Naughton; Chief Client and Services Officer, John Peterzalek; and President, Don Trigg.

So as we all know, it'd be an understatement to say that this was an eventful quarter. It's been extreme. Since we talked at our last virtual investment community meeting, the week HIMSS was canceled, the coronavirus pandemic has affected nearly all aspects of our daily lives. And in mid-March, we made the decision to transition our associates to a remote workplace. As part of our long-standing business continuity plans, we moved seamlessly the vast majority of our 27,000 associates to a virtual environment, and we've been really pleased with the productivity and performance since taking this important step.

So first and foremost, I'd like to express my appreciation for the incredible dedication of all Cerner associates working tirelessly while balancing home commitments to ensure that we're delivering on our mission during this critical time. The driver of our associates to support our clients and improve health care has always been impressive. But over the past 6 weeks, it's been simply humbling. I'm grateful for all our associates do for Cerner and for our clients.

Now in addition to enacting our virtual workforce continuity plans, we also immediately activated a COVID-19 task force to inform our clinical business and operational decision-making. This task force has regular interactions with the CDC, the World Health Organization, and other global health agencies to guide their input. And protecting the health and wellbeing of our associates is a paramount concern as they provide critical support to Cerner's global client base. Never before has our mission been brought more to life than in these last couple of months. Cerner has engaged rapidly to support health care providers around the world as they respond on the front lines. You may have read in the United Kingdom, for example, there's been tremendous pressure on the ability of the national health service to manage surging demands for care. And Cerner teams have worked around the clock with the NHS clients to provide digital innovation and technology to stand up a 4,000-bed temporary hospital. So, the Nightingale field hospital sits on a 100 acre repurposed convention center and is fully utilizing Cerner's Millennium platform. We've also supported our clients by hardening our infrastructure to fortify capacity, increase uptime and provide greater flexibility of the system. We recognize the importance of their routine -- excuse me, of their frontline work and have prioritized Cerner resources to ensure client system stability.

I've personally talked with many health system CEOs in recent weeks who've witnessed Cerner's swift actions and are very appreciative of our tireless efforts.

Another important role for Cerner during this pandemic has been to effectively, securely and responsibly use our vast data stores to provide actionable insights. We're working with the CDC to participate in a surveillance network that can better scope and mitigate the impact of COVID-19. And so far, nearly 1/3 of Cerner's clients have given consent to provide de-identified data to the surveillance network.

We're also providing health systems and researchers access to Cerner's HealtheDataLab. That's a next-generation secure research tool. HealtheDataLab sits on the AWS cloud platform. It enables researchers to query health care data to identify demographics, spread trends, underlying conditions, treatments and outcomes that could drive future decisions. This solution has been well received by existing clients, a number of researchers and charitable organizations, including the Bill & Melinda Gates Foundation.

Last week, we partnered with the U.S. Department of Defense and Veterans Affairs Organizations on a successful go-live of a joint health information exchange that supports each department's efforts to combat COVID-19 through simplified and streamlined data sharing when they need it most. The exchange allows DoD and VA providers to access and retrieve consolidated records from community partners or health systems, providing them a standardized, more holistic view of the patient's health. This is the crucial advancement in Cerner's continued efforts advocating for and developing open cognitive platforms to deliver true interoperability. DoD and VA will further advance nationwide interoperability via the HIE by connecting to the CommonWell Health Alliance of 15,000 community providers later this year. This is yet another example of Cerner delivering on its vision of a seamless and connected world, which, of course, has taken on greater importance since the outbreak of COVID-19.

There are challenging months ahead. Cerner is prepared to support our clients, associates and communities where we live and work. This crisis has validated our strategies and underscores that we'll need to work at an even greater pace to provide innovation, technology and data analysis across many care venues. Whether it's in traditional care settings, field hospitals or a remote telehealth environment, Cerner's technology will be prominent in the support of our clients.

The future of how health care is delivered will undoubtedly change as we navigate beyond this pandemic. Rules around reimbursements, for example, will need to be reevaluated as virtual care becomes more of a normal course for the physician-patient relationship. Additionally, increasing adoption of telehealth during this crisis also emphasizes the continued need for providers to opt into national data exchange frameworks by CommonWell. To that end, we are pleased that more than half of our acute provider clients are active participants on the CommonWell network.

More than anything, the world's collective response to COVID-19 makes me proud of the -- to be affiliated with so many health care professionals. And today, at Cerner, we employ nearly 2,000 clinical associates, including 800 nurses, approximately 200 physicians, over 200 pharmacists and many other clinical technicians and therapists. Dozens of them have volunteered to work in acute settings in the U.S. and U.K. We've also had many associates who heroically serve as volunteer paramedics during their off hours at Cerner.

As for the results, I'm pleased we delivered a solid first quarter with only minor impacts from the early stages of the pandemic. As Marc will discuss, we do expect a bigger impact the rest of the year, particularly in the second quarter. However, we're fortunate to have a resilient business model, relevant technology for health care and a solid transformation plan that we continue to advance, all of which positions us to manage through the pandemic with less impact than many other companies.

And now, I'll hand the call over to Marc to take you through the numbers.

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

Thanks, Brent. Good afternoon, everyone. I'm going to cover our Q1 results and share our current views on the impact of COVID-19. This quarter, we delivered bookings and revenues slightly below our expectations due to some impact of COVID-19, but our ongoing expense control helped drive earnings at the high end of our guidance. As we'll discuss, we do expect an impact on our results for the rest of the year, but we are taking several steps to mitigate the impact and currently expect most of it to be in Q2.

Now I'll go to Q1 results, starting with bookings, which were $1.09 billion and just below our guidance range as we saw a lower-than-normal volume of contracts signed in the last 2 weeks of the quarter due to our clients rightfully shifting their full focus to caring for patients amid the coronavirus outbreak.

Looking to the quarter, we were on track to come in at the high end or above our guidance range prior to the outbreak and the resulting business disruptions. These opportunities remain in our pipeline, and we believe we will close them in future quarters as the global environment stabilizes. We ended the quarter with a revenue backlog of $13.47 billion, which is down 9% from a year ago, primarily due to the termination of the RevWorks agreement that I discussed on our Q3 call as well as the lower level of bookings in the first quarter.

Our backlog revenue, combined with other contracted revenue, is excluded from the ASC 606 backlog definition, provides revenue visibility of approximately 85% over the next 12 months. Obviously, additional delays on being able to work the services backlog could impact when the backlog rolls out, but this is consistent with our current view.

Revenue in the quarter was $1.41 billion, up 2% over Q1 of '19. This is slightly below our expectations but would have been comfortably in our guidance range if it weren't for lower technology resale and software bookings and lower reimbursed travel revenue related to the COVID-19 crisis.

I'll now go through the business model detail and year-over-year growth compared to Q1 of '19. Licensed software revenue in Q1 grew 2% over Q1 of '19 million to $158 million, primarily due to strong growth in our SaaS offerings, offset by a decline in traditional license software attributable to lower bookings in the quarter. Technology resale of $51 million in Q1 was also impacted by the lower level of bookings, decreasing 7% compared to Q1 of '19. Subscriptions revenue grew 12% in Q1 to $94 million. Professional services revenue grew 4% in Q1 to $511 million, primarily driven by solid growth in implementation services and partially offset by $42 million less outsourcing revenue due to the termination of the RevWorks agreement we previously discussed. Managed services was up 2% in Q1 to $309 million, in line with our expectations. Support and maintenance of $274 million was down 1% year-over-year, flat to last quarter, which is our expectation range and reflects the impact of attrition and reduced hardware maintenance revenue. And finally, reimbursed travel of $13 million was down 43% in Q1 due to travel restrictions that went into place mid-March.

Looking at revenue by geographic segment. Domestic revenue was up 1% from the year ago quarter at $1.25 billion and non-U.S. revenue of $165 million was up 4% from the year ago quarter. Moving to gross margin. Our gross margin for Q1 was 82%, up from 80.8% in Q4 of '19 and 81.8% year-over-year, with the improvement primarily driven by the reduction in outsourcing and reimbursed travel revenue, slightly offset by higher third-party services.

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 expense and other adjustments that are detailed and reconciled to GAAP in our earnings release.

Looking at operating spending. Our first quarter GAAP operating expenses of $979 million were up 4% compared to $939 million in the year ago period. Our adjusted operating expenses were down 1% compared to Q1 of '19, primarily resulting from our cost optimization efforts.

Looking at the line items for Q1. Sales and client service expense decreased 2% year-over-year, primarily driven by a decrease in personnel expense. Software development expense increased 3% over Q1 of '19 as gross R&D was essentially flat, amortization increased by 8%, and capitalized software was down 1%. G&A expense in Q1 was down 5%, driven by a decline in both personnel and non-personnel expenses.

Moving to operating margins. Our GAAP operating margin in Q1 was 12.6% compared with 14.2% in the year-ago period. Our adjusted operating margin for the quarter was 19.4%, up from 17.5% in Q1 of '19, reflecting the impact of our cost optimization efforts and improved revenue mix. As I'll discuss when I get to guidance, we do expect the pandemic to impact our results for the rest of the year. While we remain on track with our planned cost optimization efforts and are implementing additional measures to mitigate the impact of the crisis, we do not expect to fully offset the impact. As a result, we expect our full year adjusted operating margin to be around or slightly below 20% compared to our previous expectation that we could be closer to 21%. I'd note that this would still reflect approximately 150 basis points of full year margin expansion, which we view as impressive given the extreme circumstances.

For Q4, we currently expect our operating margin to be 50 to 100 basis points below our 22.5% target, reflecting the reality that even with going beyond our original optimization targets, we won't fully offset the top line impact of COVID-19 by the end of the year. Similar to the full year, this would reflect strong margin expansion of approximately 150 basis points compared to Q4 of '19, which was our strongest margin quarter of the year.

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 Q1 were $147 million or $0.47 per diluted share, which is down from $0.51 in Q1 of '19. Adjusted net earnings in Q1 were $223 million and adjusted diluted EPS was $0.71 compared to $0.61 in Q1 of '19. Both our GAAP and non-GAAP tax rates were 20% 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, which is good given the uncertain environment. We ended Q1 with $399 million of cash and short-term investments and $1.34 billion of debt after deploying $650 million for share repurchases and $56 million for dividends. Our debt reflects the $300 million issued in Q1 and 2.5% to 10 years under our shelf agreement. Given our relatively low leverage, we remain well positioned to access additional capital as needed to support our growth and capital allocation strategy.

Total receivables ended the quarter at $1.15 billion, essentially flat relative to the $1.14 billion in Q4 of '19. Our Q1 DSO was 74 days, which is up from 72 days in Q4 of '19 and down from 76 days in the year ago period. We expect some impact on collections from COVID-19 in the near to intermediate term. This impact is difficult to measure, but we do not currently expect it to materially impact our operations and view it as more of a timing issue than a collectability issue.

Operating cash flow for the quarter was $284 million. Q1 capital expenditures were $49 million, and capitalized software was $74 million. Free cash flow, defined as operating cash flow less capital purchases and capitalized software development costs, was $160 million for the quarter.

For Q2, we expect lower operating and free cash flow as we believe that is when our cash collections may be most impacted and is also a seasonally high quarter for our capital expenditures. We expect both operating and free cash flow to improve in the second half of the year based on our assumption that the impact of the pandemic will moderate after Q2.

Moving to capital allocation. We repurchased 9.2 million shares in the first quarter for $650 million. That brings our total for the past 12 months to 28 million shares repurchased for $1.95 billion at an average price of $69.59. This exceeded our initial plan to repurchase $1.5 billion of shares by the end of Q1 '20 and leaves us with $1.03 billion remaining on our current authorization. Given the uncertain nature of the current environment and our significant level of repurchases in Q1, we expect to pause our repurchase activity for now, but we'll continue to evaluate our program, which may also be impacted by the amount of funding used for other purposes such as acquisitions and investments.

Moving to our dividend program. We paid a dividend in Q1 of $0.18 per share or $56 million. I realize some companies have suspended their dividend due to the pandemic, but our strong financial position allows us to continue our dividend program, subject to board approval.

Before moving to guidance, I'd like to comment on the announcement we made in February that CompuGroup Medical agreed to purchase certain Cerner assets in Germany and Spain. This transaction is consistent with the portfolio management activities we've been discussing will provide over $200 million after working capital and other closing adjustments for ongoing capital allocation and allow us to focus on profitable growth in our core non-U.S. regions. The transaction is expected to close in early Q3, subject to certain closing conditions. We affected in approximately $40 million less revenue into our full year guidance to reflect this timing. These assets are profitable, but we expect to largely offset the impact on earnings with cost optimization efforts. We expect to remain active in M&A and portfolio management this year as we continue to align our portfolio with our growth strategy.

Moving to guidance. While it is not possible to precisely quantify the extent to which the COVID-19 pandemic will affect our business operations and financial results going forward, we believe it is helpful to investors to provide our current view of expected results for the second quarter and full year. Our business is generally resilient with significant recurring elements. And I would comment that this guidance is subject to a higher-than-normal amount of risk given the unprecedented environment which we are operating.

Now I'll go through the guidance with some additional commentary on how we are factoring in the expected impact of the pandemic. For Q2, we expect revenue to be between $1.34 billion and $1.39 billion. The $1.365 billion midpoint of this range is approximately $95 million less than our original plan for Q2, representing the biggest expected impact of the pandemic. Note only half of this impact is in professional services, which is expected to have lower utilization in Q2 due to several pauses and delayed projects that can't be fully worked remotely. We expect utilization to improve in Q3 and Q4. Most of the remaining impact is lower expected levels of software, technology resale and reimbursed travel revenue.

For the full year, we expect revenue between $5.55 billion and $5.7 billion, with the $5.625 billion midpoint reflecting a 1% decrease from 2019. This is down approximately $225 million from our previous midpoint of $5.85 billion. Approximately $40 million of this reduction is due to the expected Q3 closing of our global divestiture, which is expected to reduce both Q3 and Q4 revenue by approximately $20 million. We believe the remaining $185 million reduction is largely attributable to both COVID.

The rough breakdown of this impact is $30 million already realized in Q1; $95 million expected impact in Q2, which I discussed; and $60 million of additional expected impacts spread over Q3 and Q4.

One note on revenue growth. Recall that our full year revenue is also impacted by us executing a large RevWorks contract in late 2019. If you adjust for this and the global divestiture, our expected 2020 growth rate will be 2%. Adjusting out the revenue from our AbleVets acquisition would bring pure organic revenue growth back to 1%. But we don't view all of the revenue from AbleVets as inorganic because we are leveraging their associates on the VA contract as it ramps up.

As I mentioned, there could be additional portfolio management and M&A activity this year that could further impact revenue. Overall, 2020 remains a reset year for our top line, with the unexpected addition of the COVID-19 pandemic amplifying the magnitude of that reset.

Moving to EPS. We expect Q2 adjusted diluted EPS to be $0.60 to $0.64 per share. The midpoint of this range is 6% lower than Q2 of '19, reflecting the expected impact on the pandemic. We expect adjusted diluted EPS to return to growth after Q2.

For the full year, we expect adjusted diluted EPS to be $2.78 to $2.90, with a $2.84 midpoint, reflecting 6% growth over 2019. This is down from the previous range of $3.09 to $2.19, and due to the projected impact of the pandemic, with about half of the impact related to the second quarter guidance.

Moving to bookings guidance. We expect bookings revenue in Q2 of $1 billion to $1.2 billion. The midpoint of this range reflects a 23% decrease compared to the second quarter of 2019, reflecting our expectation of sales activity will be most impacted in Q2, with improvements expected later in the year.

Now I'd like to discuss the assumptions that factored into our guidance and how we are approaching the rest of the year. As I mentioned, our current expectation is that the largest impact of the pandemic will occur in the second quarter due primarily to lower expected sales activity and the impact of multiple project delays and pauses that result in lower utilization of our professional services resources. We do expect projects and sales activities to begin improving in the second half of the year, assuming the impact of the pandemic and related restrictive measures subside during the second quarter but there's still an impact through Q4 as the project delays and lower bookings expected in the middle quarters will flow through impact on future orders. We are mitigating the impact to the extent possible by shifting services resources to other work on our backlog that can be done with less client engagement and doing as much work remotely as possible. We've also identified optimization opportunities beyond the significant amount we already have in place. We believe taking more aggressive measures could impact our ability to deliver our IP commitments and meet project demand as our clients reengage. We also don't think it makes sense to reduce our capacity too much now, given our expectation that activity will pick up as we move through the year.

In summary, this is an unprecedented and very fluid situation. We are constantly testing our assumptions. We'll adjust as needed throughout the year, but we feel like our current guidance captures a reasonable range of scenarios. The midpoint reflects our assumption that project activity begins to ramp in late Q2. Our low end leaves room for slower return to normal sales and project activity and our high end captures a scenario where clients reengage sooner.

In conclusion, we are pleased we were able to deliver solid results in the first quarter despite the initial impact of COVID-19. While the pandemic has decreased our financial outlook for the remainder of the year, we're still pleased that we are projecting solid margin expansion and earnings growth in a very challenging environment, which would have been very difficult if we hadn't implemented our new operating model, and started putting optimization that was in place last 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 will provide results, highlights and an update on our federal business. I'll start with our bookings.

As Marc mentioned, we delivered very solid bookings given the circumstances, and we were on track to come in at the high end or above our guidance range prior to the outbreak and the resulting business disruptions. We do not believe these opportunities will be lost, and we expect to close them in future quarters as the environment stabilizes.

Highlights of the quarter were a large expansion with the investor-owned client that purchased our EHR solutions for 11 additional sites to displace 2 different competitors, a strong contribution from our federal business and a large client purchasing CareAware Connect, our care team communication offering, for 25 sites. We had a lower level of long-term bookings compared to last year, which contributed to the decline in overall bookings.

For the quarter, the percent of bookings coming from long-term contracts was 27% compared to 30% in Q1 of last year.

Moving to our federal update. Many of you have seen headlines about pauses in the DoD and VA projects due to the COVID pandemic. Like the vast majority of our clients, they've had to shift attention to the COVID-19 pandemic. We're doing all we can to support them during this time, including reducing interaction with the frontline staff, enabling them to focus on their patients and ensuring they have the key technology capabilities they need.

The program continues to progress as we actively work and push forward on critical elements, including virtual deployment activities, technical build, interfaces and program management. Further evidence of the continued progress with both VA and DoD is the recent HIE go-live that Brent discussed.

As we look to future deployments, we are currently working with both programs to revise time lines accordingly, but we believe the impact is manageable and we have factored it into the guidance Marc shared. Looking at the broader marketplace, as Marc and Brent discussed, we are in an unprecedented environment. While this has created some disruption to business activity in the near term, I've been pleased that a clear message we are hearing from our clients is they want to move forward with their strategic plans, and Cerner is an essential part of their strategies. The time frame for some clients remain uncertain as they work through the various stages of the COVID surge and recovery. However, the message is clear, they need Cerner to help advance their initiatives and strategy.

In the near term, we are focused on supporting our clients in any way we can with a focus on supporting those experiencing a surge in COVID-19 cases. We're also advancing projects by doing as much work remotely as possible. In the short time we've been doing this, we've learned a lot about how we can -- how much work can be done remotely and our clients' willingness to engage virtually. Not only is this helping us mitigate the financial impact of the pandemic, these learnings represent an opportunity to rethink how we approach projects going forward. I believe we will walk to a model that requires less travel and less on-site presence, which will save Cerner and our clients time and money.

More broadly, the pandemic has created a heightened focus on a need for interoperability, secure access to information, analytics and other needs that align with our capabilities. We believe this could be a catalyst for an industry to move faster to realize the potential that has yet to be realized from a base level of digitization that it was established during the meaningful use era. Not doing so would be a missed opportunity.

Another reason we're cautiously optimistic about business activity being able to resume is we believe the funding providers receive from the Cares Act help them recover from the significant near-term impact of the pandemic and put them in a better position to move forward with prime projects and consider new ones as they look to address needs that have been identified during this crisis.

In summary, I'm pleased with how we have managed through this pandemic to date, and I believe that in the long run, this will lead to health care further embracing technology. With that, I'll turn the call over to Don.

Donald D. Trigg - *Cerner Corporation - President*

Thanks, John. In his opening comments, Brent framed the impact of the pandemic on our clients, our associates and our communities where we work and live. I want to talk for a few minutes this afternoon about what we believe the COVID crisis will mean for health care, and our work to systemically transform it.

The first order impact of any crisis is an acceleration of macro trends already playing out. The federal government became the top regulator in payer for health care in the 2010s. We think COVID will accelerate Washington's ground role. Health system consolidation has been a multiyear trend. We believe it will accelerate in the quarters to come. The home is venue to include teleservices has had a quickening adoption curve. The pandemic has already accelerated it. From behavioral health to deployment value of the cloud, acceleration of existing forces of change is the known known of any crisis.

As we think about our strategies for capital allocation, we look for areas with significant macro trend, clearly understood regulatory requirements, leverage from existing Cerner assets, high gross margin business models and speed to revenue. It's created a set of strategic growth businesses that in the main are important to pandemic response and essential for durable recovery.

Within the 4 walls of a hospital, our real-time hospital system solutions are comprised of enterprise communication, hospital operations and workforce and capacity management. As providers have served to deliver additional supply, our CareAware capacity management and Carevive solutions are -- have had a significant impact servicing data sets to drive real-time decision making on workforce, equipment and bed management.

Outside the hospital, our EMR-agnostic healthy and test platform also has been an important crises response. HealtheIntent aggregates it, normalizes the central information set to include clinical, administrative and geospatial data. Our HealtheIntent team developed and fully deployed [COVID] and drum in surveillance to all clients in just days. St. Joseph's Health New Jersey called it a key tool in the arsenal.

As our clients move from crisis response to durable recovery, these same tools can help restart their health systems and larger health networks. We believe these reactivation campaigns will drive critical revenue recovery, and over time, be part of how our clients reimagine their larger health network strategies and business model. We also believe these physical and virtual health networks will be a medium-term tailwind for cybersecurity. For all the disruptive promise of data liquidity, alternative venues of care like the home and new staffing models to support them, secure protection of health information will be paramount. And as policymakers increasingly view health care as critical infrastructure for national security, cyber will be further elevated.

Our latest announcement with Fortified Health gives us a compelling total solution offering and the business is on path for another solid year.

Beyond the health network, our data business has also continued their momentum. The release of information business signed multiple new legal and life insurance clients in the first quarter. In addition, our Cerner Learning Health Network in the life sciences and pharmaceutical space also made solid progress. Art Glasgow and his team have grown our learning health network to represent one of the largest clinical data sets in the U.S. with 89 million de-identified patients and over 11.5 billion lab results. We leave the first quarter confident in our ability to drive strong year-over-year organic growth.

Finally, our efforts across the enterprise, the health network and the larger health economy center on person. David Bradshaw and his consumer team drove strong bookings in Q4 and again in Q1. Our digital experience platform is helping clients connect and deliver important continuity amid the pandemic disruption. And in the first quarter, Adventist Health launched a new digital patient experience built on the Cerner consumer framework. It moves us one step closer to the digital front door for health and care that we believe consumers are seeking.

In his recent shareholder letter, [Jamie Diamond] said, entering into a crisis is not a time to figure out where you want to be. Prices don't just accelerate existing trends, they offer the opportunity to shape and lead them. The crisis response for provider organizations worldwide has had an impact on every Cerner associate. We've been humbled by the efforts of frontline caregivers and see what we call the Spirit of Cerner in our businesses like workforce health, where we're directly supporting essential workers. The pursuit of a durable recovery for its part will once again place our technologies and services front and center. We look forward to that challenge and that opportunity in the quarters to come.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Charles Rhyee with Cowen.

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

Just wanted to ask really about how you're thinking about this durable recovery. I think yourself along with many other companies, as we've seen them report so far, looking at 2Q as the worse. And obviously, to a degree, is getting better as we get through the course of the year. But when you think about your clients, particularly hospitals, as they are, you'd be sort of, I guess, a derivative impact. As they kind of get their business back online, how do you see sort of that kind of time frame in terms of when they start recovering to when you'd think they'll start spending? And do things like the stimulus plan and the Cares Act, do those funds, do you see them helping that mitigate some of the impact in terms of sort of a spending slowdown you might expect otherwise?

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

Yes. This is Marc. I think the primary impact on us is our services business, which a lot of that are the implementation projects. Many of our clients that were forced to pause a project or defer start are eager to get on with those projects. And I think everything that's going on currently is emphasizing how important these projects are for them to further operations to operate more efficiently. Certainly, the Cares Act and likely subsequent stimulus packages are going to help our clients be financially able to go ahead and run their businesses. I think the fact that in the U.S., we've seen how critical health care really is and how many -- how it's important that we have adequate health care and adequate number of beds and adequate facilities. So the funding of health care, we believe, is likely to be maintained or strengthened. And we think our clients are going to be looking, as Don mentioned in his comments, for something that not only help them respond but also recover and then take advantage of what the next opportunities are that some of them wouldn't sort have opened, such as telehealth and other things.

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

And this is John. Yes, just if I could, I think we're at our best when we're aligned with our clients around business strategy. And this has put us front and center in terms of that dialogue with our clients. And I think that's a structural advantage that we have because our systems are heavily deployed and are mission-critical. And so what we're really talking about with clients now is how can we be relevant to COVID response, but we're having a parallel conversation around how can they begin to think about strategies around recovery. And many of the solutions that are part of response, the CareAware solution suite that I used as an example, it's a great use case. We're working on search capacity and how they think about management of their supply side, but those are the same tools and capabilities that are going to be relevant to them in terms of how they think about medium-term strategies to manage the expense line as they think about labor and workforce strategies and what it looks like to make money at Medicare and at Medicaid rates. So I think we're -- relevant to COVID response, we're going to be central to those economic recovery strategies and those revenue recovery strategies. And if we're smart, we'll play into larger strategies around the efforts of our clients to rethink their business strategies on a multiyear basis.

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

And maybe just a follow-on real quick. In that $1 billion to $1.2 billion bookings guidance for the next quarter, maybe is it possible to give us a sense on maybe how much of the mix in your expectations for new sales is shifting to more of a COVID response, more of how do you realign your business post the pandemic versus what you might have expected, let's say, business planning at the start of the year?

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

Yes. This is Marc. John, you want to...

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

Yes. I mean, I've commented on the -- what we're looking at in the $1 billion to $1.2 billion in bookings. It frankly isn't much different than we normally see. It's -- and in terms of what our clients are doing in and when they're willing to engage in their strategy. It's a little bit by depending on where you are in the world, depending on where you are geographically in the U.S. in terms of when you start. But the mix isn't much different than we normally see in any quarter. It's just that the volumes are a little bit off from what we'd see in a normal quarter.

Operator

Our next question comes from the line of Eric Percher with Nephron Research.

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

I want to continue on the assumption on purchasing activity and maybe a different tack, which is you've been through a couple of recessions. 2001, 2008 experience might be helpful as we think about how hospitals will manage through what goes beyond the COVID experience. Can we start with that?

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

Sure. This is Marc. Being the old guy in the room, I remember all of those. Clearly, back on '07, '08 time frame, the capital markets shut down and health care didn't have access to cash for an extended period of time. That just shut the spigot off. I think what you're seeing now is much of health care economically is doing okay prior to this environment. We believe that the stimulus packages will help them get back on their feet post this environment. So I think, in my mind, this is much different from those in that this is a relatively short-term-defined event where they're going to be providing care to their patients. They don't have the cycles to go work on their infrastructure. We believe that will dissipate. And as we kind of get out, start rolling out in Q2, that they will be reengaged and with an even a higher level of passion on taking advantage of some of the opportunities. A lot of these projects were already in flight and we slowed. Some of them we're still working on actually because if you look at -- if you really look at the revenue impact that we're talking about for Q2, we're still delivering 90% of our services revenues. There's still a significant amount of that revenue that's just coming through that we're working in remote and other ways. So from our expectation, I don't see them stopping that as we saw in the '07, '08 time frame. I think this is different. To me, my experience would be that it's a little bit more short-term in nature, and we should -- but we should finish coming pretty strong out of this and once people are really ready to reengage, ready to engage in contract discussions and engage in project activity.

Donald D. Trigg - *Cerner Corporation - President*

Yes. And the only other thing I would say is you tend to see a sector-specific orientation to the previous downturns. So focus on the transportation sector in a material way, post 9/11, financial sector in '07 and '09. I think one of the focal points for government emphasis here will be the provider supply side, and it will feature in a meaningful way in terms of their thinking and approach and, in particular, sort of thinking about our provider supply side clients as critical infrastructure. And it's probably too early to sort of describe what that would mean from a government focus perspective, but that's a perspective we share and that we think our technology strategies will help enable.

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

That's helpful. And the services element, is that primarily that today, you don't want to take up the cycles and attention? Or is there a need to reinvent some of the model for services that really were always delivered on the ground and may not be now?

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

Well, certainly, it's a little bit of both. John?

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

Yes. I think it's a good point because as we're working through a different new normal right now, I think both us and our clients are looking at different ways to deliver the services. As we've mentioned in the previous question, it's important to note that the majority of our clients have not stopped their projects. We continue to make progress, and we're working on new and innovative ways to deliver those services. And I do believe we'll see a new normal evolve, both -- due both to the impact and realities of today as we gradually come back to work. But I give a lot of credit to our clients and how we work with our clients that we've been able to work very effectively virtual, and I think some of that have become the new normal.

Operator

Our next question comes from the line of Steven Valiquette with Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Let me commend you on the work that Cerner does just to keep hospitals running efficiently during the pandemic. A couple of questions here. First, I guess, given that a lot of hospitals still have fiscal years that end on September 30, I guess I'm curious if there's any variables in your guidance for the full year that with the reset of some hospital budgets for their fiscal '21 starting October 1 of this year, that your calendar 4Q, that could see some rebound in results tied to that. Or is it more related just to the flow of volume across the overall acute care hospital customer base?

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

Yes. This is Marc. None of our guidance is obviously tied to our forecasting process. We go through each opportunity based on when the clients get engaged or when we think the processes are going to result in a completed contract. We didn't see a lot of changes or any thoughts around budget processes. Our clients are very busy providing care to people in need. So what we've done is what we always do, laid out forecast data, fold it into a projection, and then that's where we based our guidance on. We provide a little wider range just to give us some room for upside and downside relative to what could happen. But there isn't anything that's inside the health care purchasers relative to them changing their view as to their purchasing behavior at this point.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. One other quick one. This one's kind of tough to ask about or answer a little bit. But I guess, big picture, from our view, there seems to be a very strong amount of federal liquidity and stimulus relief being provided to your overall customer base. But I guess from your perspective, I mean is there any concern that you see in relation to either solvency of hospitals and/or clients in the ambulatory setting? Or do you think that there's also enough federal liquidity and stimulus to avoid that sort of risk? I mean how do you think about that just in general in this environment?

Donald D. Trigg - *Cerner Corporation - President*

Yes. I think the -- to your point, I think it's incredibly difficult to speculate. So I can't share that view. Having said that, we do think that there's an accelerating impact that the current environment is having. I think one of the things that is going to accelerate is the level of hospital consolidation. And so that is going to extend out into the ambulatory and, in our vernacular, the health network space. So I think you're going to see trends around practice and larger health system consolidation as a meaningful feature of what the landscape looks like over the next 24 to 36 months. And what we need to be doing is thinking about HealtheIntent and our HealtheIntent platform as a key enabling technology for the integration strategies that need to feature in those acquisition approaches. It was built -- it was purpose-built as an EHR-agnostic platform and is very well suited to the kinds of strategies that will be required to make those practice acquisitions work inside a larger clinically integrated network. So we think there is a trend there. We think it's a trend that probably accelerates, and we need to be smart and effective in terms of positioning HealtheIntent and our capabilities to make it work.

Operator

(Operator Instructions) Our next question comes from the line of Jamie Stockton with Wells Fargo.

James John Stockton - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst*

I guess, and I know this is doubling down on some of what's already been asked, but on the pro services front, since that seems to be the area where things are relatively weak incrementally, are there some activities where it's just not possible to do them remotely? Or is this really a question of coming up with creative solutions or maybe the client having the staffing available to kind of work with your people to get the work done? If you could just qualitatively touch on that, that would be great.

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

Yes. This is John. I'll expand on that a little bit. Yes, there are things that you really can't do virtually. So you can't do everything virtually. If you think about a large activation or those type of things, those tend to be people-heavy type of go-lives and likely so because of the patient safety aspects of those type of things. So where you see some other challenges be is if you're mid-project working along, you tend to go on course and continue as is. As you get closer to activation, depending on where you are and the possibility of being able to come back on-site and those type of things, you may see pushes of go-lives as you get closer. But that's the primary issue that's pretty difficult to do virtually. However, I will say that we have done some virtual activations at some of our smaller projects, and they've actually gone well. So it will be a combination of both, but the expectation there is you can't do everything virtual.

Operator

Our next question comes from the line of Dave Windley with Jefferies.

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

So another follow-up there but on guidance. Does your guidance today reflect kind of the maximum amount of conversion to remote activity in professional services? Or would there be upside there? And then maybe a sneak-in. A second part of the question would be is, we're calculating incremental and decremental margin of low 40s. Is that reflective of your decision to keep professional services' employees fully employed? Or is that more a mix of the revenue that's coming out?

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

Yes. This is Marc. The -- yes, the impact, which might not have been fully realized by some investors, is that when the revenue from those services go away because of, we think, the relatively near-term nature of the impact, we are not reducing our workforce. In a normal world, we would adjust our professional services workforce to match the demand. And then you would be basically missing that on the contribution margin in that business. In this case, we know there's a lot of demand out there. We have government contracts that are ramping up. We have commercial contracts ramping up. So we need to have those people that are trained. They're going to be ready when the client is ready. So we aren't deprecating that workforce, which means that every dollar of revenue we don't get is basically a dollar of operating earnings that we're not getting. So I think that's an important point to make. And it is because of our expectation that we are going to see that bounce back, and we're going to need every one of those people working on it.

I actually do believe we will get some efficiencies in how we do our projects. And ideally, that will be reflected in the higher utilization rate on all those consultants, that there will be -- a higher percent of their time is effective perhaps from reduced travel, perhaps just as from techniques we're learning as we go through this. There are things we have to do on-site, absolutely, go-lives and our interfacing with the users in a meaningful way. But I think we're going to come out here more efficient and be able to drive these prices. Keep in mind, most of our projects are fixed fee in nature. So any efficiencies we can derive on implementing those can benefit us relative to the bottom line. I think, once again, from an upside perspective, we've tried to give a fairly wide guidance range. Certainly, if we can be more efficient, if we can get -- continue to expand what we do virtually before the projects start opening up, that's potential for upside. If there's -- if this lasts longer, if there's something in the fall that slows us down, then that's a downside opportunity. But right now, given our best view, we think our guidance reflects when we think we're going to get back to work.

Operator

Our next question comes from the line of Sean Wieland with Piper Sandler.

Sean William Wieland - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So you mentioned telemedicine is going to become part of the normal course, which I think many would agree with. But specifically, what changes are you making to help your clients with this transition from a go-to-market perspective, from a product and workflow perspective? And any other perspectives you'd like to add.

Donald D. Trigg - *Cerner Corporation - President*

Yes. Sean, this is Don, and great question. So I think the first thing we've attempted to do in thinking about virtual health, as we've tried to think through what it means to actually have an enterprise strategy for our clients and what it means to provide telehealth services in a higher acuity setting with our hospital capabilities and our patient server capability but then also have effective strategies outside the hospital, predominantly through our relationship with Amwell, and so what's it look like to give them end-to-end capabilities across the enterprise.

I think secondly, we think, as you see normalization around the regulatory and payment landscape, which have really sort of been the twin impediments, probably with some change dynamics relative to provider and how they want to think about the provider-patient relationship, as we see those impediments fall back, we think then there becomes this sort of interesting conversation around what's it look like to think about the mix of physical and digital capabilities required to optimize for business strategy. We think that looks one way in fee-for-service. It looks another way in fee-for-value. And so we see some pretty interesting opportunities there in terms of helping our clients think through that mix.

And then the final thing I'd say is in the strategic growth businesses, I think there's some very interesting emerging conversations around how we think about net new offerings in areas like security, say, in the BH space, where we know there's going to be elevated levels of sensitivity and where the solutions technically need to do, things like support group business. So I think you'll see us look to support the enterprise strategy, think through it from a business model perspective and then really look to capitalize on some niche areas that we think have macro trend.

Operator

Our next question comes from the line of Stephanie Davis Demko with SVB Leerink.

Stephanie July Davis Demko - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

I've got another one on Virtual Health. Just you've integrated with only a few virtual care players to date like Amwell and Vidyo. Do you plan on remaining aligned with only a few players? Or could this expand as you look at some adjacencies as we go to further virtual fare? And as a quick follow-up to that, how should we think about the economics for each Virtual Health solution?

Donald D. Trigg - *Cerner Corporation - President*

Yes. So a couple of things on that, Stephanie. One, we support integration strategies in all of our major clients across multiple players in the tele space. So if a large client has a relationship with Teladoc or with MDLIVE or Doctors on Demand, we're going to support that strategy and help them make it successful. The second thing is we do have some preferred partnership strategies, inclusive of the strategy with Amwell. And that's fairly key to how we think about go-to-market, particularly with our large enterprise clients today. The final thing I would say relative to the economics is I think our view is there's some commodity trend around the technology, so A. B, like mobile, we think it will become an expectation of the provider to be able to provide those services to the market against their business strategies. And so the more interesting question for us, just like the questions around mix of channel and how we think about mobility, is what are the business model strategies that we're activating around the teleservices? So how do we think about the home as a venue and teleservice relative to the Medicare Advantage space and how we think about differentiating and helping clients manage first dollar risks? Those are going to be the kind of things that we're going to push ourselves to think through, and we think that ends up being the bigger, longer-term impact from a market perspective.

Operator

Our next question comes from the line of Michael Cherny with Bank of America Securities.

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

I want to step back and take another big picture question. I appreciate all the commentary that you've given us regarding your conversations with customers, going out of your way to make sure that they're doing as best they can. That being said, so many of the data points that we see continue to point to them essentially having no idea what the pathway forward is for their operations, when electives are going to come back, cash flow dynamics, et cetera. So as you think about your guidance going forward, how does some of that variability in terms of the lack of client understanding of parts of their own business play into the thought process on your guidance? Or is it as straightforward, as you mentioned, Marc, about essentially a massive dip and then the necessity for so many of your clients as key participants within their local geographies, allows them to get back to normal operations, at least in terms of how they think about running their business, even if volumes are still slower to come back?

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

Yes. This is Marc. Clearly, our business has a lot of visibility to it, right? It's fairly durable. So we have a lot of recurring revenues. We have a lot of relatively highly visible revenues. So when you're getting to the point of -- we go into a year. We can see 85% of our kind of revenues being in that category. As you get further in, that can even go up as you have a shorter period of time to get to the end of the year. So I think from -- as we look at the backlog, which is how we look at opportunities and then the new business pipeline, we've gone through and we've tried that handicap based on our knowledge of each individual client, what we think their focus is going to be as they work through the next 60 to 90 days. The majority of what we're hearing from our clients, certainly, the recurring is going to continue with all of those elements. But if the project work is synced and if they're very interested in getting -- start to back up, we're starting to get into conversations of, "When can I get in the queue for the restart?" because I think our clients realize that there's going to be a lot of demand for those services by a broad client group. And they're going to want to be able to be in line to make sure that they're getting bids, if you will, on those services.

So clearly, many of them are trying to figure out how are they going to address all of the elective procedures that didn't get done. I think some of the things that we can -- that we do in that space or that we can do in that space is help them analyze how many appointments got canceled? What are the -- how -- is there an effective way of using some of our tools to help them start rescheduling those procedures? And we have tools that help them manage their facilities. We have tools that help them manage their workforce. So how can they use all of these tools and maximize the opportunities to go address those deferred elective procedures? So I think all of those things, as we talk to our clients, they're looking for us to help them solve business problems. I would agree that right now, their business problems are making sure their people are safe and that they're delivering high-quality care. But that's going to morph pretty quickly into, "All right, now how do I recover?" And that's what Don was talking about earlier.

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

And I would add that I think you'd mentioned that in your comment, and you probably didn't mean it this way because they don't know -- understand when they can get back. I would say that the vast majority or all speak specific to our clients. Many of them are already thinking post-surge. They have plans in terms of when they believe they can open up. We've been doing activity -- I'll call it, unsurge activity, as we work to convert beds that were converted for the pandemic back to what would be considered a normal use. So I think the planning has begun. There's a -- it isn't certain by any means, but there's an idea when we can get back, when they'd be back to as close to normal as they can. And they're preparing for how to address some of this volume that's going to come back to them. So I think preparations are underway, and the uncertainty is getting less uncertain every day.

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

John, this is Brent. I'd just add to that. I think, Marc, you both made important points. Marc made a very important one, which is these elective procedures, and that demand is not gone, right? It's delayed. So if you talk with hospital system CEOs, they're trying to figure out how do they accommodate that demand, that demand, the elective demand, as it does come back. And if you think about it, there's going to -- there's a lot of delayed elective procedures where people want to move ahead or need to move ahead for various reasons. So everything that we can do to help plan that is key.

Operator

Our next question comes from the line of Jeff Garro with William Blair.

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

I think I'll follow up on that last one a little bit but maybe try to translate a little to the Cerner business model. Just trying to better understand the impact of COVID-19 and then looking ahead to a more normalized business outlook. And in what areas of the business would you expect that 2020 revenue as a new base figure off of -- in 2021? And what areas would you call out as expecting higher growth due to a catch-up element in 2021?

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

This is Marc. I would, first of all, indicate that I don't know that there's a catch-up element for Cerner. Certainly, our clients are looking to catch up with some of those elective procedures. But for us, certainly, the services revenue that is going to be -- that we're not going to be able to address in Q2, it will occur, but it's going to occur in future periods as we have the same size workforce. We're not going to expand our workforce in order to meet higher short-term demand. We'll just continue to work through it ideally in a more effective way, which might drive more revenue per associate out of that organization. But I don't see a surge of demand as we go into 2021 necessarily. So I think that's -- from my perspective, I think Don might want to address some of the opportunities from a strategic growth perspective that we see relative to kind of coming out and how those things are really helping to jump-start some of those businesses.

Donald D. Trigg - *Cerner Corporation - President*

Yes. I think if you just think about XXVanXX where we've got COVID response, durable recovery and the chance in that process for folks to really create elevated levels of certainty around their business model on a 5-year basis, that's the sweet spot we see for engagement with our clients. And so if I'm using HealtheIntent to think about an engagement strategy with elderly seniors to -- that I'm taking first dollar risk on to keep them out of the ED and utilizing the hospital as part of my surge strategy, those same capabilities, to Marc's use case, become the opportunity to start to think about recovery strategies around key procedures, around service line -- let's say, a service line like orthopedics. And that overlay, that network capability is also then the same capacity that I need on a multiyear basis to start thinking through shifts in payment model and what it looks like to manage the top and bottom line.

So to John's point, I think there's a fair degree of sophistication in the client base in terms of how to think about that progression. There's a lot of noise, but that's the signal that you see in the dialogue with the market. And I think what we believe on an out-year basis is the areas that we have made big bets on from a strategic growth perspective are the set of things that are going to have significant trend. We love the real-time hospital space. I talked about it. We think it's going to have elevated rates of trend. Behavioral health has been an area we've talked consistently with you about in the LTPAC space. We think BH and well-being end up being a big area of focus on a multi-quarter basis.

And then finally, I think as you're seeing in the bookings data, you're going to continue to see us have traction and trend around our consumer strategies. You may see some shift in mix, including things like Amwell and virtual being a more material piece of the revenue mix. But it's absolutely going to be something that has traction and trend. There are other areas where we're watching and thinking actively about headwind/tailwind dynamics. Employer would be one that I think we believe, given our engagement with our clients around return to work, that there's a centrality to the employer in that employer-employee dynamic right now that could create some -- how quarter/out-year trend around that business. We'll see. And so I think across all the strategic growth businesses, we're playing through near-term and medium-term dynamics. But I think in the main, we feel very good about mix and long-term potential.

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

Yes. And I would add one thing to Don's list and that is data. I mean that's one of the things that we've learned in this time frame is how valuable data is, what you can -- tell what kind of -- how certain tools can help us predict some of the pandemic areas, where are the hotspots going to be out and when are they diving down? So we've announced some of the activity that was -- Don, I don't know if you want to quickly...

Donald D. Trigg - *Cerner Corporation - President*

Yes. No, no. It's a great point. So if you just think about the main businesses that make up the data strategy, from a release of information perspective, a ton of trends there. Kind of interestingly, the success we've had around legal and life insurance, this is the same dialogue we're having around professional services. How do you think about virtual interactions in a way that deals with current situational reality? So a ton of trend around the core ROI business. Similarly, Brent talked about the work we've been doing to put together a purpose-built data set for COVID and to allow academic researchers to explore key protocols and discovery strategies, again, part of a larger narrative that really plays into the opportunity set around life sciences and pharma. So unquestionably, we think a lot of what's playing out in this space ends up being net positive in terms of the focal point areas that we have for that business.

Operator

Our next question comes from the line of George Hill with Deutsche Bank.

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

Marc, a lot of color has been provided here. I don't know if I count as old, but I remember 2007, 2008 and 2002, 2003. So I guess my question is on -- so on the bookings guide, I guess, can you talk about how much is in hand? And given that you guys have a high visibility recurring revenue

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model, I guess, can you talk about how much of this year's revenue is already contracted for? And I guess what I'm thinking about is how much of the bookings guide or the revenue and earnings guidance is at risk if the crisis persists longer than expected?

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

Yes. This is Marc. Clearly, the key element for us is a lot of the revenue is already in backlog. It's already contracted. The key on the services side is the ability to be able to deliver that revenue. That's really the question. And then the key thing that we're working through today is how do we deliver that revenue in our -- certainly in a virtual services model as things get back to normal, meet all the demands our clients are going to have at that point. So a lot of it is already contracted. So certainly, the new bookings are things that we need to deliver. Whenever we have a lower-than-expected bookings quarter, that's going to impact the next 2 or 3 following quarters. And that's another impact on the lower guide for this year is a lower Q2 is not going to give me the Q3 and Q4 that I'd normally be looking for.

But really, from a visibility standpoint, we have a significant amount of visibility, a lot of it. But the -- while it's contracted, while it's in backlog and while we're working on strategies to deliver those projects, that's where the -- that's what we don't know the exact impact or the exact timing and thus be able -- being able to get back into the field. We're very focused on our clients, being able to deliver what they need to do. We're very focused on the safety of our associates. We're not going to be able to send associates out there if it is not absolutely safe for them to be on-site and be doing the work. So those are the 2 things that certainly we're balancing. But our expectation is we will get back to work. Our clients are eager to do it. Our associates are eager go to do it. They already started buying plane tickets. They actually want to be out there helping our clients. So at this point, a lot of visibility that's in the backlog is signed. And not a lot of contracting that has to be done other than for the certain elements of the revenue that happens during the year. But the key issue is delivering on that backlog.

Operator

Our next question comes from the line of Robert Jones with Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group Inc., Research Division - VP*

Obviously , a lot of my questions have asked and answered at this point. I guess maybe, John, I appreciate the update on the government business, government work going on. I'm just curious if maybe you could specifically share a little bit more on the VA. What revenue do you still expect, if any, to be in guidance for this year? I know that there was a pause relative to the work there. Just curious, of the roughly $250 million a year increase that you guys had shared previously, what, if any, is contemplated in this year's work? And then how do you think about that playing catch-up next year?

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

Yes. Bob, this is Marc. We don't disclose specific revenue from the VA or for a specific government contract. Certainly, the VA is in a similar position to many of our clients, right? There's work we can do virtually, but they are starting to get into a go-live phase. And some of that work is -- needs to be done on-site. So they are not a lot different than many of our clients. And in a similar way, there isn't necessarily a catch-up time, right, for these projects. These projects tend to kind of be on a time line. And if the initial project is going to be delayed a little bit, then those -- that can waterfall.

Now depending on when we're able to get back to work and relative to the VA, there is an opportunity to perhaps do more go-live in the fall to get us back on track, which would mean that we've kind of get caught up and get back to where we would normally be in the process. But that would just allow us then to deliver the revenue that we have originally expected to come in 2021, which we obviously haven't talked about at this point. So don't want to give you any more specific guidance than that, but just to say that they're in the same boat that many of our clients are. But we do have an opportunity there perhaps to get working on multiple projects at one time as opposed to doing some sequential work that could let us get caught up by the end of the year.

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

Well, thank you all for your time this afternoon. Please be safe, and take care of yourselves and your families. Good afternoon.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.