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CERN - Q4 2016 Cerner Corp Earnings Call

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OVERVIEW:

CERN reported 4Q16 revenues of $1.258b, GAAP net earnings of $150m or $0.44 per diluted share. Expects 2017 revenues to be $5.1-5.3b and adjusted diluted EPS to be $2.44-2.56. Co. also expects 1Q17 revenues to be $1.200-1.275b and adjusted diluted EPS to be $0.57-0.59.

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PRESENTATION

Operator

Welcome to Cerner Corporation's fourth-quarter 2016 conference call. Today's date is February 9, 2017, 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, solution development, and new markets or prospects for the Company's solutions and services. Actual results may differ materially from those indicated by the forward-looking statements.

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

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

Marc Naughton - *Cerner Corporation - EVP & CFO*

Thank you, Chelsea. Good afternoon, everyone, and welcome to the call. I will lead off today with a review of the numbers; Zane Burke, our President, will follow meet with result, highlights, and marketplace observations; and then Mike Nill, our Chief Operating Officer, will provide some operational highlights.

Now I will turn to our results. Q4 was a good finish to 2016 with bookings, revenue, and earnings all in line with guidance and cash flow strong as well.

Starting with bookings, our bookings revenue and Q4 was $1.437 billion, which reflects a 7% increase over Q4 of 2015. Relative to our guidance, bookings were at the lower end of our range, primarily due to the lack of new ITWorks deals in the quarter.

For the full year, our bookings revenue was $5.446 billion, which is up slightly from a very tough comparable of $5.427 billion in 2015 when bookings grew 28% over 2014. Our revenue backlog ended the year at $15.927 billion, which is up 12% from $14.195 billion a year ago.

Revenue in the quarter was $1.258 billion, which is up 7% over Q4 of 2015 and at the midpoint of our guidance range of $1.225 billion to $1.3 billion. The revenue composition for Q4 was $352 million in system sales, $255 million in support and maintenance, $626 million in services, and $25 million in reimbursed travel.

For the full year, revenue grew 8% over 2015 to $4.8 billion.

System sales revenue for the quarter was down 8% compared to Q4 2015, driven by declines in technology resale and software that were partially offset by growth in subscriptions.

Note that our guidance had factored in the declines in the technology resale and software as they both had extremely tough comparables. I would note that software was up nicely sequentially over the lower levels we discussed in Q3.

For the full year systems sales revenue decreased by 1% from 2015, but margin percent was up due to the lower mix of technology resale. We believe we are better positioned to grow system sales in 2017, given an easier comparable and a good forecast.

Moving to services, total services revenue, including professional and managed services, was up 18% compared to Q4 of 2015. Full-year services revenue was up 16% over 2015. This growth is in line with our expectations and continues to reflect good execution by our services organizations. Support and maintenance revenue increased 3% for the quarter and 4% for the year.

Looking at revenue by geographic segment, domestic revenue increased 7% over the year-ago quarter to $1.11 billion and non-US revenue grew 8% to $1.45 million -- $145 million. For the full year domestic revenue grew 9% and non-US grew 6%.

As a preview to the annual update of our detailed business model that we will provide at our investment community meeting on February 21 at HIMSS, I'd like to provide you with the total revenue and growth by business model for the full year 2016. Licensed software decreased 3% to $549 million, technology resale decreased 17% to $274 million, subscriptions increased 14% to $442 million, professional services revenue grew 17% to $1.45 billion, managed services increased 14% to $982 million, support and maintenance was up 4% to $1.016 billion, and reimbursed travel was $89 million, which is up 22%.

One thing to note about the slight decline in software for the year, this was largely due to a very tough comparable in 2015 which had a very high level of traditional software revenue that is mostly upfront in nature. Traditional software declined from these elevated levels and this decline was largely offset by an increase in SaaS revenue, which now represents over 30% of total software revenue. The biggest driver of the SaaS growth is population health.

This year we expect levels of traditional software revenue to remain relatively flat, but we expect ongoing strong growth in SaaS revenue. This should lead to better overall growth in system sales and a continued favorable mix shift to more recurring revenue.

Moving to gross margin. Our gross margin for Q4 was 82.9%, which is basically flat compared to Q4 of 2015. Full-year gross margin of 83.8% was up from 83% in 2015.

Now I will discuss spending, operating margins, and net earnings. For these items we provide both GAAP and adjusted or non-GAAP results. The adjusted results exclude share-based compensation expense, voluntary separation plan expense, health services acquisition-related amortization, acquisition-related deferred revenue, and other acquisition-related adjustments, which are detailed and reconciled to GAAP in our earnings release.

Looking at operating spending, our fourth-quarter GAAP operating expenses of $831 million were up 11% compared to $749 million in the year-ago period and included $36 million of expenses related to the voluntary separation plan that we previewed on our Q3 earnings call. Full-year GAAP property expenses were $3.106 billion, up 7% from $2.893 billion in 2015.

Adjusted operating expenses were $749 million, which is up 9% compared to Q4 of 2015. This growth was primarily driven by an increase in personnel expense related to revenue-generating associates, which is reflected in the sales and client service expense line that increased 13%. Software development increased 3%, G&A was up 1%, and amortization of acquisition-related intangibles was down 41%. But this represents only $1 million decline from the $3 million to $2 million as this line excludes health services acquisition-related amortization in the non-GAAP view. For the full year, adjusted operating expenses were up 11% to $2.884 billion.

Moving to operating margins. Our Q4 GAAP operating margin was 16.9% compared to 19.3% in the year-ago period with the VSP being the main reason for the decline. Full-year GAAP operating margin was 19.0% compared to 17.7% in the year-ago period.

Our adjusted operating margin was 23.3% in Q4, which is down from 24.7% in the year-ago period. Full-year adjusted operating margin came in at 23.6%, which is down from 24.3% last year. The lack of margin expansion in 2016 is consistent with our original guidance.

Going forward, we still see long-term expansion opportunities for margin, but given headwind created by a large unexpected increase in non-cash software amortization and depreciation expenses, including some that didn't come through as quickly as we expected in 2016, and the expected lower growth of traditional software revenue, our guidance for 2017 reflects operating margins of flat to slightly up. We also expect that our margins will be more sensitive to revenue mix in coming years.

For example, if we experience an acceleration in our Works businesses in the next couple of years, which we believe is likely, it would contribute positively to revenue growth but might create a mix that could limit margin expansion. Longer term, however, we believe that this could be more than offset because of our SaaS revenue related to population health ramps.

In addition, the headwind from non-cash expenses should subside after a couple of years, creating another opportunity for margin expansion. As a result of these dynamics, we believe modeling a limited margin expansion for the next couple of years would be an appropriate baseline. We will obviously continue to update our view as these dynamics play out. We believe our outlook for operating margins in the mid-20% range and upper single-digit revenue and earnings growth is very solid for a $5 billion company.

Moving to net earnings and EPS. Our GAAP net earnings in Q4 were $150 million, or $0.44 per diluted share. For the full year, GAAP net earnings were up 18% over 2015 to $636 million, or $1.85 per diluted share.

Adjusted net earnings were $206 million and adjusted diluted EPS was $0.61, which is flat compared to Q4 of 2015. But recall we had a $0.03 tax benefit in Q4 2015.

For the full year, adjusted net earnings were $790 million and adjusted diluted EPS was $2.30, which is up 9% from 2015. The Q4 tax rate was 31% compared to 27% in the year-ago period.

Now I will move to our balance sheet. We ended Q4 with $466 million of total cash and investment, which is down from $837 million in Q3, primarily due to the use of cash for our stock repurchase program. During the quarter we finished the remaining $100 million of stock repurchases authorized in March of 2016 and executed $400 million of the $500 million stock repurchase authorized in November of 2016.

For the quarter, we repurchased a total of 9.98 million shares at an average price of $50.10. For the year, we repurchased 13.7 million shares for $700 million at an average price of $51.

Moving to debt. Our total debt, including capital lease obligations, was $564 million which is down slightly compared to Q3. Total receivables ended the quarter at $945 million, which is down from $985 million in Q3. Our Q4 DSO was 69 days, which is down from 76 days in Q3 and 80 days in the year-ago period.

Operating cash flow for the quarter was $333 million. Q4 capital expenditures were $132 million and capitalized software was $65 million. Free cash flow, defined as operating cash flow less capital purchases and capitalized software development costs, was $137 million for the quarter. For the full year, operating cash flow was $1.156 billion, capital expenditures were $459 million, and capitalized software was $294 million.

Full-year free cash flow was $402 million, which is 25% higher than 2015. We are targeting an increase in free cash flow of at least $100 million in 2017, driven largely by an expected decrease in capital expenditures.

Now I will go through guidance. We expect revenue in Q1 to be between $1.2 billion and $1.275 billion, with a midpoint reflecting growth of 9% over Q1 of 2016. For the full year, we expect revenue between $5.1 billion and $5.3 billion, reflecting 8% growth over 2016 at the midpoint.

We expect Q1 diluted EPS to be $0.57 to $0.59 per share, with the midpoint reflecting 9% growth over Q1 of 2016. For the full year we expect adjusted diluted EPS to be $2.44 to $2.56, with a midpoint reflecting 9% growth over 2016.

Moving to bookings guidance, we expect bookings revenue in Q1 of $1.125 billion to $1.275 billion. The midpoint reflects 3% growth compared to Q1 of 2016. Note that our Q1 bookings guidance does not contemplate material contributions from ITWorks, but we do expect good contributions from ITWorks for the full year.

Our 2017 guidance reflects slightly lower ranges from what we provided based on our preliminary view on our last call. These lower ranges reflect our desire to factor in as much of the unpredictable nature of our business as possible and to make our guidance attainable as we look to avoid having another year where we miss elements of our guidance. While no guidance can be guaranteed, we believe the ranges we have provided are attainable.

For example, we indicated last year that 79% of our guidance (inaudible) for revenue before reimbursed travel was scheduled to come out a backlog. As we've discussed, we did a good job of delivering this expected revenue from backlog, but fell short on revenue from current-year bookings.

Looking at 2017, approximately 82% of our guidance midpoint for revenue before reimbursed travel was scheduled to come out of backlog. This 3% difference represents approximately $150 million less reliance on current-year bookings than last year.

Looking at the earnings guidance, similar to our revenue, we are focused on setting an attainable range. In addition, our current view is that non-cash expenses will increase by more than $70 million in 2017 with a split roughly equal between software amortization and depreciation. We realize we projected a similar increase for 2016 and it ended up only being a little over $50 million. This was in part because we provided that projection before we finalized our plans and also because the timing of some amortization started pushing to 2017.

As I mentioned, the headwind from non-cash expense increases should subside after a couple of years since the growth of our capitalized software has moderated and our capital expenditures are expected to decline.

Finally, for bookings, we will continue to provide guidance just one quarter at a time, but I wanted to make a couple of points.

First, we do expect some very large bookings this year, but it may be difficult to precisely predict the timing. We will do our best to provide appropriate guidance ranges and position ourselves for a higher chance of an upside, rather than a downside miss, but there may be some variability in a particular quarter. We do believe, however, we are in a good position for full-year bookings growth based on our pipeline of new EHR and revenue cycle footprints, revenue cycle and other solution whitespace on our base, and Works opportunities.

In summary, we feel like we have finished the year on a solid note and we have a good and attainable outlook for 2017.

With that I will turn the call over to Zane.

Zane Burke - *Cerner Corporation - President*

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

Our Q4 bookings of $1.44 billion reflects 7% growth over 2015 and bring full-year bookings to above bookings for last year. Given the tough comparable of 28% growth in 2015, we view bookings in 2016 as solid, particularly when you consider the headwinds created by declines in tech resell and ITWorks bookings. I feel good about our ability to grow bookings in 2017 given we are past the technology resell headwind, have a strong outlook for Works bookings, and have a good pipeline for revenue cycle and replacement opportunities.

Looking at long-term bookings, 31% of bookings in the quarter were from long-term contracts, reflecting strong managed services bookings and no new ITWorks contracts. For the year, long-term bookings were 30% of total bookings compared to 32% in 2015. In dollars, long-term bookings declined 8% for the year while the rest of bookings increased 4%.

While 2016 was disappointing from an ITWorks perspective, we believe 2017 will be a strong year with much better contributions from ITWorks later in the year. Even with limited ITWorks bookings, our bookings for the quarter and year included a record number of large contracts.

In Q4, 60 contracts were over $5 million, including 35 over $10 million. For 2016, 183 contracts were over $5 million, including 107 over $10 million. The high volume of large contracts reflects ongoing success with hosting, high attach rates of solutions like Revenue Cycle with EHR purchases, and growing deal sizes in areas like ambulatory and population health.

From a new client perspective, 37% of bookings this quarter came from outside our core millennium install base. For the year, 35% of bookings came from outside our base compared to 36% last year. This sustained high level of new business reflects our ongoing competitiveness and good market activity.

Looking ahead, we continue to believe the replacement market will remain active given the high number of hospitals on legacy platforms and the pressure to keep up with future regulatory and payment models that many legacy platforms are not well equipped to handle.

Now I will provide highlights from the quarter and year with -- I'll start with Revenue Cycle. 2016 was a very strong year, which included 19% revenue growth and record bookings. This growth was driven by ongoing success of increasing penetration of revenue cycle in our install base and also related to our strong levels of new EHR footprints, almost all of which included revenue cycle. This success reflects the significant investments we have made in our Revenue Cycle solutions and a focus by providers on achieving clinical-driven Revenue Cycle.

Beyond our solutions we had a strong year in Revenue Cycle services driven by acute and ambulatory business office services. Operationally, I believe 2016 was an important year in terms of building on the progress of previous years and strengthening the foundation for further revenue cycle successes. We advanced our capabilities in several important areas, including increasing associate expertise through our revenue cycle certification program, improving our delivery infrastructure, and making many important code enhancements to position our clients for ongoing success.

We believe all of this hard work positions us well going forward and our forecast reflects strong growth in 2017. We expect this growth to come from ongoing strength in both solutions and services, including some larger RevWorks opportunities that are in our pipeline.

Now I will shift to population health. 2016 was a good year for our population health service business. In total our population health revenues grew 13%, with very strong growth in our HealtheIntent solutions being partially offset by a decline in revenue from legacy reporting solutions that are part of our total population health revenue.

We made significant progress in 2016 and we believe we are well-positioned going forward. I believe our vision and solutions are resonating in the market and we are seeing broad success. Our client base is rapidly expanding and includes a diverse portfolio of clients, including small and large health systems from inside and outside our base; proven leaders in population health; and those just beginning the journey.

Health plans, employers, states and governments; this diversity represents the reality of a connected health community and allows us to prove our ability to meet the unique needs of each segment and provide value across the continuum.

From a solutions standpoint, 2016 was an important year of progress. HealtheRegistries and Scorecards are being widely deployed; HealtheEDW and Analytics are growing quickly; our HealtheCare Care Management solution is now deployed and is an important part of most new sales decisions; and HealthePrograms went live for the first time, delivering a new level of personalized classification, prediction, and population monitoring.

HealtheIntent, our unified architecture, remains differentiated and continues to scale to massive population sizes. We are now approaching 100 million people and more than 6 petabytes of data.

From a marketplace standpoint, we believe we are near an inflection point; the business models in the health information technology strategies are shifting. The key question for us regarding population health has not been if the shift will occur, but when and how fast.

Our analysis, in concert with industry experts, predicts we are just entering the transition with the largest shift for fee-for-service to at-risk models occurring between 2018 and 2020 across health systems, health plans, Medicare, Medicaid, and self-insured providers. This shift brings significant change to the business model of providing care and managing health and to the necessary information technology support.

As we move closer to this shift, we are focused on delivering value for these clients who have already placed their trust in us to ensure they successfully make the transition and thrive in the emerging models. We are streamlining our implementations, expanding our solution portfolio to manage high-performance networks, providing tighter provider workflow integration, actively engaging consumers, supporting enterprise-wide analytics, harvesting data to create new intelligence, and creating an open ecosystem to empower the innovators. We are also building a portfolio of advisory, infrastructure, and operational service to help our clients navigate the journey.

As part of our normal annual planning process, we have revisited both our short- and long-term population health outlook. Near-term we have a significant pipeline of opportunities exceed the collective amount of business we've signed in the past several years. This demand and our expectations that the shift to at-risk models will accelerate in the next few years makes us feel good about the longer-term goals for population health as well.

Our operational and sales execution these next few years will be very important and I feel good about our ability to deliver.

Moving to the ambulatory market, where we had another good year -- quarter and year. For the year, ambulatory bookings grew 16% over 2015, which was a tough comparable as ambulatory bookings had grown over 50% in 2015. We had 28 displacements of our primary ambulatory competitors. 2016 was a big year for ambulatory business office services and included several displacements of our primary cloud competitor.

In the small hospital market we had a great year with our CommunityWorks offering, adding 26 new footprints and bringing our total number of CommunityWorks clients to more than 150. Our outlook is good with new business activity at an all-time high. In addition, our competitiveness is very good and our win rate was over 60% for the year. We continue to be successful against our primary cloud competitor in this market and have already had displacement opportunities in situations where they were not able to deliver.

Next I would like to provide a quick update on our project for the Department of Defense. Earlier this week we had a successful first go-live at the Fairchild Air Force Base clinic near Spokane, Washington. There will be more go-live events over the summer.

From there, we expect to begin broader deployment over the next several years. This has been an exemplary project so far and the early success is the result of a great effort by the Department of Defense, Cerner, Leidos, Accenture, and other partners. The Department of Defense will have a presence with us at HIMSS, which will give people an opportunity to learn more about what we are doing together.

Outside of the US, we had a solid finish to the year. Non-US revenue grew 8% for the quarter. This brings full-year non-US revenue growth to 6% for the year, which compares to 9% for domestic revenue. Areas of strength in 2016 include Germany, the Middle East and Ireland.

Overall, we are starting to see increased activity outside the US and expect the non-US market to become a more meaningful contributor to our results given the relatively untapped EHR market, opportunities to roll out our Works business, and other -- our population health platform.

Now I'd like to provide some observations on the marketplace. Last quarter I talked to you about the reduced number of hard deadlines and regulatory mandates and how this was impacting our clients' sense of urgency in some cases. Shortly after we reported, the election results surprised many and led to widespread speculation about the demise of healthcare IT due to uncertainty surrounding the future of Obamacare and the timing of the shift to value-based care.

The election result and ensuing speculation didn't really impact our business in Q4, as most of our solutions are at a high strategy level and were relatively unaffected. And this helped us deliver on all key metrics within our guidance range.

As for the new administration, it is too early to tell if it will have a material impact going forward. However, we believe the fundamental shift towards value-based care will continue in almost all scenarios. We feel good about our outlook for the year and believe our guidance range represents solid and attainable growth.

In summary, I am pleased with our solid results and believe we are well positioned for growth in 2017.

With that I would like to turn the call over to Mike.

Mike Nill - *Cerner Corporation - EVP & COO*

Thanks, Zane. Good afternoon, everyone. Today I am going to discuss ITWorks and a model we are increasingly using with clients to maximize value creation.

I will start with ITWorks. As Zane has already discussed, we did not have a very good year for new ITWorks deals. However, we did have strong sales back into our ITWorks base, established an important global ITWorks footprint, and delivered solid financial results. As a result of this activity and our strong bookings in 2015, our total ITWorks revenue increased 28% in 2016.

It is important to point out the success of our existing ITWorks clients as that is a key reason we have built such a large pipeline of new prospects. Overall, our ITWorks clients have the highest client satisfaction levels, are very referencable, and have a high penetration of service solutions, and show very well in industry measures such as EMR adoption model and Most Wired recognition.

Looking ahead, several opportunities we contemplated in 2016 are lining up for 2017 and these, along with other opportunities in our pipeline, set us up for a strong year. We strongly believe in the ITWorks value proposition and it remains appealing to our clients in an environment where they have pressure on operating cost, limited access to IT talent, and the increasing pressure to keep up with IT security issues.

Now I would like to discuss another approach to client alignment called a value creation office, or VCO. This is a fundamental shift in how we are working together with our clients. We are embedding teams to live and work with selected clients to build a deeper understanding of their businesses and the communities they serve.

We established a joint governance process where we look at organizational improvement opportunities and build business cases for investments to achieve those improvements. As improvements are achieved and value is created, Cerner and the clients share in their financial benefits. Some examples of areas we have had success include coding, infection control, sepsis, VT prevention, readmissions, ambulatory practice, and population health.

Much of this success is driven by leveraging Cerner's technology to optimize workflows and minimize variations in the care processes. Another focus of most of our VCO alignments is creating a business analytics platform for the entire healthcare enterprise and using it to monitor enterprise performance and assess new opportunities for performance improvement, which then become new opportunities for value creation.

So far we have more than five clients where we have some form of a VCO structure and we have had success at creating value in all cases. I am personally a part of the governance committee for one of these clients and we generated millions of dollars of value in the past year.

In summary, I think the VCO model will become increasingly common, as it is a great way to achieve return on technology investments through improved quality and financial performance, while creating a tighter alignment between Cerner and our clients.

With that I will turn the call over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Richard Close, Canaccord Genuity.

Richard Close - *Canaccord Genuity - Analyst*

Just real quick question. In terms of ITWorks, is that essentially the gating factor in terms of the low end and high end of your revenue range? And if you could give us some additional, I guess, commentary in terms of why you think ITWorks essentially was pushed out from 2016 to 2017. Thank you.

Zane Burke - *Cerner Corporation - President*

Richard, this is Zane. I will take the first part of that question and then I will let Marc do the guidance dialogue -- the second part of that question.

I look at it and say that we talked about there was a bit of a pause in 2016 around some of those major initiatives on the Works side where they didn't have the meaningful use elements at many of our clients and some of the regulatory elements that were facing them and they got a bit of a reprieve. Also, the economics were such in 2016 where many of our clients fared better than they had initially anticipated doing in that space. And so some of the pressure was off as it related to getting some of those pieces completed.

What we saw is actually we continue to grow the pipeline in that space and have continued to move opportunities along. We see that really those are -- we see that those are going to close in the upcoming year and that has just been, I would say, a variance of timing.

And I often describe this as the ultimate relationship sell. It is, literally, where these organizations are handing their associates, their employees over to us for a re-badge purpose.

So this is not a situation where you are going to have an end-of-the-quarter kind of a push. These are the ultimate relationship sell and so they don't necessarily have the same kind of timelines from an overall perspective, which makes that a little less predictable overall. But we have seen continued movement along the way and we feel good about that movement.

And we see that 2017 does have some of those regulatory hammers coming up for them. The needs to get through some of the healthcare IT projects is there and we uniquely positioned to deliver on that. Marc?

Marc Naughton - *Cerner Corporation - EVP & CFO*

Hey, Richard; relative to ITWorks being the difference in the top range of our revenue. Keep in mind that ITWorks deals -- while they do have some impact in the year in which they are assigned, given that we don't foresee a whole lot of Q1 activity in that space, the impact it is going to have on 2017 isn't going to be the $200 million difference range that we have in our guidance.

What you found, as we talked about the performance of ITWorks in 2016, we had a very strong 2015 and you saw our revenue from ITWorks grow about 28% during the year. So if we have a good strong 2017 in ITWorks, it will certainly feed 2018 revenue and contribute more strongly there, but it is not the sole driver. It certainly is a key driver to growing bookings, as we have indicated we expect to do, but it isn't going to be the sole source that is going to be where we land in our revenue range.

That is all a matter of driving out obviously the 82% of that revenue that is going to come out of backlog and then driving out the revenue from the current quarter bookings -- or the current year bookings, which, as we indicated, is because of the 82% less impactful and required than it was in our 2016 original guidance.

Richard Close - *Canaccord Genuity - Analyst*

Thank you.

Operator

Donald Hooker, KeyBanc.

Donald Hooker - *KeyBanc Capital Markets - Analyst*

I was curious your comments around population health; there was sort of a dual, conflicting factor where you had HealtheIntent products growing a bit faster and some of the legacy products growing slower. Is that something that needs to calendarize? Is there -- can you elaborate on how that dynamic might play out through 2017 and 2018?

Zane Burke - *Cerner Corporation - President*

This is Zane. What I would say is some of those items that we had in there were some of the quality reporting elements in our legacy pop health pieces. And we have ramped up -- or as we've ramped up our healthy analytics and enterprise data warehouse that is going to outpace the growth on some of those pieces. So that will -- that trend will continue. We expect the growth on the newer solution set to far outpace the decline in the legacy solutions as we move forward.

Donald Hooker - *KeyBanc Capital Markets - Analyst*

Okay. And maybe just one other question. It sounds like on the Revenue Cycle side, where -- can you maybe qualitatively or quantitatively describe where you are penetration-wise into the core base to give us a sense of the cross-sell over the next couple of years? Because this sounds like that is a near-term opportunity.

Zane Burke - *Cerner Corporation - President*

Our core base, we are now at over 200 sites, so we are -- which is impressive from a scale perspective, but that is still a little less than 50% of our total population. And so it allows for quite a bit of future cross-sell and particularly on the large side.

As we have moved up in the Revenue Cycle scale, these tend to be larger opportunities for us as we move forward. And you have just seen as began to really impact that marketplace and the larger IDN segment. So that is where some of the big opportunities remain on that side.

Marc Naughton - *Cerner Corporation - EVP & CFO*

And this is Marc. I think probably closer to 30% penetration today relative to the revenue cycle opportunities as we are selling back into our base. So it still remains one of our strongest white space opportunities.

Donald Hooker - *KeyBanc Capital Markets - Analyst*

Okay, thanks.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan - Analyst*

I just wanted to follow up and just try to reconcile, Zane, a couple of the comments that you made. One, being too early to tell what the changes in the new administration are going to have with your expectation for high volume of some large contracts. Can you maybe just help us to understand the visibility you have around these high volume contracts?

And you talked about -- Marc had said 82% or 83% is coming from backlog versus actual bookings. Do you need one of these high-volume, large contracts to come through as we think about the numbers for this year?

Zane Burke - *Cerner Corporation - President*

Yes, Lisa, if I -- as I spoke about that what I am really relating to is any impact from the change from a fee-for-service world to really a more value orientation. We have not seen any impact from the election or the change in the administration, although obviously the administration is not fully in place at this point. And so to understand if there is going to be any kind of impact it is hard for us to see.

What we did see in Q4 was actually no disruption, even though that was probably the bigger shock to the system, if you will, because what we are working on are these very strategic elements. And so I would say that we did not experience any impact from that and we are not -- at this point we are not anticipating, but we don't know what the impact of the administration will be at this point.

Marc Naughton - *Cerner Corporation - EVP & CFO*

Lisa, this is Marc. Relative to a large contract, some of the opportunities we talked about, a lot of those are going to be Works opportunities. So many of them are going to be relative to -- from a revenue standpoint, as I indicated earlier, they don't necessarily contribute a whole lot of revenue in the year in which they are signed.

And to the extent that they're ITWorks they don't contribute a lot just from that services component to the bottom line. So obviously the things that go along with those deals, including software and other higher-margin services.

We are not going into the year having to go land a bunch of whales. We see them out there and we expect to bring them in as we increase our bookings over the prior year; bring in at least a few of those. But from the guidance on financial statement side, I don't -- we are not counting on -- don't need those big ones to come in to drive those numbers.

Lisa Gill - *JPMorgan - Analyst*

Okay, that is helpful. And then, Marc, if I can just ask a follow up question on tax. The tax benefit we saw in the fourth quarter, was that something that you had anticipated when you gave us thoughts and guidance going into fourth quarter on the third-quarter call? Was that just something that I missed and you anticipated, or was there something that you found incremental benefit in the fourth quarter on the tax side?

Marc Naughton - *Cerner Corporation - EVP & CFO*

The tax rate will move around based on several things, including the place and -- of foreign earnings and revenues, so a 1% change in that isn't going to make a whole difference. I mean basically kind of low 30%s is where we expect our tax rate to usually land.

And especially at the end of the year, everything gets trued up. So I don't know that we would have been specific about being able to tell you exactly the tax rate we expected, because we don't really know the precise number until after we close the books and we do all of the US, non-US, and all of the related tax work.

Lisa Gill - *JPMorgan - Analyst*

Okay, that is helpful. Thank you.

Operator

Sean Dodge, Jefferies.

Sean Dodge - *Jefferies - Analyst*

Marc, going back to the 2017 revenue target and bridging your preliminary view with the formal guidance you guys gave this afternoon, you mentioned wanting to take a more conservative approach. Is it as simple as that, or are there some actual shifts you are seeing in backlog timing or the market that are kind of behind this lower target?

Marc Naughton - *Cerner Corporation - EVP & CFO*

Yes, I think that -- obviously our approach is we did not have a completed plan in place when we talked to you back in Q3. We have had a chance to go through and do all of that detail work, including the detailed backlog. And as we land our plan, the good news is that based on the midpoint of our revenue guidance is that a higher percentage of that is coming out of backlog, which we did actually a very good job of delivering in 2016.

The shortfall in 2016 was from new bookings. And so I guess I would characterize our plan in our guidance that we are providing as being less reliant on the contribution from those new bookings. It wasn't a negative shift.

We certainly feel, as we have been talking to investors that wanted to make sure our guidance felt good to us, that there was perhaps a slight more conservatism to it than we might have had in the past. And I think the guidance we have in place right now is highly attainable and, once again, appropriately has a focus on driving more revenue from backlog as a percent than we did in 2016.

Sean Dodge - *Jefferies - Analyst*

Okay, thank you. Then, Zane, it has been a little while since we have gotten an update on the migration of Health Services clients over to Millennium. Are you willing to share some updates there and maybe how many sites are still left to migrate? And maybe even how the revenue profile of those clients that have migrated have changed?

Zane Burke - *Cerner Corporation - President*

Sure. The win rate has been very good. It has really stayed with our expectations as we started the transaction two years ago. And it is very much in line, actually a little bit ahead of our other -- our core win rates.

And so kind of the losses we had were early and expected and those were already in flight elements, so the win rate has continued to improve as time has gone by. And that is a reflection of both our competitiveness as well as the way we have serviced those clients over time.

And so there are -- we are about halfway through the migration of those clients overall and it is across the board in terms of the type of client that has made a switch. That is from large organizations all the way down to the smallest organizations. And our win rates are in the 80 percentile as we see those today, so there is a good opportunity still as we move forward for about half of those clients.

Sean Dodge - *Jefferies - Analyst*

Great, thanks again.

Marc Naughton - *Cerner Corporation - EVP & CFO*

As we move forward, guys, if we could try to limit to just one question. I know we have a lot of people in the queue; we would love to give everybody a chance to ask a question. Thanks.

Operator

Greg Bolan, Avondale Partners.

Greg Bolan - *Avondale Partners - Analyst*

I wanted to -- I mean we obviously are now sitting on a year or so following the Siemens acquisition and obviously some volatility in guidance there. And I get that you guys are trying to do bigger things; hospitals are requiring bigger things. And obviously longer-term, from a financial perspective, it is going to burn differently off a backlog that kind of the software-laden days of the -- I guess post HITECH Act.

But I guess, as you think about the coverage that you have for 2017, Marc, I think you had mentioned it had upticked. You are kind of pushing that up 300 basis points, around 82% I mean. Maybe Richard kind of asked this earlier but maybe I could just ask it a little bit more pointedly.

What could go wrong here? And, obviously, what could go right? But I guess the former: what could go wrong just in terms of this updated guidance and what kind of shocks have you built into the numbers? Thanks.

Marc Naughton - *Cerner Corporation - EVP & CFO*

I think clearly this is guidance; we can't predict the future. Obviously, if we did, we did a bad job of it in 2015 and 2016.

So I think, for us, we have a very robust planning process. We went through it as we always do. I think we took a little bit tighter look at things. We tried to balance things a little bit more toward the side of conservatism.

But I think the way things landed with our backlog being 82% of revenue feels really good. I mean it is a big number; the guidance we have out there is a big number and to have a higher percent of it coming from our backlog gives me a good feeling. We did a good job of delivering that, so I think that feels really good.

In this business it is all about -- we sign a lot of new contracts during the year, billions of dollars. And so it is all about the marketplace being there, people being ready to buy, and us offering the solutions and services that the market needs.

Based on our pipeline, we have a lot of expressed interest of people that are looking to take advantage of our solutions. We are fortunate that there is a significant portion of the market out there that is willing to make an EHR decision, which would not be something you would have expected this far down the HITECH Act line.

So I think the marketplace is there, the opportunities are there and the solutions we are bringing to market including (technical difficulty), including our ITWorks that actually drive real value for the client; I think we are well-positioned. Anything can disrupt that, but I don't -- our view is that our clients aren't seeing the change in administration as being a near-term impact of something that they have to hunker down.

Everything I read says they are going to still continue to spend on capital. Every conversation we have with them says that they will continue to spend capital. And, as long as they are spending, we have the things that are going to make them more efficient and better prepared for the future.

So they have the opportunities. We have seen them expressed in our pipeline, but we have to go delever those new bookings. So the risk, as always, for every year, as it was in 2016, is delivering on the new bookings.

Greg Bolan - *Avondale Partners - Analyst*

Fair enough. Thanks, Marc.

Operator

Nicholas Jansen, Raymond James.

Nicholas Jansen - *Raymond James & Associates - Analyst*

I just want to dig a little bit deeper into the 2017 kind of margin expectation, because I think that is probably the biggest delta relative to your old guidance of 50 to 100 basis points to now kind of flattish. And your comments surrounding Works deals, perhaps being lower margin upfront; what gives you confidence that after several years of margin degradation that we can stem the bleeding in 2017? Thanks.

Marc Naughton - *Cerner Corporation - EVP & CFO*

I wouldn't know that it is margin degradation, because I think we have had flat margin this year compared to last year. We have a midpoint of our guidance, let's say, we have a slight increase. It certainly isn't the 50 to 100 basis points that we have talked about previously.

I think you have seen us have a history of growing revenue and then growing margin. I think in this case we have got a little bit of a headwind because we have written a lot of new solutions.

A lot of those are coming online in 2017, which is going to impact us from an amortization standpoint. So we do have a $70 million impact from a non-cash that if you take -- if you parse our 100 basis points down to 50 points coming from expenses and 50 points coming from the revenue side, that eats up a lot of the expense benefit that we would expect to see in the year.

But on the ITWorks, the history we have, certainly in our hosting business, is to start out with a business that our clients need that they don't really want to do; that starts out, if you just look at just the services component, as a high single-digit, low double-digit margin. And then growth that to 20% to 30%-plus because of centralization, because of the implementation of tools and processes that make that much more effective than an individual client can do on their own. We think that ITWorks and we think that RevWorks are two of those businesses that are well suited to our style of centralization and leverage.

So I think that certainly in 2017 we want to be way up front and say that because of the headwinds with the amortization, because of the potential -- we are not projecting that we are going to have a lot of extra bump from extra software. We are trying to be somewhat conservative assuming (technical difficulty) flat to this year, which is down over last year.

So I think all of those taken into account -- of being able to hold our margins around 24%, while driving top line and earnings at a 9% rate on the midpoint, feels like a reasonable position to be in. And then have the opportunity as we roll forward in 2018 and 2019 so we see pop health starting to hit, seeing that SaaS revenue starting to hit with the higher margins. I think we have the opportunity to get back on track of raising margins at that point.

Nicholas Jansen - *Raymond James & Associates - Analyst*

Thanks for the color.

Operator

Matthew Gillmor, Baird.

Matthew Gillmor - *Robert W. Baird & Company - Analyst*

Marc, you talked about your expectations for CapEx to decline about $100 million in 2017. That will obviously help free cash flow. As you look out past 2017 I think you mentioned CapEx should continue to decline as some of those capital projects are completed. Can you give us a sense beyond 2017 where CapEx should trend over the next couple years?

Marc Naughton - *Cerner Corporation - EVP & CFO*

Yes. I think, as you said, that we expect the capital impact and certainly free cash flow we expect to grow $100 million year over year from 2016 to 2017, the majority of that coming from reduced capital -- CapEx, primarily related to the new campus that we are just opening currently. I think as we look forward the only reason that we -- one of the reasons we incur CapEx, particularly on buildings, is to add people that are going to be revenue-producing.

Certainly anything on the capital side is going to be tied to our growth as a company and the growth of the top line. So I think from a relative -- relative to 2018 and 2019, I think don't know at what point we will have to start next capital expansion to house additional associates. We have some breathing room now, so hopefully we can get through the next couple years without having some of those material impacts. And that should allow us then to grow free cash flow based at least upon increased (inaudible) and operating cash flow.

We will continue to invest in our other businesses and that is really the non-building portion of CapEx. I would expect to see capitalized software to be relatively consistent over that time as well, so you are not going to see a whole lot of growth. But we are going to continue to invest in new things, so you won't see a whole lot of that going down a lot as a number, even if our overall spend in that space stays relatively flat.

Matthew Gillmor - *Robert W. Baird & Company - Analyst*

Okay, great. Thank you.

Operator

Ross Muken, Evercore.

Ross Muken - *Evercore ISI - Analyst*

I was trying to tease out, given some of the numbers you provided for some of the higher growth businesses like ITWorks and rev cycle and pop health, kind of what the implied core did. And I was getting to somewhere in the area of about low single-digits, 3% or so.

Help us understand -- I think when you talked at your last analyst meeting around the current trajectory in the core it was supposed to be closer to mid-singles. How do you parse out the differences and is my math off or not?

Marc Naughton - *Cerner Corporation - EVP & CFO*

I think your math is -- it's a little higher than that so I think your number is a little bit low. Because I think it is closer to the number that we talked about, the mid single-digits, from a growth perspective. Obviously at HIMSS we will try to give you a little bit -- we will give you more color on showing you the lines of business which will help and obviously talk a little bit about our longer-term growth opportunities. But I think if you look at the math, it is probably about 4% to 5% of core.

Ross Muken - *Evercore ISI - Analyst*

Got it, thanks. And maybe just quickly, how much debate was there internally as you obviously decided to do guidance in a way that certainly made it more achievable or a band that seemed more comfortable to you? How much debate was there on then what to do on the margin side and on free cash flow?

Because obviously there is always the trade off of growth versus profitability. And I know you see huge runway still ahead but the market also likes to see progress on both elements and obviously this year it is a bit tougher, as you said, on the margin side. How much of that was sort of debated or were you still just so comfortable in those long-term opportunities you thought the investments needed still to fund that are probably the priority?

Marc Naughton - *Cerner Corporation - EVP & CFO*

I think as we look at the Company, we are looking at a company of almost $5 billion revenue. We are growing top line 9%; we are growing earnings 9%. I am not sure the universe of companies that are doing that, but it is probably not big, so I think the results are pretty good.

This is -- it took me a long time. I have been CFO here for 20-some years and it takes a while to realize you have to invest in the IP, in the innovation, because there are --. We are certainly excited about the things that are starting to become in the windshield, like pop health and our rev cycle.

But there are other, lots of other opportunities when you're at the intersection of healthcare and IT that we are investing in. We are not talking to you guys about it, but we are investing in those things as well because that is going to drive this business. We are not at a point where we need to be saying, okay, well, our growth is going to be constrained so we need to really start to figure out how we drive to the bottom line.

We actually do that. If you'll -- you won't see it, but last year when our initial guidance was roughly $200 million higher in revenue, the spend we had for the year was roughly $100 million less than we had originally planned because we managed the heck out of spending here. But we actually do spend on things that are going to drive future growth.

So it really wasn't much of a debate. I think this management team is very aligned on growth through innovation, not through acquisition, and this plan absolutely supports that type of strategy.

Ross Muken - *Evercore ISI - Analyst*

Helpful, thanks.

Operator

Steve Halper, Cantor Fitzgerald.

Steve Halper - *FBR Capital Markets - Analyst*

Just two housekeeping questions. You talked about 30% of software revenue is SaaS-based. Did I hear that right? And what -- how fast is that base growing?

Marc Naughton - *Cerner Corporation - EVP & CFO*

Yes, Steve, you heard that right. And obviously SaaS is the pop health and some of our newer offerings, so as a percent growth it is growing fairly quickly.

But once again, just to clarify, it is not at the -- we aren't taking -- it is not getting rid of existing perpetual license and traditional license software. It is really primarily in new things we are offering, like pop health, that is a key driver for that SaaS. Certainly it is an offering that we can offer to other clients as well. But it is not a matter of we are going to be converting to that model so it is going to happen impact on us, particularly given the contribution we get from traditional license today.

Steve Halper - *FBR Capital Markets - Analyst*

Right. So what else is included in that 30% number?

Marc Naughton - *Cerner Corporation - EVP & CFO*

It was -- primarily it will be the population health. It basically be the CommunityWorks model that we do and then there would be some level of -- those are the two that are primarily the biggest. There is also some ambulatory, to the extent that our PowerWorks model is centrally hosted as well. Those three are 95% of that SaaS number.

Steve Halper - *FBR Capital Markets - Analyst*

Again, so that's 30% of total software, right?

Marc Naughton - *Cerner Corporation - EVP & CFO*

Correct.

Steve Halper - *FBR Capital Markets - Analyst*

Okay, thank you.

Operator

Jeff Garro, William Blair.

Jeff Garro - *William Blair & Company - Analyst*

Wanted to ask about that value creation offering that Mike mentioned. Can you talk a little bit more about the business and revenue model there? Are those long-term contracts and should we think about the revenue stream as recurring in nature?

Marc Naughton - *Cerner Corporation - EVP & CFO*

Yes, this is Marc. For the value creation office, the primary concept is an investment with the client in a group that is going to focus on leveraging the solutions that we have implemented in a way that drives value.

We invest in that office; they invest in that office. And then we baseline elements; there is a project created. The dollars that are driven from that, the value created first are used to offset the cost of that office and then after that they are shared in some form with our client. Is that correct, Mike?

Mike Nill - *Cerner Corporation - EVP & COO*

That is correct, Marc. And these arrangements, typically the revenue doesn't just drive out in a single year; I think that is your question. These typically are arrangements that deliver revenue over a period of time.

And they usually are project-based, so you would -- each element of revenue is going to come from specific projects we are working on. Over time that will become somewhat recurring in nature because the number of projects that we create at that office sees will be a pretty -- there will be a backlog of those that we can predict. So it would be highly visible, but it may not be as recurring.

Jeff Garro - *William Blair & Company - Analyst*

Great, thanks.

Operator

David Grossman, Stifel Financial.

David Grossman - *Stifel Nicolaus - Analyst*

I'm not sure I got this all right, but it sounds like the margins -- your expectation is flattish to modestly up due to higher non-cash expenses. So if that is right, why is the improvement in free cash flow tied primarily to the reduction in CapEx?

And if it is related to ITWorks mix shift, perhaps you could help us better understand the cash flow characteristics of that business.

Marc Naughton - *Cerner Corporation - EVP & CFO*

It is not related to the cash flow. Certainly the improvement in free cash flow next year will come from: one, improvements in operating cash flow, so basically earnings coming through; plus lower CapEx. So it is a combination of both of those things that will hit our -- that will hit free cash flow [in the quarter] (technical difficulty) that we are just putting out $100 million bogey as a number, but that would include both CapEx and operating cash flow.

ITWorks isn't a capital-intensive business. We basically rebadge the in-place workforce. We do not buy their equipment, we don't buy their computers, we don't buy their facilities, so there isn't a capital outlay.

It is all basically bringing those people over to us and then working on our ability to create leverage in their model. Centralize some of those -- the activities that are occurring on their side because of either a lack of being able to get capabilities in the local geographies in which they are located.

So those are the -- but that business does not require a lot of capital. The main business we have that is CapEx-intensive is our hosting business and our data center business. That is the one that really is most of our capital expenditures outside of the building CapEx.

David Grossman - *Stifel Nicolaus - Analyst*

Great. Thanks very much.

Operator

Sean Wieland, Piper Jaffray.

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

So I guess everything has been asked, but not everyone has asked it here. Marc, are you conceding on double-digit revenue growth or is there a path back to double-digit revenue growth that you see in the coming years?

Marc Naughton - *Cerner Corporation - EVP & CFO*

As we look at it, I am giving you the view of what I think 2017 looks like and that certainly includes in our range potential for double-digit growth. As we look at it, the opportunities, especially as we start getting into a pop health world where there that starts ramping up in a significant fashion and having larger contribution and as we start looking at the opportunities --. ITWorks -- large ITWorks, large RevWorks deals have the ability to bring $100 million, $100 million-plus of annual revenue into the income statement.

So in a year, as we start bringing those -- as we start getting those into the fold, certainly I foresee times when we can -- a time in the future when we can have double-digit revenue growth. Zane?

Zane Burke - *Cerner Corporation - President*

And I would say the pop health solutions as well, where we are looking at more business in 2017 than we have seen in our history to date. So the pickup of those kinds of business as we move forward, as they come online, we would anticipate this is a double-digit.

Marc Naughton - *Cerner Corporation - EVP & CFO*

Sean, as I look at -- our long-term plan certainly looks at double-digit growth. It may not be double-digit every year and I think that 2017 is one of those years where it is not double-digit, but it is 9% which is pretty close.

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

And then another quick one. Of the $0.10 -- or a quick one. Of the $0.10 reduction of EPS midpoint to midpoint, how much of that is cash versus non-cash?

Zane Burke - *Cerner Corporation - President*

All of it.

Marc Naughton - *Cerner Corporation - EVP & CFO*

Well, I mean the majority of it would be non-cash. It's $70 million of amortization expense.

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

Okay. Thank you.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

I think this might have been Sean's third question, if he had gotten to it. But, Marc, I guess are the years of the 100 to 150 business point margin expansion also behind us come 2018 or 2019? It sounds like you were talking about a more prolonged period of more tempered margin expansion. I wanted to make sure I understood that right.

And I will ask a follow-up question quickly of Zane, which is just you talked about a couple of big deals that you guys are targeting for 2017. What is the risk to guidance if they somehow push to 2018?

Marc Naughton - *Cerner Corporation - EVP & CFO*

This is Marc. From an op market perspective, a lot of the 2017 and most potential 2018 impact is ramped up amortization of things we -- innovation spend we have. So the R&D.

Once that flattens and is assimilated to the numbers, especially as we start growing in these other businesses, particularly pop health which has high margins, yes, I am not done saying -- thinking that we are going to be able to grow margins 100 -- 50 to 100 basis points a year. We just have a period now where, because of the non-cash impact, that is going to be tougher and we want to make sure we tell people.

George Hill - *Deutsche Bank - Analyst*

Okay. Marc, does that mean the software cap rate then we should expect to see calm down over the next couple years?

Marc Naughton - *Cerner Corporation - EVP & CFO*

I think the amount of software you capitalize is going to calm down. And given that the total amount that we spent on R&D probably doesn't change a whole lot, I think you will see that normalize over time. We are still going to spend a lot of money on new stuff, but from a dollar amount that is going to -- should flatten over time.

And, therefore, any time you start flattening the R&D the amortization catches up where you basically -- your net cap, your net R&D is relatively flat. And I say that without doing the math, so I would have to go do the math and make sure.

George Hill - *Deutsche Bank - Analyst*

Understood.

Marc Naughton - *Cerner Corporation - EVP & CFO*

I know the capitalization goes down, but I say I don't know that it is going to increase.

Zane Burke - *Cerner Corporation - President*

And, George, this is Zane, on your second -- on your part B of your one question, I would say what we've said is there is no IT large -- large new ITWorks deals in our Q1 guidance. That is all the bookings guidance we are providing in our (technical difficulty) model, providing one quarter at a time.

We do anticipate ITWorks business in 2017 -- I do anticipate that they are going to be -- it is going to be much more aligned with 2015 numbers around ITWorks. As it relates to our guidance, we are always at risk for any deals that we forecast if anything pushes as part of that process.

Marc Naughton - *Cerner Corporation - EVP & CFO*

That is from a bookings forecast. From a financial statement from the earnings and revenue, ITWorks once again doesn't have as big an impact in the current year. So it is large deals we are talking about aren't going to have a material impact on our top line and bottom line.

George Hill - *Deutsche Bank - Analyst*

Okay, appreciate that color, guys. Thanks.

Marc Naughton - *Cerner Corporation - EVP & CFO*

How about we take one last question?

Operator

Jamie Stockton, Wells Fargo.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Maybe just one quick one, Zane, on the VA. Could you give us an update on time horizon for them to make a decision? What is the latest and greatest you guys are hearing? Could it be anything in 2016 or were you thinking that is more of a 2018 event or beyond?

Zane Burke - *Cerner Corporation - President*

Well, I see that more as a 2018 or beyond dialogue. Obviously the conversations are very positive. Our objective is to do really great work at the DOD and I think we are on the right -- absolutely on the right track. The conversations we have had with the VA have been productive as part of that dialogue, but that is a speculative piece as we look forward.

We like our position very much. We know that the biggest thing for us is to continue to execute around the DOD and that is exactly what we are doing.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Okay, thank you.

Marc Naughton - *Cerner Corporation - EVP & CFO*

Well, thanks, everyone, for joining us. We believe we have laid out a very attainable path to having a great year in 2017. And we look forward to seeing you all at HIMSS. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.
