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CERN.OQ - Q4 2020 Cerner Corp Earnings Call

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OVERVIEW:

Co. reported 4Q20 revenue of $1.395b and GAAP net earnings of $142m or $0.46 per diluted share. Expects full-year 2021 revenue to be $5.75-5.95b and adjusted diluted EPS to be $3.10-3.20. Expects 1Q21 revenue to be $1.37-1.42b and adjusted diluted EPS to be $0.72-0.76.

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Donald D. Trigg *Cerner Corporation - President*

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PRESENTATION

Operator

Welcome to Cerner Corporation's Fourth Quarter 2020 Conference Call. Today's date is February 10, 2021, 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, news regarding projections of future revenues or earnings, operating margins, operating and capital expenses, bookings, new solutions, services and offering development, and capital allocation plans; cost optimization and operational improvement initiatives; future business outlook; the expected benefits of our acquisitions, divestitures or other investments or collaborations; and the expected impact of the COVID-19 pandemic.

Actual results may differ materially from those indicated by the forward-looking statements. Please see Cerner's earnings release, which was furnished to the SEC today and posted to the Investors section of cerner.com and other filings with the SEC for information concerning factors that could cause actual results to differ materially from those in the forward-looking statements. The extent to which the COVID-19 pandemic and measures taken in response thereto could materially adversely affect our financial condition, future bookings and results of operations will depend on future developments, which are highly uncertain and difficult to predict. A reconciliation of non-GAAP financial measures discussed in this 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.

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

Well, thanks very much, and good afternoon, everyone. I'd like to start with a few comments on our fourth quarter and full year performance. And then I'll hand it over to CFO, Marc Naughton; and our new Chief Client and Services Officer, Travis Dalton; and then our President, Don Trigg, for some more marketplace commentary.

Well, 2020 was a remarkable year for all of us. And given the circumstances, Cerner delivered solid results by executing on our plans and really focusing on supporting our clients. The pandemic challenged Cerner and our clients on several fronts, and we continue to be extremely proud to support clients who are battling COVID on the front lines each and every day. And we're very pleased with the way our associates seamlessly transitioned to a remote work environment last March and have really remained productive and focused on our client success throughout this whole period.

I'm also proud that Cerner recently began hosting a series of massive vaccination events at our world headquarters. This is done through a collaboration with North Kansas City Hospital, Liberty Hospital, Clay County Public Health Center in cities within Clay County. This initiative called Operation Safe is being staffed by volunteers from Cerner, North Kansas City Hospital and several partners in the community.

And together, we've vaccinated nearly 5,000 people through 1 week, and we have additional events planned in the weeks ahead. And I've often said that Cerner's -- one of Cerner's strongest assets is how mission-driven our people are, and the willingness of our associates to rise to the challenge of this pandemic has really presented a strong demonstration of that commitment throughout the whole year.

In addition to supporting our clients and communities, we continue to advance our growth strategies and make operational improvements as part of Cerner's ongoing transformation in 2020. As COVID accelerated health care macro trends, it also validated our growth initiatives, including the creation and expansion of health networks, our Real-Time Health System capabilities in consumer-facing health strategies. Cerner is providing data-driven insights that can improve our clients' clinical, operational and financial outcomes.

Our recent investment in Elligo Health Research and agreement to acquire Kantar Health are examples of how we're deploying capital to advance Cerner's growth strategies. And Don will provide more detail about these -- how these investments accelerate Cerner's presence in life sciences and create a strong foundation for our Data-as-a-Service business.

We also continue toward our transformation goals. Cerner's transformation has been focused on simplifying the business, creating operational efficiencies and delivering profitable growth. And we're nearing $300 million in annualized cost reductions since beginning our transformation efforts about 2 years ago. And we believe those efficiencies and our resilient business model really helped mitigate the impacts of COVID on our business.

As part of our portfolio management process, we simplified our product set to go from offering more than 25,000 features to really fewer than 400 products. And we also divested RevWorks outsourcing business in some noncore global assets. Importantly, our work to deliver seamless care for 18 million service members and veterans remains on track. And for the first time in history, the U.S. Department of Defense, U.S. Department of Veterans Affairs and the U.S. Coast Guard are using the same electronic health record. And the number of patients in our Joint Health Information Exchange grew from 700,000 to 4 million since April of last year.

Finally, we supported the evolution and transformation of our business by adding proven leaders who are already bringing a new perspective. Our Chief Technology Officer, Jerome Labat, joined us in June, bringing more than 30 years of CTO and product development experience at Fortune 500 and leading global tech companies like Hewlett Packard Enterprise, Intuit and Oracle.

In September, Chief Strategy Officer, Will Mintz, came to Cerner after working with leading health care and technology businesses, including Aetna and Blue Cross Blue Shield.

You probably know Chief Client and Services Officer, Travis Dalton, from his leadership in our federal business. And we're excited to have Travis now bringing that same leadership to our global client base, while retaining oversight of our critically important federal work.

Mark Erceg is our most recent appointment and will replace long time Cerner CFO, Marc Naughton, on February 22. Mark is a high energy leader, who will bring more than 25 years of financial leadership experience, including driving transformation across complex global operations and leveraging balance sheets to drive growth and shareholder value.

In addition to those leaders, we are also honored to have Major General Elder Granger join the Cerner Board of Directors in November. Dr. Granger is a proven leader with experiences in clinical, military and business environments.

And before I close, I'd like to acknowledge that this is our last earnings call with CFO, Marc Naughton, who, after nearly 30 years of service and 101 earnings calls, will be leaving Cerner at the end of the first quarter. And I know many of you share my appreciation for Marc and wish him the best of luck in his future endeavors. And Marc, I just have to say, I cannot imagine anything more fun than 101 earnings calls.

In summary, I'm very pleased with what we accomplished in 2020. We delivered toward our revised expectations while driving a significant amount of change in what we all have to say was a very unusual year in health care. It was very hard work. And I sincerely appreciate all Cerner associates in their contributions to this progress. And Marc, let me now turn it over to you for call number 101.

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

Thanks, Brent. They always say the second 100 are the easiest. So for sure, that's true. Good afternoon, everyone. I'm going to cover Q4 results and future guidance. This quarter, we delivered all key metrics in line with our expectations.

I'll start with bookings, which were $1.68 billion, over $30 million above the midpoint of our guidance range. Full year bookings were $5.585 billion, which is down from $5.99 billion in 2019, primarily driven by the impacts of the pandemic and divestitures of our commercial RevWorks and certain global businesses in Q3. We ended the year with a revenue backlog of $13.04 billion, which is down 5% from a year ago, due primarily to the impact of divestitures.

Our backlog revenue, combined with other contracted revenue that is excluded from the ASC 606 backlog definition, still provides visibility to more than 85% of expected revenue over the next 12 months.

Revenue in the quarter of $1.395 billion was above the midpoint of our guidance range and represents roughly 1% year-over-year growth after adjusting for divestitures. Total revenue for the year was $5.506 billion, which also reflects approximately 1% growth from 2019 after adjusting for divestitures.

I'll now go through the business model detail and year-over-year growth compared to Q4 '19 and full year 2019.

Licensed software revenue in Q4 was flat year-over-year at $174 million. Full year licensed software revenue declined 4% from 2019 to $656 million due to pandemic-driven declines in traditional software, partially offset by growth in software and service revenue, which now makes up approximately 60% of total software revenue. To date, this shift has been driven primarily by growth in SaaS revenue related to healthy intent-based solutions. Going forward, we expect this shift to continue for additional factors and -- for additional factors to contribute, including changes this year in how we deliver in contracts for CareAware and CommunityWorks. Given the relatively small sizes of these businesses, the impact of the changes will not be significant. But we expect to use this transition as a guide for a broader move to SaaS with Millennium, which will occur as we continue to advance our platform and modernization.

Technology resale in Q4 was down 8% year-over-year to $56 million and in line with our expectations. Full year technology resale revenue was down 20% to $197 million, primarily due to a tough overall environment for technology resale and the impact of the pandemic.

Subscriptions revenue grew 6% in Q4 to $98 million and grew 5% for the full year to $378 million.

Professional services revenue was down 6% in Q4 to $478 million and was down 3% for the full year to $1.93 billion, due primarily to the impact of the pandemic, divestitures, the termination of our large rentals agreement in 2019 and lower third-party services. Declines driven by these factors were partially offset by continued strength in federal professional services.

Managed services was up 2% in Q4 to $317 million and up 3% for the full year to $1.245 billion.

Support and maintenance of $263 million was down 4% in Q4 and down 3% for the full year to $1.071 billion due to the impact of divestitures, attrition and reduced hardware and maintenance revenue.

And finally, reimbursed travel of $8 million was down 63% in Q4, down 71% for the full year at $28 million due pandemic-driven travel restrictions.

Looking at revenue by geographic segment. Domestic revenue was down 3% from the year ago quarter at $1.23 billion, and non-U. S. revenue of $161 million was also down 3% from the year ago quarter, primarily due to the divestiture of assets in Germany and Spain. For the full year, domestic revenue was down 3% and non-U. S. revenue declined 4% due to the impact of the pandemic as well as divestitures.

Moving to gross margin. Our gross margin for Q4 was up 240 basis points from a year ago to 83.2%, and full year was up 190 basis points over 2019 to 83.1, reflecting improved revenue mix due to less outsourcing, third-party services, technology resale and reimbursed travel.

Now I will discuss spending, operating margin and net earnings. For these items, we provide both GAAP, adjusted and non-GAAP results. The adjusted results exclude share-based compensation expense, acquisition-related adjustments, organizational restructuring and other expenses, COVID-19-related expense and allowance on a noncurrent asset, gains on the sale of businesses and other adjustments that are detailed and reconciled to GAAP in our earnings release.

Looking at our operating spending, our fourth quarter GAAP operating expenses of $987 million were basically flat compared to $982 million in the year ago quarter. Full year GAAP operating expenses were $2.879 billion, down 4% from $4.021 billion in 2019. Our adjusted operating expenses of $860 million in the fourth quarter were down 1% compared to Q4 of '19. And full year 2020 decreased 3% year-over-year, primarily due to our continued cost optimization efforts, divestitures and lower travel expense.

Looking at the line items for Q4, sales and client service expense decreased 2% year-over-year, driven by lower non-personnel expense and divestitures. Software development expense increased 4% from Q4 of '19, with gross R&D up 6% and a slight increase in net capitalized software. G&A expense in Q4 was down 9%, driven by a decline in both personnel and non-personnel expenses.

Moving to operating margins. Our GAAP operating margin in Q4 was 12.7%, flat to the year ago period. Our GAAP operating margin for full year 2020 was 16.6% compared to 10.6% in 2019. Our adjusted operating margin for the quarter was 21.5%, up from 20.3% in Q4 of '19 and 20.4% last quarter, reflecting the impact of our cost optimization efforts and improved revenue mix.

Our full year adjusted operating margin was 19.9%, representing 140 basis points full year margin expansion over 2019. We're happy with our operating margins in 2020 given the circumstances and expect to continue improving margins as we deliver ongoing optimization efforts and aim to realize a longer-term benefit from platform modernization.

Moving to net earnings and EPS. Our GAAP net earnings in Q4 were $142 million or $0.46 per diluted share, down from $0.49 in Q4 of '19. The full year GAAP net earnings were $780 million or $2.52 per diluted share and includes gains from divestitures and investment sales. Adjusted net earnings in Q4 were $241 million and adjusted diluted EPS was $0.78, up 4% compared to $0.75 in Q4 of '19. For the full year, adjusted net earnings were $879 million and adjusted diluted EPS was $2.84, up 6% in 2019.

Our GAAP tax rate was 20% for the quarter and 21% for the full year. Our non-GAAP tax rate was 19% for Q4 and 20% for the full year. For 2021, we expect our GAAP and non-GAAP tax rates to be in the 21% to 22% range.

Moving to our balance sheet. We ended the year with $1.06 billion in cash and short-term investments and $1.34 billion of debt. Our receivables ended the year at $1.17 billion, down $50 million from last quarter. Our Q4 DSO was 76 days, which is down from 81 days in Q3 '20 and up from 72 days in the year ago period. Looking forward, we expect DSO to remain in the 70s.

Operating cash flow in Q4 was very strong at $513 million. Capital expenditures were $46 million, and capitalized software was $71 million. Free cash flow was a record high of $396 million for the quarter. For the full year, operating cash flow was $1.437 billion. Capital expenditures were $284 million and capitalized software was $295 million. Full year free cash flow was $857 million, which is up $290 million from 2019, driven by solid operating cash flow and nearly $200 million reduction in capital expenditures.

For 2021, we expect an increase in free cash flow, driven by operating cash flow growth and continued CapEx control. This growth is expected to be partially offset by the CARES Act payroll tax deferral ending and an expected increase in capitalized software related to some focused use of third-party developers to assist with platform modernization work. In total, these 2 items are expected to impact free cash flow by about $150 million, with over 3/4 being tied to payroll taxes.

Moving to capital allocation. In December, we announced an agreement to acquire Kantar Health for $375 million in cash, subject to adjustment. As Don will discuss, this acquisition is a strong complement to our existing Data-as-a-Service efforts and represents a meaningful entry to the pharmaceutical market. We expect the transition to close in the second quarter.

We also resumed our share repurchase program in Q4 and repurchased 1.5 million shares for $107 million. This brings our total for the year to 10.6 million shares repurchased or $757 million, an average price of $71.07 per share and leaves us with $927 million remaining on our current authorization. Subject to Board approval, we currently expect to repurchase up to $1 billion-plus this year, with the exact amount depending on the amount of cash used for other purposes such as acquisitions beyond the previously discussed Kantar Health deal.

Moving to our dividend program. In October, we paid a dividend of $0.18 per share or $55 million. In December, we announced a 22% increase to our quarterly dividend, bringing it to $0.22, which was paid on January 12.

In summary, we expect to increase capital deployment in 2021 as we fund additional share repurchases, the increased quarterly dividend, the Kantar Health acquisition and possibly other acquisitions or investments. We expect these actions to make better use of our balance sheet after getting to a low net leverage position in 2020 as we paused repurchases during the pandemic and received large cash inflows relating to divestitures and investment gains.

Moving to guidance. As we previously discussed, while we have executed fairly well through the pandemic so far, a considerable amount of uncertainty still exists, so please note that our guidance remains subject to a higher than normal amount of risk.

I'll start with revenue. We expect revenue in Q1 to be between $1.37 billion and $1.42 billion. As a reminder, Q1 of '20 included about $45 million of revenue from our commercial RevWorks and global divested businesses, which is not included in Q1 '21 revenue. The $1.395 billion midpoint of this range represents 2% growth from Q1 '20 after adjusting for these divestitures.

For the full year, we expect revenue between $5.75 billion and $5.95 billion. In addition to the $45 million of revenue impact from divestitures in Q1, the remaining headwind is approximately $40 million in Q2 and about $4 million in Q3 for a total of approximately $90 million. More than offsetting this impact for the year is an expected contribution from the Kantar Health acquisition, which we expect to contribute approximately $125 million in Q2 through Q4 based on anticipated closing in early Q2. The $5.85 billion midpoint of the 2021 guidance range represents 6% growth over 2020. Adjusting for both divestiture headwinds and the acquisition also results in 6% growth.

Moving to EPS. We expect Q1 adjusted diluted EPS to be $0.72 to $0.76 per share. The midpoint of this range represents 4% growth over Q1 of '20.

For the full year, we expect adjusted diluted EPS to be $3.10 to $3.2 with a $3.15 midpoint, reflecting 11% growth over 2020.

Moving to bookings guidance. We expect bookings revenue in Q1 of $1.15 to $1.35 million. The midpoint of this range reflects 15% growth over the first quarter of 2020, which included some initial impact from the pandemic which took hold in the last part of the quarter.

In summary, our 2021 outlook reflects a return to mid single-digit revenue growth with over 100 basis points of margin expansion driving double-digit EPS growth. This guidance is consistent with the long-term framework we shared at our last Investor Day and referenced again when we previewed 2021 on our Q3 '20 call. We note that current adjusted EPS consensus is slightly above our guidance range. It's impacted by a couple of estimates that are not consistent with this framework. Adjusting for these estimates will result in consensus being in our guidance range.

Note that we don't plan to do an Investor Day as we want Mark Erceg to have time to get up to speed. However, we have updated our long-term plan that is the source of our financial messaging at investor meetings, and the updated plan reflects similar revenue growth, margin expansion and EPS growth as the framework we shared last year. We also continue to expect our organic top line to be driven by our federal and strategic growth businesses and likely augmented by M&A. Mark will work with the team to determine the best timing for our next investor event, but our strategy and long-term plan remain consistent with past communication, so we think it makes sense to hold off for now.

In summary, we are pleased with our solid results in the fourth quarter and full year as well as our positive outlook.

Before turning the call over to Travis, want to say 1 more time how much of an honor it has been to be CFO at Cerner. Having spent time with Mark Erceg ahead of his upcoming start date, I'm confident he's going to step in and quickly add value to Cerner, our clients and shareholders.

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

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

Thanks, Marc. Honored to take the hand off from you. Thank you.

Good afternoon, everyone. Today, I want to share my focus as I step into the role of Chief Client and Services Officer, and provide an update on our federal business. First, I'd be remiss if I didn't express my gratitude to John Peterzalek for his steadfast commitment to Cerner's mission and to Brent and our Board for the trust they have placed in me as I take on the role. Though many of you know me as the leader of our federal business, and I've had the opportunity to speak with you many times in that capacity, I am entering my 20th year at Cerner and have had the privilege of working across every area of our client and services organization over that period of time.

Moving forward, I have several guiding principles that will be used to drive our business decisions and lay the foundation for our success.

First, we exist to serve our clients. Our clients remain at the center of everything that we do. We must earn the privilege to serve them every day. That means doing what we say we are going to do and providing end-to-end solutions that enable our clients to solve their most pressing challenges and achieve their missions.

Second, we will play as one team with a focus on delivering value. We need to make it simple for our clients to do business with Cerner. This requires clarity of purpose, alignment of structure and focus on a common set of goals and objectives that are collectively focused on delivering value and improving client satisfaction.

Third, we must produce the right business results. Results clearly matter, and we will ensure clear lines of accountability with data-driven transparency in pursuit of top and bottom line. We will hold ourselves and our teams accountable for those results.

Finally, we'll play to win and strive for excellence. We have lost some key clients in recent years, and that's totally unacceptable. We will bring passion and energy to our work, connect our product strategies to our client needs and embrace internal transformation as a mechanism to achieve excellence for our clients. We're going to aggressively defend our market presence, go on offense in pursuit of competition, and continue to innovate while pursuing opportunities to expand our footprints. I couldn't be more excited about the opportunity to step into this role, and I look forward to working with our clients around the world to positively impact health care.

Turning to our federal business. Q4 wrapped up a historic year for the U.S. Department of Defense, Veterans Affairs and the United States Coast Guard. As Brent mentioned, for the first time ever, 3 federal agencies are now leveraging the same EHR and a new Joint Health Information Exchange. Despite facing the challenges of a global pandemic, we delivered on our promises and Cerner Solutions enabled our federal clients to more effectively manage through this crisis. Cerner's mass vaccination solution, included in MHS Genesis deployment, continues to be utilized across DoD and Coast Guard sites live with the system.

As a core member of the Leidos partnership for Defense Health, Cerner continued our work with the DoD and Coast Guard, and we are now live at 20 DoD commands and 4 U.S. Coast Guard sites. As we move into '21, we expect to continue our momentum with multiple wave deployments and ongoing sustainment of live facilities.

On October 24, the U.S. Department of Veterans Affairs announced the first successful go live for their new EHR at Mann-Grandstaff VA Medical Center in Spokane, Washington, and its 4 community-based outpatient clinics in Montana, Idaho and Washington. This go-live event also included the West Consolidated Patient Account Center, a VA business operations facility in Las Vegas. We are pleased with this progress and continue to work with Mann-Grandstaff on sustainment and system optimization. This work followed the successful implementation of our scheduling solution in Columbus, Ohio; and our DoD, VA and Coast Guard Joint Health Information Exchange go live via eHealth Exchange and CommonWell earlier in 2020.

VA and Cerner are actively moving forward and preparing for multiple site deployments planned for 2021, including conducting current state reviews, site localization, testing, required interfaces and working with providers at those locations. Cerner, along with our partners, will continue to focus on providing a lifetime of seamless care for our nation's service members and veterans.

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

Donald D. Trigg - *Cerner Corporation - President*

Thanks, Travis. Providence Health in Seattle was ground zero for COVID-19. The first patient that presented noted to a nurse practitioner that he had a cough, and she would learn through the documentation process that he recently returned from overseas travel. He was tested and a day later admitted. Providence CEO, Rod Hochman, tells the story of a whiteboard drawing. As the crisis grew, Hochman wrote 3 acronyms across the board: Before COVID, BC; during COVID, DC; and after COVID, AC.

It was Hochman's effort to simplify the complex and more importantly, to drive strategies to manage it. And amid hundreds of different client conversations over the course of 2020, Hochman's framing stuck with me.

Our push to integrate the health system enterprise, advance the health network and create a data-driven health economy began before COVID. We rallied as an organization to progress those strategies during COVID and we see an unparalleled opportunity to lead in all 3 areas after COVID.

At the enterprise level, our focus is simple. Every client is working to increase the revenue of key service lines, lower unit costs and manage within a larger health network and the ZIP codes where they operate. Cerner Solutions must enable an integrated delivery system with 1 record, 1 plan and 1 bill.

Over the course of 2020, several health system enterprise solutions delivered during COVID impact. Our real-time health system business drove over $110 million in booked revenue, representing over 85% growth year-over-year. Workforce and capacity management, hospital operations, provider communications, they've all been essential crisis response capabilities during COVID and will be pivotal to tackling total cost of care after it.

In the revenue cycle space, we launched our engage and access offering in the first quarter. It provided clients the tools they need to drive access management as they responded to COVID disruptions and rethink how scheduling and registration should work in a digital-first enterprise.

Finally, our consumer business sought to build a unified experience centered on the person. The business generated more than $175 million in bookings in 2020, growing at more than 150% year-over-year. Our clients need us to move even faster on our whole person solution suite in 2021, and David Bradshaw and his team are bringing strategic urgency to those efforts.

The biggest trend in provider health care - before, during and after COVID - centers on the push for vertical integration beyond the 4 walls of a hospital. This mix of owned and affiliated physician practices, post-acute care facilities and the home as venue are critical nodes on the health networks being built out in every community. These health network strategies have diverse contractual frameworks and disparate technologies and our HealtheIntent platform is purpose-built to integrate and manage them.

Amid the market disruption of COVID, our health network business delivered more than 20% bookings growth year-over-year. Kim Hlobik and team also added 23 new HealtheIntent footprints, almost 1/3 of which were outside of our Millennium base.

As the health network team looks out after COVID, our strategic objectives are simple:

One, we have to grow share of the health network wallet, adding lives and solutions to each client relationship;

Two, we have to continue to expand into new geographies, both in the U.S. and in our 5 global focus regions;

Three, we have to win new buyers, including traditional payers, employers and governments.

They are the 1, 2, 3 by 2023 work to be done to build a $1 billion health network business by 2025.

Our multi-decade efforts at the health system enterprise and now at the health network level have created a set of strong "only Cerner" differentiators. Cerner has an industry-leading ability to aggregate and normalize provider health care data, it is the structure store and study promise of the systems thinking that we've built at Cerner in the 1990s and the 2000s and still today.

We also have a deep understanding of the last mile provider workflow. It's the "close the loop" connection that allows us to deliver the right information at the right time at the right place to drive the right outcome.

Over the course of 2020, we launched a Learning Health Network that attracted 55 client members, representing almost 100 million patients and more than 500 million encounters. We launched our COVID data cohort, attracting some of the most notable names in academic research and generating dozens of peer-reviewed studies. We advanced our strategic objective to build out a total solution offering for late-stage clinical trials. As Brent noted, we differentiated our strategies by winning new business with UBC, signing a new partnership and investment with Elligo Health Research and with the announcement of our agreement to acquire Kantar Health.

Before COVID, real-world evidence was beginning to disrupt traditional clinical trials. During COVID, regulatory response to the pandemic has accelerated this shift and how therapeutic discoveries are advanced. And after COVID, Cerner's large provider client base, first and last mile data expertise, offer us an opportunity to fundamentally reimagine this market.

For leaders on the front lines of the COVID crisis, I will tell you that the stories stick with you. Our clients tell us about the first cases at their health systems. They share with you stories about families being forced to check on relatives on FaceTime because they couldn't be at the bedside. And they worry aloud about caregivers as hospitalization and case fatality rates become the tough daily work to be managed. And yet, for all of the health and economic impacts of the pandemic, CEOs can't leave a team's call without seeing post-pandemic possibilities. They all have some version of before COVID, during COVID and after COVID in their head.

Our broad market opportunity is the same one that we're advancing today at Providence around areas like Xealth, new digital therapies and applications, as well as the deployment of our new well-being platform as COVID redefines employee health. Amid all of that, we are pleased with the 2020 progress that was made and excited about the opportunities ahead of us in 2021. And with that, I'll turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Sandy Draper from Truist Securities.

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

First, I'll say (inaudible) I think I was talking probably more than 90 (inaudible). So Marc number two, that I have a good book of jokes.

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

I appreciate.

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

So my question is probably for Don and Travis. When I think about where you guys are going, on one hand, you talked about customer lost business. My sense is that's very focused on a private company in the legacy traditional space. The flip side is in new markets. And literally, I can't keep up with a number of new companies, new businesses, new models that are out there, and they're all innovative and do a lot of stuff. So as you sit in the middle of that, how do you balance and how do you deal with the challenge of, one, trying to deal with a legacy competitor who's won a lot of share. You're trying to regain them, but then also, as you go in these new areas, how do you convince those people that we're not just the old Cerner and why they shouldn't go with some newer model. Just sort of would love some perspective about them.

Donald D. Trigg - *Cerner Corporation - President*

Sandy, this is Don. That's a really good question. I think the first thing I would say is great companies are all about the and. So what's the ability to both work on the business as it's defined today and simultaneously, identify new growth opportunities that are both adjacencies and as you said, new markets. So fundamentally, I would say that's the way in which we built the company, and that's the opportunity set in front of us in the 5 years ahead.

The second thing I would say is, as I think about strategies around health network and I think about strategies around the data space, particularly what we're doing around life sciences and pharma, they are highly aligned with the business strategies of our traditional clients. So we are always at our best when we're building technologies and advancing solution strategies that are aligned to with business objectives of our provider clients. And we think that the strategies that we're advancing absolutely do that. And then the final thing I would say is the execution need for us is to make sure that we are thinking through capital allocation strategies in a way that not only works for our provider clients, but also allows us to begin to think about new buyer types beyond our provider base, whether that's payer, an employer and government opportunities around network or that's life sciences and pharma around the data space. So I think that's what we're working on, and I think you articulated it well.

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

Do you want to jump in there Travis? Make a comment or two?

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

Sure. This is Travis. Thanks, Brent. I would say that it's got to do both. As Don noted, I mean, I view our clients on a continuum. Our goal is to take them from where they are and take them along that continuum related to our vision and their needs. So we plan to be aggressive, and we plan to work across that entire continuum. And from my perspective, we're going to fight in the core, and we're going to work hard in the core to make sure that we keep our clients current, that we meet their expectations, that we do what we say. That gives us an opportunity to extend and expand in that existing client base. And from my view, that's really an opportunity for us and to amplify the work that Don is describing related to strategic growth so that we can take those core clients along that journey over time.

So it's crucial that we do the basics, the block and tackling of keeping commitments, meeting commitments, keeping clients current, doing what we're saying we're going to do so that we can extend and expand and move them forward. And then furthermore, I think it gives us opportunity to continue growth in federal and also potentially some targeted global opportunity and again, with force multiplier of the work we're doing in strategic growth. So I don't view them as separate things. I view it as 1 thing, treating our clients, right, listening, solving their problems and then taking them on that journey with us.

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

I think I'd add 1 other comment, Sandy, if you don't mind, just to both Don and Travis, the points they make. The work we're doing in transformation, in Cerner.next, as we refer to it internally, is around operational excellence, simplification, speed of innovation to market and adoption and end-to-end planning and execution. That's just foundational across the whole spectrum and the whole continuum. So I think noting the points they make, that's part of how we deliver. So I just wanted to tie that in.

Operator

Your next question comes from the line of Donald Hooker from KeyBanc.

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

Great. And best wishes to Marc. It's been fun to work with you over the years. I guess, maybe just was interested in sort of the evolving life sciences story around Kantar and sort of thinking about how do you sort of fit in the broader ecosystem in this biopharma market? I mean, are you working with CROs. I mean how do you -- how are you -- are you sort of more directly going to pharma companies to kind of operate your services? Can you maybe walk through the go-to-market?

Donald D. Trigg - *Cerner Corporation - President*

Yes, this is Don. It's a great question. So first of all, I think we start by thinking about what's the strategic differentiators that we bring to the space. And so I think the clinical data asset that we have, including traceability around that data and its province is a critical differentiator for us when you think about clinical trial activity.

The second thing is the ability to have a patient and provider access as part of how we actually think about tackling, time and cost basis for clinical trial activity. So we start there with those differentiators. I think what Kantar gives us then is the ability to take a long-standing competency around data linking and data curation and to include some really significant a PhD MD and epidemiological capabilities to really make sure that we can fulfill the value proposition that life sciences and pharma companies are looking for, for late-stage trial activity.

And then to your question around how we go to market, I think the activity to date has taken different forms. I think the Elligo investment in partnership is really around strategies associated with site activation for our provider clients who are participating or will participate in those clinical trials. I think Kantar gives us both proprietary data assets and domain expertise, but also the ability to then begin to start thinking about those call points within life sciences and pharma to actually originate those contractual opportunities and drive revenue.

So yes, we've partnered with UBC and other CROs, and that's a dimensional aspect of, I think, how we validated our capabilities. But I think we're excited about what we can do with the business as constituted in 2021. And I think to Marc's point, look at other opportunities for inorganic acquisition and further growth in this space as we play forward our strategy.

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

Okay. And then maybe one sort of higher level strategic question. You guys, over the past year, 18 months, have been pruning businesses to focus on core areas. Obviously, there have been several big divestitures that you highlighted in the guidance. Are -- is Cerner sort of at this point done with that, and now we're sort of looking ahead to maybe more acquisitions going forward? Or are there any more areas where there could be more divestitures. Can you elaborate on that?

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

Sure. This is Marc. I think, certainly, we continue to portfolio manage to make sure that we're investing in the things that we think will drive future growth. So there could be some limited level of divestiture activity as we work through '21. But I think the focus, certainly, for us is on the M&A side, is on acquiring additional assets that can help us drive the new businesses that Tom was talking about. So while there may be some little activity on the divestiture side, the focus will be on the acquisition side.

Operator

Your next question comes, from the line of Ricky Goldwasser from Morgan Stanley.

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

Marc, I always appreciated your thoughtful insights in our conversations, so all the best and good luck. I have a couple of questions here. The first one, just following up on Don's question. One of the things you said that one of the strategic assets is the clinical data. So as you think about approaching the life sciences companies, are you doing it together with the providers that sort of own some of these clinical data that you have? Or is it on a stand-alone basis?

Donald D. Trigg - *Cerner Corporation - President*

Right. So it's a great question. So the way in which we approach that is we've engaged with our client base and had a conversation with them about what it would look like to participate in clinical trial opportunities. So those 55 clients that we talked about are organizations who have affirmatively, proactively said, yes, we'd like the opportunity to participate. And then we're sourcing opportunities with life sciences and pharma to leverage those organizations and their clinical data and patient access capabilities as part of how predominantly later-stage clinical trial activity is being executed and occurs.

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

Interesting. So sort of a win-win for both sides because for those 55 clients, it's an additional revenue.

Donald D. Trigg - *Cerner Corporation - President*

Absolutely. And it really gets back to Sandy's comment, which is this is absolutely a win-win. And we do have some very prestigious academic medical centers like Indiana University that are participants in our learning health network. But you also have a lot of community hospitals and regional integrated delivery networks who don't historically have the opportunity to participate in research-related economics. So this is an amazing opportunity for them, an amazing opportunity for the patients that live in those geographic areas. And we're generating revenue opportunities for them in a way that they're deeply appreciative of and rarely does represent a win-win, as you described.

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

And then just one question on the guidance. When we think about the top line guidance, can you quantify for us the contribution from federal. We're getting to about $150 million to $200 million, just want to make sure we're in the ballpark. And then also federal is the bridge to 2021? And then how should we think about the federal opportunity in 2022?

Allan Kells - *Cerner Corporation - VP, IR*

Hey Ricky, this is Allan. We don't necessarily break out the guidance at that level of detail. But what I would say is that we previewed the federal, once it got to around $1 billion, would grow at a mid-teens CAGR for the next several years, and end of the year, just under $1 billion. So that will put you in the mid-hundreds as far as contribution to the growth.

Operator

Your next question comes from the line of Jeff Garro from Piper Sandler.

Jeff Garro

Yes. And again, I'll add the congrats to Marc on just a tremendous help over the years and helpful insights over those 101 earnings calls and other interactions, so thanks again.

I wanted to ask about bookings and how we think about 2020 and going forward in terms of the discipline and the go-to-market approach. It's something you've discussed in the past. So curious on the progress towards more profitable bookings between the aforementioned discipline and just the mix of solutions shifting towards more innovative software solutions and growth in your areas.

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

Yeah, this is Marc. Certainly, as we evolve our bookings, one of the -- some of the divestitures we've done, such as our RevWorks businesses relative to the outsourcing, that did have a significant impact on bookings, but overall, it didn't contribute a lot to the earnings or certainly the margin lines. So I think that's -- as we continue to look at our portfolio and decide what we're going to invest in and what we're going to take to market. Clearly, the federal business, the strategic growth business, those are the areas that we are focusing our, certainly, our attention relative to a lot of the new business.

But as Travis mentioned, and I invite him to comment further, we're not walking away from our existing client base. They are a critical component to our future success. So we're going to have a reinvigorated strategy around them. And it's going to be on Travis' watch. He is the guy that can help lead us there, just like he led us in that -- growing that federal business from a small portion of our business to approaching $1 billion as we exited 2020. So Travis, I don't know if you want to talk a little bit about our -- some of our go-to-market thoughts coming up in '21.

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

Yes. Thanks, Marc. Appreciate it. Yes, I mean, I think there's probably 4 or 5 key areas for us. I mean 1 is we've talked about it, but our core clients are important, I mean, the heart and soul of Cerner in a lot of ways, they've been with us a long time. It's really important for us because we do well when our clients are current, and we're investing and we're working with them to keep them current. It gives us opportunity to extend those agreements, but it also gives us white space to expand with new solution capabilities. So it's very important that we focus there.

The federal business, I've had the pleasure of leading that business for the last 6 years. I think we have continued solid opportunity there. I think we have opportunity beyond our core contracts. I see potential for us with new agency work. I see potential with the work that we're doing in strategic growth to go do work with them on the network side. And so I do think federal continues to be an opportunity for us. And I think we'll become more and more efficient in that business as time goes by, particularly in how we deliver service, how we behave as a prime contractor and also probably the use of third-party resources.

And then I've mentioned the amplification of strategic growth multiple times, but I think that as we develop those capabilities, we have the opportunity to take them into our client base and our markets in really an aggressive and strategic way. And I think that gives us opportunity to have the right line of business mix as well as we push forward. And then M&A is an enabling strategy. I don't know. For me, it has to support the core strategy, and we're doing that, and we're putting our capital to use. So I think those 4 or 5 key areas will be our focus for go to market, and then ensuring that we deliver on an end-to-end service basis in the most efficient way possible, also have a pretty extensive delivery background on the services side, so we'll be focused on proper delivery.

Jeff Garro

Excellent. All very helpful thoughts. So one more question for me. Just to turn to the guidance briefly. I want to ask first, if there's any baseline assumption on repurchase activity in the forecast. And then to the extent that Marc mentioned, continued operating margin expansion. Any areas or line items that you'd call out as outsized contributors for operating margin expansion in 2021?

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

Yes. This is Marc. Right now, as we indicated, our view is we're looking at the purchase of $1 billion, potentially more stock repurchases during the year in '21. Certainly, our activity on the M&A side could impact that somewhat, and we're going to apply our capital in the best way possible. But I think from a margin expansion view, certainly, our long-term view that we shared that remains in place is 100-plus bps of increase in margins every year. The midpoint of our guidance achieved more than that 100 bps. And it's going to come from a variety of places.

I think a key thing to remember for the people that might be looking for why isn't there more margin expansion in this year? Going through 2020, we accelerated some of our savings opportunities and our cost optimization in order to deliver the results we were able to deliver on the earnings line for the year. So we pulled some things forward, which means we're still working, we still have additional opportunities.

But those were kind of across expense lines, and some of them will hit in the gross margin line, too, from a cost perspective. So they'll be spread pretty much throughout. There isn't any 1 thing we're relying on particularly to drive it. Almost all of it is already in process. And is just really going and realizing the benefit that we began the process of driving in 2020.

Operator

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

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

Great. And definitely echo the sentiment, Marc. Best of luck. I guess maybe just going back to the guidance a bit. You talked about the government business in general, what you guys pointed to before on that. I wanted to just go back to Kantar, too. I think you had mentioned $150 million-ish of revenue on an annual basis. Wanted to confirm that, that was still the current thinking? And then just to round out the major pieces, any thoughts you could give us on the strategic bucket and kind of what's assumed in growth there?

And then I guess the offset on the core, I know in the long-term guidance, you guys had shared previously that there was an expected decline there. Just any thoughts on what's contemplated in 2021 around that would be really helpful.

Allan Kells - *Cerner Corporation - VP, IR*

Yes, Bob, this is Allan. On -- I'll start with strategic growth. It is pretty similar to what we had. Obviously, all parts of our business didn't deliver what we originally set out to due to COVID. But if you look at the plan, with 2020 as the new baseline, you have strategic growth organically growing at 15%-plus as a CAGR, federal in that same range. And then also resulting mid-single-digit overall growth rate, which means you sort of have that same slight decline in core. So they're all very similar to what we had laid out previously. It's just sort of resetting off the 2020 baseline.

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

And your one question your question on Kantar was the $150 million, that would be an annual number in '21, we're probably looking about $120 million, given that they...

Allan Kells - *Cerner Corporation - VP, IR*

Yes, it's $125 million or so in 2021 and but that's just 3 quarters. So the annualized numbers really for 2021 will be in the $160 million range, if you annualize it. So the $150 million would have been trailing. So that reflects sort of what we're expecting for 2021.

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

Okay. And then the follow-up, I think, this kind of plays into it, but it looks like clearly off the 1Q guide, there's an expected acceleration in growth. It sounds like Kantar might be a part of that, just given the timing of the closing. Anything else that you have line of sight into that kind of helps explain the pickup in revenue growth off the 1Q levels?

Allan Kells - *Cerner Corporation - VP, IR*

Yes. There's a few things. One, Kantar hits in Q2. Two, Q2 is our -- is the year in 2020 was, by far, the biggest impact of COVID. So that's when you saw your services business screech to a halt for a while there last year. So really, those 2 things, and so you build -- it's an easy comp issue in Q2. And then it sort of built up throughout the year, but then you're adding Kantar, and then the rest of our business is gradually rolling -- increasing throughout the year as well.

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

Allan, if you don't mind, I'll jump in for a second before we go to the next question.

Allan Kells - *Cerner Corporation - VP, IR*

Sure.

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

Yes. Just to comment. I just want to make clear, and we've communicated this previously on these calls around data rights and having great data rights agreements. Don was talking about the opportunity we have and our working relationships with providers. I just want to restate, we are very proactive and very careful about those agreements and making sure that patient data is safely protected and their rights are protected in that. I think it's key. It's important to us, and it's very important, of course, to everyone at this stage in time. So I just want to point that out.

Allan Kells - *Cerner Corporation - VP, IR*

Thanks, Brent.

Operator

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

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

Yes. And Marc, please hit them straight in your next life, in whatever you choose to do. I guess I have 2 questions. First is for Travis, which is, I guess, I want to ask concretely kind of what do you do different in what you do with the core? And kind of how long do you think it is before you can stem the decline in the core? And question 2 is for Brent, which is kind of what do you think are the greatest opportunities to create value in the near to medium-term as the company is able to scale, it takes pretty big pieces to move the needle. So general comments on those 2 things.

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

Go first, Travis.

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

Yes, this is Travis. I mean, I don't have an exact answer to give you other than it goes back to core principles as it relates to that market. I mean, it's listening to your clients and solving their problems every day, holding our folks accountable for results. It's really, I think, embracing our internal mission to transform. Some of the work that we're doing to better connect client needs to our product capabilities, I think, is absolutely critical for us as it relates to better service delivery to our core clients. And it's really -- it's absolutely focusing on what I call the say-do ratio. If you say it, you got to do it.

And so those are things that are really relevant to our core clients. We have to make sure that we uplift those clients and we have them current. Our current clients stay with us, and so I think a real focus from us on that element is very important. It makes it easier for them to test to train. It makes it easier for us to use the data in a meaningful way. And so I think it's really back to executing in the right way on the basics and then covering them fully. Relationships matter. And we've got to cover those clients in a way that matters to them. And it's also important that they understand.

And the point I was trying to make earlier, we're not abandoning the core. We're focused on that, while we continue to innovate, while we continue to develop capabilities and thought leadership, we're doing that on behalf of those core clients, and we want them to be on that journey with us. And so I think clean, crisp, clear messaging is really important for us as we -- as I call it, bring back the swagger with that group of clients, and they have to understand what we're doing and why and how we're bringing them along. And so I think those are really the basic principles that we're going to try to bring forward.

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

Thanks, Travis. Maybe just with the eye to the midterm, my thoughts would be similar that if you just think about it simplistically, the core is absolutely foundational, as Travis just said, as we've all said today. There's a lot of opportunity in the core. And that comes through defending the core and expanding the core, and there is room to expand the core through white space that's available, delivering solutions into that space. So shoring that up, executing very well in that area is key.

Federal, of course, is absolutely critical. And glad to have things on track there and Travis' leadership in that area and now a leadership in that same drive going to our full commercial organization. And strategic growth, again, executing our plans as laid out. And there is a loop back because the strategic growth has a strong correlation to how well we do in the core and how solid we are in the core. So making sure we've made that connection, those relationships, that execution is very solid, is key.

And then just as we've laid out, the transformation work is critical because having standard ways of operating and making us effective operating at the scale is critical in finding deficiencies in the business that allow us to continue to invest in innovation. Those are really the keys in the midterm. So the primary emphasis is execution.

Operator

Your next question comes from the line of Richard Close from Canaccord Genuity.

Richard Collamer Close - *Canaccord Genuity Corp., Research Division - MD & Senior Analyst*

Great. Marc, congratulations on your transition. With respect to the comments on uplift clients and make them current, that's important to the core. Can you guys just provide us maybe an updated time line on the transition of Millennium to the cloud. Has anything changed there? When does it really begin? And when do you expect it completed? And any financial impact would be helpful.

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

Yes. This is Marc. As we've kind of indicated, we quickly moved HealtheIntent to the cloud. And CareAware is primarily moved there. We've indicated Millennium will be kind of a process. We probably will never move all of Millennium. There are elements of Millennium that will stay out there. But the elements that face the client, the elements that need -- benefit from being updated very quickly and frequently, those are the elements that will move to the cloud. But that movement will kind of -- will occur over some period of time relative to our -- relative to the -- from a financial impact, there's -- it will vary a little bit.

But for the most part, a lot of our business today is designed to -- we have a hosting business already. We have elements of recurring revenue that are similar to SaaS in a way. Certainly, as we start evolving and moving millennium more to a cloud, like there'll be a point at which you switch over to some SaaS accounting, which could have an impact on some of the implementation services and the timing of recognizing some of that revenue. But a lot of it is pretty consistent to what we have.

The timing of it, as I said, for Millennium, it really is more of an evolution. There is more work to do there, more modernization of the platform. We're spending a lot of time on. And a lot of our resources are going into that modernization. So I'm pretty confident that by the end of my tenure, it will all be done. But given that's only about 30 days, that probably doesn't really count. But it is a process.

And certainly, as that process continues, and we get a better view of milestones and waypoints, we'll be able to give you an update kind of on what the financial impact is. But once again, the business today operates, a lot of the elements of it are recurring in nature. So those would be similar to what you see in a SaaS model to a great extent.

Richard Collamer Close - *Canaccord Genuity Corp., Research Division - MD & Senior Analyst*

And is that -- okay, go ahead. Sorry.

Donald D. Trigg - *Cerner Corporation - President*

Sorry, I was just going to say, at some level, the part of the answer here, too, is a little bit of the answer to George's question, which is, hey, if you create value for your clients, good things will happen. The cloud technologies hold a significant value proposition for our clients around product and platform modernization. So government is the largest payer. It creates opportunities for them to think about regulatory and currency faster. And it creates opportunities for them to adopt functionality quicker. It allows them to think about reduction in total cost of ownership or redirection of dollars to things that they think will innovate and grow their business.

So you can see that with HealtheIntent that the value proposition is front and center. CareAware has been great for us because it's really allowed us to work through, not just the technical components, but to Marc's point, also some of the nontechnical contractual and inside the 4 walls topics that have to be surfaced. And we're already making progress on Millennium in terms of high-value workflows oriented around the cloud, and we'll continue to be selective about how we progress that approach. And I think it will play into a narrative around value proposition for our core clients and enablement of a bunch of our strategic growth efforts, inclusive of the work of HealtheIntent.

Operator

Your next question comes from the line of Mike Cherny from Bank of America.

Allen Lutz - *BofA Merrill Lynch, Research Division - Analyst*

This is Allen in for Mike. Following up on HealtheIntent. Bookings were strong at 20%. I guess can you talk about the strategy to win new customers like employers and payers that are not really part of the typical or traditional Cerner ecosystem?

Donald D. Trigg - *Cerner Corporation - President*

Yes. It's a great question, Alan. I think we have the good fortune of having some existing client relationships there. As you know, we have a workforce health business today focused on self-insured employers, 40-plus clients in that space. And then around our wellness application suite and our well-being application suite, we have some existing payer relationships, roughly 10. And so those have been really good testing grounds for us to really ask the question, hey, what would it look like for us to use HealtheIntent and add leverage there.

And fundamentally, what we see, Allen, is they're working on the same problem set in many ways that our Millennium and non-Millennium provider clients are. They need a data foundation, they're thinking about network management, they're thinking about reporting, dashboarding and analytic capabilities, care coordination, care management, all tethered to payment model and associated with member engagement.

So we don't have turnkey MVP capabilities in those space, but we're building it out and getting much closer to it. And we think through a combination of native build and again, through inorganic acquisition, we'll be able to drive meaningful top line and bottom line strategies around those buyer types in the next 5 years, certainly. And I think you should look for it sooner than that.

Operator

Your next question comes from the line of Steve Halper from Cantor Fitzgerald.

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

Marc, I think I'm at 105 quarters, but I'm not really counting, but looking forward to connect with you afterward. So I just wanted to clarify a couple of things. You said free cash flow was going to grow in 2021, even with the $150 million that you called out. Is that correct?

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

Yes. Our expectation of free cash flow goes up a little bit year-over-year to '21. And in spite of the headwinds that we're going to have for the CARES Act that you're not going to have the deferral and you're going to have to start paying that deferred, which is $115 million at least of negative -- of headwind, plus some additional costs that's making about $150 million headwind. But yes, we should -- we would expect to grow free cash flow next year in spite of that.

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

Great. So -- and then when you think about that $150 million that you called out, that doesn't necessarily repeat in 2022, unless you have other stuff that comes up. Is that fair?

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

Correct. The biggest -- it's a year-over-year impact. And obviously, the benefit we got in '20 from the deferral doesn't repeat. You'll have the second half payment of that in '22. So you've got to have to pay back the $38 million or whatever. So it will have a negative impact, but it would not be the $115 million or that large a number. So yes, much smaller impact. So you should see -- we should have the ability when we get to '22 to look to ramp up, kind of buy that difference in '22.

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

And then last question. Could you just give us a little detail on that allowance that you took on the noncurrent asset, about $20 million?

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

Yes. I mean, it relates to a receivable that we had relative to contract in the Middle East that's been out there for quite a while, been striving to get payment for, thought we had a path. But in Q4, that entity declared bankruptcy, and so we decided it was probably best to charge-off what was there.

Should we take 1 more call? One more question?

Operator

Your next question comes from the line of Steven Valiquette from Barclays.

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

Great. So just the input you provided so far on Kantar has been helpful. Just curious on the revenue base, if there's more color around the revenue model, whether the sales are more project-driven and potentially lumpy or more subscription driven and recurring? And also while we all kind of hear about the real-world evidence within life sciences, is the majority of the data in Kantar revs related more to the clinical work to help with the FDA approval process or more sort of post FDA approval, commercialization work, either Phase IV marketing studies or maybe just a utilization to help the drug reimbursement or formulary positioning? Just looking for more color around some of those nuances.

Donald D. Trigg - *Cerner Corporation - President*

Yes, Steven, this is Don. So they do have some proprietary data assets. They had some, I think, best-in-class capabilities around patient-reported outcomes around cancer and oncology, also around rare disease. So they do have some data assets. They do strategic consulting work and it has orientations that feel subscription-based in their orientation. These are rapid consulting engagements on a multi-quarter basis for a top 25 pharma.

And then I'd say they're early in their strategies around RWE and their data linking strategies around claims, their proprietary data assets and around ambulatory EMR data, but I think that's one of the real opportunities for us just to step in and actually prove out the RWE value proposition as part of the combination. So that's a little bit of what the mix of the business looks like.

And then you're also right, which is, look, the opportunity set we see is around our provider clients associated with those RWE-related opportunities later stage, and so the Elligo assets allow us to really begin to think through those site activation strategies, particularly for the community hospitals and IDNs that are part of that enhanced data arrangement that Brent described and allow us to then begin to think about participating in those later stage and larger contract opportunities, much as we probe it out, both with DCRI, the Duke CRO and also in 2020 with UBC.

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

Well, this is Marc. I want to thank everyone for their time today. I know it's a busy time. And for the last time in my career, I look forward to talking to you all very soon. Take care. Bye-bye.

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

Thank you, all.

Donald D. Trigg - *Cerner Corporation - President*

Thank you.

Operator

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