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CERN.OQ - Q1 2021 Cerner Corp Earnings Call

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OVERVIEW:

Co. reported 1Q21 revenue of $1.39b and 1Q21 adjusted diluted EPS of $0.76. Co. expects full year revenue to grow by mid-single digit and 2Q21 revenue to grow organically by high-single digits. Co. also expects full year adjusted diluted EPS to be over $3.20 and 2Q21 adjusted diluted EPS growth of approx. 20%.

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PRESENTATION

Operator

Welcome to Cerner Corporation's First Quarter 2021 Conference Call. Today's date is May 5, 2021, and this call is being recorded. I would now like to turn the call over to your host, Allan Kells, SVP, Investor Relations.

Allan Kells - *Cerner Corporation - SVP, IR*

Thank you. Good morning, everyone, and thank you for joining us. On the call with me today are Brent Shafer, Chairman and CEO; Mark Erceg, our new Chief Financial Officer; Donald Trigg, our President; and Travis Dalton, our Chief Client and Services Officer. Brent will start off the call with observations on our business in the marketplace, then hand it over to Mark to provide more detail on our results, outlook and capital allocation plans. We'll then transition to Q&A and be joined by Don and Travis.

Before we start, I'd like to remind you that our comments will contain forward-looking statements, including projections for our business and other statements about future events. These comments are based on our current expectations and assumptions that are subject to risks and uncertainties. Our actual results could differ materially from those indicated by our forward-looking statements due to those factors identified in our earnings release, which is posted in the Investors section of cerner.com and other filings with the SEC. Cerner assumes no obligation to update forward-looking statements or information, except as required by law.

We will also be referring to adjusted or non-GAAP financial measures on this call for our discussion of operating margins, earnings per share and free cash flow. A reconciliation of non-GAAP financial measures to GAAP financial measures can be found on our earnings release. These non-GAAP financial measures are not meant to be a substitute for, or superior to, financial measures prepared in accordance with GAAP. With that, I'll turn the call over to Brent.

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

Thanks, Allan, and good morning, everyone. Thank you for joining us. Well, as we all know, we're now a year into the pandemic, and I personally, I remain so impressed by the resilience of our clients on the front lines and the efforts of our associates around the world supporting them. And as we move past the worst of the pandemic, hopefully, in most regions, an increasing portion of our role in assisting clients has been related to vaccine distribution.

Now we've helped over 175 organizations with our mass vaccination solution, allowing clients to deploy and track vaccinations, document and report reactions and communicate with patients. We've also continued supporting our community and in partnership with local providers and very proud to say we've now delivered over 90,000 COVID vaccinations as part of the Operation Safe initiative I mentioned on our last call.

As we've discussed throughout the year, the pandemic accelerated many trends in health care that Cerner has been actively monitoring and building out capabilities to support for years. Among these, is that providers face increasing pressure on cost and revenue, heightened consumer expectation and shifts in care venues.

We continue to believe that we're well positioned to help our clients navigate these challenges while also enabling them to deliver improved clinical outcomes. Now for example, our Real-Time Health System offerings bring near real-time enterprise transparency to help health systems perform at their peak efficiency and streamline operations and improve care delivery.

In addition, our Health Network capabilities enable our clients to coordinate care across multiple organizations regardless of the core EMR and help them optimize for either a fee-for-service or value-based payment model.

Our enhanced consumer engagement solutions help providers meet the growing expectations by patients who are seamless digital experience. We also continue to demonstrate our ability to bring innovation to the provider workflow to save time and address the very real issue of physician burnout. An example of this is a recent successful pilot of our AI-powered Chart Assist, which abstracts data from the patient's chart and helps ensure correct diagnosis and documentation. This replaces the process of having to do manual queries, days after the patient has been seen to capture missing or often an incomplete diagnosis.

In summary, our ability to provide data-driven insights to providers and patients is at the core of the value we are providing. As a result, our clients are increasingly seeing value in our industry-leading ability to aggregate and normalize data so that meaningful insights can be gleaned.

We're also excited about the opportunity to use insights from data to play a role in improving the safety, efficiency and efficacy of clinical research. Consistent with this, we took a major step towards this call with our recent acquisition of Kantar Health. And we're really pleased to welcome their highly experienced management team that brings that deep understanding of the needs of the pharmaceutical industry. We believe this is an important step as we partner with our network of provider clients and to fundamentally change the time and cost of clinical trials.

I also wanted to comment on the information blocking rules that went into effect last month and the broader interoperability rules in the 21st Century CARES Act. As you know, we've been fully supportive of these rules, and we believe they are an important step toward the health care industry finally realizing the potential of broad digitization, which should lead to improved outcomes lower cost and a better patient experience.

Now up to this point, as you know, the industry has spent billions of dollars on a base level of digitization, but the absence of broad interoperability has limited the return on this investment. So as interoperability and secure access to data improves in the coming years, we expect our proven ability to drive insights from data and to push them to the right place at the right time will remain a key differentiator.

Now I'd like to provide a quick update on our federal business. The Department of Defense continues to move at full speed ahead with deploying MHS GENESIS, their Cerner-powered EHR. At the end of February, they went live at Naval Medical Center in San Diego, which was their largest and most complex go-live to date. And DoD officials said this was their smoothest go-live since the program began. In late April, DoD went live with Wave Carson across 12 states, 2 time zones and more than doubled the number of DoD commands now live.

Now moving to Veterans Affairs. As most of you know, VA Secretary Dennis McDonough recently launched a strategic review of the VA's EHRM program. While at the same time, making it clear he's committed to Cerner and the program. Now, we believe this review is analogous to steps taken by the DoD during their initial go-live. We welcome and strongly support this review because it allows us to bring new VA leadership up to speed on both the successes and the challenges of the program to capture their input and move forward together as we continue providing seamless care for our nation's veterans. We expect to exit this review stronger and ready to push forward with deployments at additional sites this year.

During the review, we expect impact on our results will largely be mitigated since work on the ground continues as we prepare for go-lives at future sites. However, the review could shave up to 1 point off our projected revenue growth this year versus what we had originally expected.

Moving to our results. We had a solid first quarter. And as Mark will share, we now expect to deliver stronger earnings than our prior outlook despite slightly lower top line growth due to the VA strategic review. This is possible because we've sharpened our focus and are moving forward with a renewed sense of urgency to continue delivering value to our clients and shareholders.

Specifically, we're going faster on efficiency initiatives already being actioned by our transformation office, continuing and broadening our product and business portfolio reviews and adjusting our organizational design to centralize key functions. These actions all have a common goal, and that's to tighten our strategic focus so we can more effectively deliver value to our clients while also contributing sustainable, long-term profitable growth to our shareholders.

We'll hear Mark Erceg speak in a moment, but I'd like to say that in the 2 months he's been our CFO, he has just been invaluable in helping us identify additional opportunities to improve our business and has done a terrific job of providing enhanced management reporting that is enabling much better informed decisions, and we're delighted to have him as part of the Cerner family.

I'd also like to comment on the recent passing of Linda M. Dillman, a long-standing member of the Cerner Board. She spent 10 years on our board and was a trusted adviser to many on the leadership team and great, wise counsel provided to all of us, including me, especially as I joined the company. While there's no direct replacement for Linda as a person, we do have an open search and are actively seeking qualified candidates. And Linda is deeply missed by all of us.

Before I turn the call over to Mark, I'd like to comment on news upon my expected departure. As noted in the press release, the Board and I have started a process to identify Cerner's next CEO. And once the Board has named a successor, I plan to serve as an adviser to ensure a smooth transition. It's been an honor to be part of Cerner these past 3 years. And I can tell you, I connected with Cerner's mission from the very beginning. And the dedication of our associates and clients just inspires me every day. And I'm proud that Cerner is in such a strong position and that we've made good progress towards improving our operating model and strengthening our leadership team. Because of this progress, I believe my successor will take the reins at a time when Cerner is poised to accelerate its impact on health care. Mark, I'll turn it over to you.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

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Thanks, Brent, and good morning, everyone. Today, I will cover our first quarter results and provide a guidance update. But first, I'd like to share some early observations from my first 2 months at Cerner. First, the people are incredible. Cerner associates are dedicated, passionate professionals who are fully committed to the cause, which is merging technology with health care to improve outcomes for those we serve and love. As Brent often says, Cerner is striving to bring the joy back to practicing medicine, and that is a mission I can proudly lend my full efforts against.

Second, the business is fundamentally sound. Cerner provides real solutions to real problems. Cerner has deep technical know-how, unique capabilities and significant competitive advantages as well as an exceedingly strong balance sheet.

Third, while Cerner does have the associates and the capabilities and has created significant value for clients and shareholders since its inception, there is a clear recognition that a lack of focus, and at times, suboptimal execution has caused revenue growth to slow and margins to compress, which in turn has resulted in bottom quartile total shareholder return versus our proxy peer set over the past several years.

This understanding is what led the Board, Brent and the senior management team to initiate a series of actions to improve results. I believe the actions taken so far are a good start, and I'm excited to play a role in increasing the pace of change so Cerner can realize its full and considerable potential faster. We believe these actions will allow Cerner to help more people than ever before whilst also generating leadership levels of total shareholder return.

So with that understanding and my sincere thanks to Brent and the Board for giving me the opportunity to be part of the team, let me move on to summarize our first quarter results. Please note that my commentary will focus on key points of emphasis since I have no intention of simply repeating information already contained within the press release.

Overall, we had a solid quarter. Bookings were up 13% versus a year ago to $1.23 billion, and we ended the quarter with a revenue backlog of $13.1 billion. While this is admittedly down 3% from a year ago, that was primarily due to the impact of divestitures. Revenue in the first quarter of $1.39 billion was down 2% compared to last year and included lower-than-anticipated software, technology resale and reimbursed travel. However, after adjusting for divestitures, our first quarter revenue grew roughly 2% year-over-year.

Gross margin was up 140 basis points from a year ago to 83.4%, reflecting improved revenue mix due to lower levels of outsourcing, third-party services and reimbursed travel and adjusted operating margin expanded 200 basis points from 19.4% last year to 21.4% this year. Adjusted operating margins benefited from our continued cost optimization efforts and divestitures. And to be fair, we also had some additional expense benefit related to COVID of approximately $10 million in areas such as facilities and travel.

As Brent indicated, we are leaning into our operational improvement efforts. And based on my initial assessment, I believe mid-20% adjusted operating margins should be attainable by 2024 as per our pre-COVID commitments. To achieve this, we are moving faster on our existing road map of cost optimization and process improvement initiatives and adding additional initiatives, including a full review of where COVID era savings can be made permanent in areas such as facilities. We are also going deeper on our product portfolio review with an eye towards consolidating and focusing on items that create the most client value.

Finally, we are significantly building up our internal management reporting capabilities to enhance decision-making and drive accountability. Importantly, these actions will enhance, not dilute our primary focus, which is delighting our clients and motivating and encouraging our associates to reach their full potential because we know that having fully engaged associates and satisfied clients is a clear recipe for marketplace success and strong shareholder return.

To finish off the P&L, our tax rate was 21% for the quarter, and adjusted diluted EPS was $0.76 a share. This was up 7% over last year due primarily to operating margin expansion.

Moving to our balance sheet. We ended Q1 with $1.47 billion of cash and short-term investments and $1.84 billion of debt after drawing $500 million on our shelf agreement during the quarter. We did this at very attractive interest rates, placing $400 million of private placement 10-year debt at 2.59% and $100 million of 5-year debt at 2%. We did this to prefund the Kantar Health acquisition, which closed April 1 and to partially fund future stock repurchase efforts.

Operating cash flow for the quarter was $450 million. After $76 million of capital expenditures and $83 million of capitalized software, free cash flow came in at $291 million.

As we move to capital allocation, let me take just a few seconds to share my views as it relates to cash and balance sheet management. First, as an unapologetic capitalist, let me state very clearly that whatever cash we have on our balance sheet belongs to our shareholders, and we are simply the stewards of those funds. As such, the first call on cash is managing and investing in the core business wisely behind high-return propositions.

Second, we aim to provide a competitive dividend yield. Presently, our dividend payout ratio was approximately 28%, but I anticipate that trending up over the next several years to somewhere in the low 30s.

Third, we will consider strategic acquisitions if and only if we believe they will enhance our competitive position in the marketplace, exceed our cost of capital be accretive over time and create shareholder value. Finally, with any remaining excess cash or investment-grade debt capacity, we may look to opportunistically repurchase our own shares if we believe the stock is trading below its intrinsic value.

So against that backdrop, we returned $417 million to shareholders during the first quarter, including $67 million in dividends and $350 million of share repurchases. And as noted in the earnings press release, our Board just recently approved a new repurchase program that authorizes the purchase of up to $3.75 billion of shares through the end of 2023.

With that new authorization in hand, we expect to repurchase up to $1.5 billion this year, up from our previous guidance of up to $1 billion. Importantly, we believe this level of activity will make better use of our balance sheet and anticipated cash flow while still maintaining ample access to capital for potential investments or acquisitions within the confines of a strong investment-grade balance sheet.

Moving to guidance. We expect revenue in Q2 to grow organically by high single digits over Q2 of 2020. This is because while Q2 2020 included about $40 million of revenue from businesses that have since been divested, we expect Kantar Health to now contribute a similar offsetting amount. For the full year, we continue to expect mid-single-digit revenue growth, which is generally consistent with the growth implied by the previously provided dollarized range. But the recent VA assessment, which we fully support, and the associated review has likely cost us somewhere between 0.5 point and 1 full point of revenue growth this year as some deployment work get shifted out of fiscal '21.

For EPS, we expect Q2 adjusted diluted EPS growth of approximately 20% over Q2 of 2020, which you will recall included a large negative impact from COVID of approximately $0.10 to $0.15 per share. For the full year, we expect adjusted diluted EPS to be over $3.20 per share, reflecting growth of at least 13% over last year. This compares to our prior range of $3.10 to $3.20 per share, with the higher expected earnings being driven by additional margin expansion efforts and an increase in share repurchase, which collectively should more than offset any slight loss in revenue related to the VA assessment.

For the second quarter and the full year, we are expecting a 21% tax rate. And as it relates to cash, we are expecting to generate about $900 million of free cash flow for the year, up from $857 million last year.

So in summary, I'm very excited to be at Cerner. I think we have a tremendous opportunity to positively impact health care while also growing and creating significant shareholder value. We are acting with urgency to achieve this, and I look forward to sharing our progress with you as we move throughout the year. With that, I'll turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of David Windley of Jefferies.

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

I wanted to ask around kind of industry trends toward value-based care and value-based reimbursement, which when we listen to some of the payers as well as the provider, the thought seems to be that, that is accelerated by COVID, and in turn could be a stimulus for some of your more advanced analytic population health-type software. So I'm wondering what you see through a software healthcare IT lens of the trends toward value-based purchasing or value-based reimbursement?

Donald D. Trigg - *Cerner Corporation - President*

Dave, this is Don. That's a great question. I think I'd sort of echo some of the industry-level sentiment that you're describing. I think we're seeing a lot of market interest in that topic, providers have worked through surge recovery and to sort of, I'll call it, margin expansion strategies inside traditional fee-for-service as they've looked to recapture electives and -- but they're absolutely thinking on a parallel path about strategies around value and alternative payment models. And so a lot of nice traction, as you just described, for our EDW and advanced analytics capabilities, a lot of interest in healthy referrals and how you think about referral activities across your provider network. And we think, over time, a lot of traction around care management as they start taking elevated levels of first dollar risk. So I think some nice post-COVID tailwinds that will help the health network business and those product offerings as we play through the year.

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

Don, I appreciate that. Is there a potential to put numbers on either bookings or clients uptake on some of those products you just listed off?

Donald D. Trigg - *Cerner Corporation - President*

Well, you'll recall that on a full year basis in last year, we did 24 new footprints for HealtheIntent, and I have every expectation we'll exceed that number this year. And at the solution level, I think there is some prioritization that you see playing out. I think there's a lot of interest in EDW, that is our most aggressively deployed solution. A lot of interest in referrals because it has a benefit both for fee-for-service use cases and fee-for-value.

And then, frankly, a lot of weighted pipeline activity that Travis and team had been advancing around our Maestro offering and our relationship with Lumeris because I think providers still see Medicare Advantage as a really logical starting point for how they think about moving into risk. So those would be the 3 areas I'd particularly emphasize.

Operator

Your next question comes from the line of Stephanie Davis of SVB Leerink.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

Don, not to put you in the hot seat, but I've always thought of Cerner's President role as been kind of on deck for the CEO seat. So first, is there a reason Cerner would go external versus internal for the CEO search? And maybe could you tell us a little bit more about the search priorities for the CEO role? And Brent, I've got one follow-up for you.

Donald D. Trigg - *Cerner Corporation - President*

Sure. I can start. I think there's a thoughtful process that's been put in place by the Board, looking forward to seeing that play itself forward. I think -- and my conversations with the Board and with Brent, I think we're all aligned. This is a really interesting opportunity for the company. We're very well positioned to be successful in the quarters ahead. And I think the whole management team is excited about continuing to deliver against the plan that we've been working on this year.

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

You got a follow-up, I think?

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

Yes. So for Brent, having been in the seat before, I know there are many different types of CEO. There's the more strategy-focused CEO, there's a portfolio manager CEO. Kind of how do you see this role evolving from where you're leaving it today?

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

Well, we've made, I think, really great progress in clarifying our strategy and our direction and improving our emphasis around operations. There is a lot of work to do on the operational side, on execution. And that path is laid out. And I think having Mark join the team help strengthen our abilities to go after that. So I see an operational emphasis and a clear path ahead to get that work done.

Operator

Your next question comes from the line of Charles Rhyee of Cowen.

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

I was curious if you can kind of, obviously, a year into the pandemic here, just kind of give us some updated thoughts on some of the strategic growth markets that you had outlined last year. Have any of the opportunities kind of shifted around in terms of what you think are better opportunities or maybe a little bit less given sort of the dynamics in the market? Any kind of insights there would be helpful.

Donald D. Trigg - *Cerner Corporation - President*

Yes. It's a great question. I'll speak to both the upsides and I'll also talk about some places where I think there are tailwinds. So from an upside perspective, I think inside the 4 walls of the hospital, big focus on real-time hospital systems. As Brent talked about in his prepared remarks, that was a big part of surge response and economic recovery.

So think about workforce management, staffing capabilities, communications, hospital operations. I think all of those areas have seen a lot of COVID-related traction and trend. I think the provider network space is absolutely a focus, both for fee-for-service and fee-for-value use cases. A lot of focus on consumer. We see a lot of traction and trend around our consumer offerings as folks try to think about what does it look like to engage the consumer outside the 4 walls of the hospital.

So those have been areas that have continued to see traction and trend over the course of the last 4 quarters reflected by our booked revenue. I think there have been some places that have been disrupted by COVID. I think the post-acute space is one that obviously was massively impacted by prevalence data and fatality data.

And so I think that was a space that was negatively impacted on a 4-quarter basis. I also think the workforce health space is one that we've talked about in the past. I think employer certainly thinking a lot about what it looks like to get the right mix of health and care strategies as they think about return to work and hybrid work strategies. But at the same time, there's been a lot of disruption around those workforce population. So those would be 2 that I think I would put more in the headwind or wildcard status relative to go forward.

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

If I could follow up on the consumer, right? I think one of the big trends in this last year has been, how do you deliver care into the patient home? Can you talk a little bit more about the consumer offering then? And so how are you helping your clients really engage the patients in more of a home setting?

Donald D. Trigg - *Cerner Corporation - President*

Yes. I think first of all, the big thing that we've attempted to do is to really create plug-and-play capabilities for our clients around how they think about their engagement strategies. So the ability to leverage both native software that we build as well as third-party capabilities around things like touchless reg and intake.

So that's been a big emphasis. I think unified communication strategy, sort of omnichannel communications capabilities as a way to reach the consumer has been a big area of emphasis and focus and where we're seeing a lot of booked revenue growth.

And then finally, I think somewhat correlated to that, a lot of focus on CRM and relationship management strategies as folks think about coordination of care strategies across both traditional venues and nontraditional venues like the home. So those would be some particular areas of emphasis above and beyond things like televisits and telehealth, which have been a feature of a lot of discussions in previous calls around this topic.

Operator

Your next question comes from the line of Sean Dodge of RBC Capital Markets.

Sean Wilfred Dodge - *RBC Capital Markets, Research Division - Analyst*

Mark, you mentioned some of the change in the EPS guidance for the full year being higher assumed margins. Can you give us just a little bit more detail on where you see kind of the incremental opportunity there? Are there certain project costs or parts of the organization, do you think there are some, I guess, lower-hanging fruit in?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No, thanks for the question. I think it's a great one. So for example, we talked about the fact that we're putting better management reporting capability sets in place. That's allowing us to really unpack the business in ways at hitherto we haven't had the access to really have visibility through and see.

So for example, you've heard us talk in the past about how we have 25,000 features, which we've recently pounded down into 400 different products. Within those 400 products, we have 82 product groups specifically. And what you'll find within those 82 product groups is that the top 25 account for greater than 85% of our total product revenue.

So that's just one example of where we're using better data to kind of penetrate and really understand the business at a more granular level. And we'll be able to take actions and clear decisions based on that knowledge. So there are certainly things that we can do to tighten up the shift and tighten our belts that will not take anything away from our operating set for our key clients, which is our focus always.

Sean Wilfred Dodge - *RBC Capital Markets, Research Division - Analyst*

Okay. That's great. And then one of the big initiatives going back over the past year or so now was getting clients current. You talked about the importance of that just in terms of things like usability and client satisfaction. Do you have any metrics you can share on how that has progressed? What proportion of clients are now on the most recent versions of the Cerner software versus maybe 12 or 15 months ago?

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

Let me ask -- this is Brent. Let me ask Travis Dalton to comment. If you could, Travis, on some of the work going on along those lines?

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

Good. Thanks, Brent. Appreciate it. Yes, it's Travis. Yes. We talked about the last, last time around, we're focused very heavily in our core market. And we're very intentional in our client uplift programming. So we've got a number of programs going there as we talked about. We're working through what we call blueprints, where we're looking at clinical capabilities and efficiencies with our clients.

We've got targeted investments in certain solution areas, pediatrics and others that we think are very impactful. We're working closely with clients. We just had our Cerner Health Forum, where we had over 5,000 participants over several days doing education and other sessions with us. We think that's important in this environment to continue to provide good, solid communications to them and education.

And then upgrades is another portion of that client uplift investment upgrades. What I would say about it is that keeping clients current and committed is not one thing. It's a holistic strategic approach. And so we're approaching it from multiple angles. I can't give an exact number of the percentage of our clients. But what I can tell you is that we're hitting the vast majority of our clients with -- in some capacity with one of those approaches strategies or tools in order to make sure we cover the entirety of our client base versus having 1 focus, 1 program that takes us a much longer time to roll out.

So I think the comprehensive nature of what we're doing, our approach is, I think, it's accelerating our speed to value for our clients and keeping them current relevant and I'll just make one other note. We've talked about client current, but from my perspective, protection, defending the environment base is not our goal. Our goal is to provide for our clients. And as Don noted prior, I'm very encouraged that we're on strategy based on the conversations on having with our clients globally, federally and in the U.S. client market.

The conversations are trending very much into the things that we're working on and we've been a leader, and we've been ahead of in the industry for a number of decades. So I think we're in a good place in terms of getting our clients current being competitive and also as it relates to forward-looking market trends accelerated by the COVID pandemic.

Operator

Your next question comes from the line of Kevin Caliendo of UBS.

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

Great. This is actually Adam Noble in for Kevin. I just want to ask 2 questions. One, first on the buyback authorization. Just curious, you guys obviously gave a really helpful target for how much you expect to do this year as you think about the entirety of now more than $4 billion authorized total through 2023. Is it the goal of the company to finish or complete most of that or all of that by that date? Or did you think about that target as kind of a big opening and you guys will be opportunistic, whether you reach that full number.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Thanks for the question, Adam. I guess what I would say is a couple of things. Clearly, we have an intention to buy back additional shares. Because as I said, when we believe the stock is below its intrinsic value, that's a good action for our shareholders at large.

Second, we intend to do what we say we're going to do culturally, right? So I think you should think about the targeted date of the end of '23 to complete the program. It's our clear intention. That said, things can change, right? And so we have to always be flexible, and we don't know what else could happen over that time horizon. But certainly, we don't ask to do things or intend to do things that we don't expect to fully action.

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

Got you. And I guess related to that, I noticed when you go -- when you were talking about kind of the updated capital allocation priorities, M&A was third. You guys obviously have this very large share repurchase authorization that you announced today. Does that signal any change in your kind of focus on strategic M&A or openness to large-scale M&A? Just any commentary on that would be helpful.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No, I wouldn't read too much into that. I think it's a clear point of order that the business and the core business comes first. And that's where we'll put our first dollar. But we have the luxury of having a very strong balance sheet, a very strong investment-grade balance sheet, and we have the ability to do many things if they meet our criteria.

Operator

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

Michael Aaron Cherny - *BofA Securities, Research Division - Director*

Maybe to build on that last one just a little bit and go back to some of the commentary you had around the Data as a Service side. What are you seeing in the competitive landscape along those lines in terms of both other EHR vendors using that as a base versus other nontraditional companies that want to leverage their own various different data sets and drive these incremental business opportunities? It seems like this is a market that there's a whole host of different entities that are focused on. So can you give us a little more sense as well on where Cerner will be better competitively positioned to win over time.

Donald D. Trigg - *Cerner Corporation - President*

Yes. This is Don. It's a great question. I think a couple of things. One, we're very happy with where we're at relative to the Kantar acquisition. We closed that acquisition on April 1, and we're very happy with the forward progress around it. Two, and I think importantly, relative to your point on competitive differentiation, we continue to make very good progress in terms of building out our learning health network to activate our provider base and participating in that strategy around life sciences and pharma. We have 61 members of the LHN now representing almost 30,000 beds.

So we're ahead of KPI targets relative to approach on the LHN side. I guess just the final thing I would say is, I look at what's going on with Truvada and other EMR players who have acquired their way into this space. And I see it as very validating of the overall thesis around our opportunity to organize 1/3 of provider health care and create unique opportunities for them around life sciences and pharma.

So I see that competitive landscape as validating a thesis, and now we need to execute well with the strategic differentiation that I think we do have, and that's playing out.

I guess just one more thing I would say. You heard Travis talk about opportunities around data more broadly defined. I think we're very focused on the life sciences and pharma strategy, but there's multiple data strategies that I think represent themselves, including some interesting opportunities in the federal space beyond what we're doing with the VA and DoD. So look for us to continue to think about how to put data to work and to monetize it in a way that has, to Mark's point, attractive margin profiles around it.

Michael Aaron Cherny - *BofA Securities, Research Division - Director*

If I can just build a little bit on the commentary you had around the VA and the federal opportunity. Clearly, you remain one of the key partners there. There's also been some other dynamics around federal. I forgot exactly when Coast Guard was announced, but that was one. How do you think about where the remaining federal white space is? And if you think about the growth over the next 5 years from federal, has anything changed on an underlying basis outside of the comments you made on the VA?

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

Travis, let me ask you to comment on that, if you would, please.

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

Yes, happy to. So I appreciate the question. This is Travis. Yes, and I'll make a quick note. I mean we're very pleased, as Brent noted in his comments, with the operational and the execution progress on DoD and Coast Guard. So thanks for noting that. That's been a successful rollout for us as well.

So we're moving forward at speed and at scale with DoD. The Carson go-live was 12 states, 10,000 users on a single day. That's a major accomplishment. VA, we support the strategic assessment. That's not being done in a vacuum. We're working together with VA daily on that. And so we feel that we'll come out in a great place with them in the new administration on a strengthened schedule and focus around it. And so in terms of our core on-contract opportunities, we feel very good about the progress we're making and our ability to deliver our promises and requirements.

As it relates to growing the federal business and where we see that, our strategy has been the same. Number one, it's delivering on our promises and continuing on contract growth. We've got a multibillion dollar opportunity on our IDIQ with VA and DoD, and that hinges on our -- keeping our commitments and promises. We've got new requirements, white space and new opportunities with the DoD, we've got opportunity with HealtheIntent. We've got opportunity with solutions that we've been discussing this morning that hang off of that platform, that aggregation layer, and we're in active conversations with them.

So I see us having good possibilities there. TRICARE remains a great opportunity for us in the value-based care space. I think that we're well positioned with our platform, with our data aggregation capabilities to be a material to provide a longitudinal record and bring those clinical and pair of data sets together for them and we're material in that conversation.

And then ultimately, there are still new footprint opportunities. Indian Health Services is one of the last remaining vestiges of the VisTa system, we'll likely make a decision.

And then we did sign an opportunity in our first quarter with CDC around real-world data that I believe Don mentioned. And so we've got a rich data set, as you can imagine. And so CDC and others are active and interested in that. So we do view data as an opportunity for us on a go-forward basis. So I think we've got multiple threads of opportunity with thorough business.

Operator

Your next question comes from the line of Anne Samuel of JPMorgan.

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

I was hoping maybe you could provide a little bit more color around the VA strategic review. Just in terms of what maybe some of the potential outcomes might be, and is there any potential for impact beyond this year?

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

Sure. This is Travis. So yes, it's a -- this is an expected, I think, outcome of a new administration. This is one of the -- this is the most strategic and largest program that VA is undertaking right now. And so really, I think the review is focused on a couple of core areas. One is, again, looking at and evaluating the contract. So are we -- are all the things we set out to do 3 years ago the things we set out to do today, and we're working through that and we're making progress. And I think we'll be doing strength of schedule evaluation. So we'll be looking at the full schedule. It's not lost on anyone that we've actually been able to accelerate our DoD rollout in the out years once we've been able to harden the solution set.

So I think that we can look at the schedule holistically. We think we're in a good position to possibly accelerate the rollout in the years 5 through 7. But in the short term, it will cause some wave activity to push to the right as we're undergoing the 12-week assessment. And I think Mark noted that in his comments. But ultimately, again, I just believe that we'll come out with a codified schedule with them, clear KPIs that we're going to hold ourselves accountable to and a clear focus collectively with the new administration and leadership. So I think that's the direction that we're going with some short-term headwinds, long-term tailwind potentially.

Operator

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

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

Thank you, and welcome to Mark. With the focus on succession, I think we may have missed an opportunity to hear a bit of your early thoughts on process and goalposts. I know when it comes to long-term revenue, which is a key question for the company right now, HIMSS is typically a point where we get into some of the details. It's August this year. Do you feel like that's a good point for us to look for your perspective on where we go forward? Or what can you tell us about your process?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Thanks for the question. I guess I would offer a couple of things. I mean, one, it's still early days, right? I've had, at this point, 8 weeks under my belt. And so I have a lot to learn and there's a lot that I continue to absorb and take in as I formulate my own views as it relates to that.

Second, I guess what I would say is I think we have all the tools here to be very, very successful in the years ahead. We have nearly 3 million health care providers use Cerner systems each and every day. We have 25,000 associates who have an unparalleled and unmatched knowledge of the health care and IT intersection. We're the top provider of IT to the federal government. We lead the acute EMR global market with 2,400 inpatient facilities worldwide. We have a strong balance sheet. We have 600 patents. We have $800 million a year. We invest in R&D. I mean we have all the tools, and we have the team. right?

So I think we're going to be able to do considerably better vis-a-vis our shareholders in the years ahead because there's a clear acknowledgment that on the CSR front, we haven't necessarily always delivered. And this is a team that is committed to delivering for our clients and for our shareholders. So I would simply say, stay tuned and think good things are coming.

Operator

Your next question comes from the line of Elizabeth Anderson of Evercore.

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

I was wondering how you view sort of stock compensation in terms of the total compensation for employees in your different areas? Like how do you see that trending as we go forward just because -- as it impacts the operating margin line would be helpful.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No, it's a great question. Look, we're an IT company. We compete for IT talent, and it's typical that in IT firms that you have equity fairly broadly distributed throughout the associate base in order to keep them fully aligned with the company goals and objectives. That's always been Cerner's approach. And we have used that at times in lieu of salary increases. So we will obviously continue to want to use that as part of the mix. We'll need to make sure that we balance that and that we do it in a way that is representative of our deliverables to our shareholders themselves.

One could argue that over the last several years, when our TSR hasn't really performed, that maybe we were a little bit too generous in that regard because we are clearly a pay-for-performance company. And the Compensation Committee and the Board has made it clear that they're going to hold the management team accountable for performance in the years ahead. And with that understanding, I think equity will remain a key part of our compensation package, but we have to perform.

Operator

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

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

A couple of housekeeping questions. So when you provide the guidance of $3.20 or greater than $3.20, is there an explicit sort of estimate for the potential delay in some of the VA revenues? Or is that -- that will sort of determine as a TBD?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

No. We've taken all of that into account. So all the information that we know presently, which Brent commented on and which I commented on in our prepared remarks, we think we probably lost somewhere between 0.5 point and full point of revenue based on the work that's going on, which, again, we fully support. So that's contemplated in our new guidance range.

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

Great. And then also in terms of housekeeping, the CapEx line increased somewhat from the fourth quarter as well as the capitalized software costs. Could you just give us a little bit more detail on the increases?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Yes. Some of the capitalized software increase you're seeing relates to the 21st Century Cures Act, where we have brought in some additional third parties to help us manage that since there's a relatively short time frame to get a lot of work done, and that's what's really bumping that up a little bit in the here and now.

Allan Kells - *Cerner Corporation - SVP, IR*

And Steve, if you're talking about the -- on the actual -- this is Allan. On the actual -- on the CapEx line aside from capitalized software, that is up a little bit. And that's a little bit of COVID. We pushed out a lot of CapEx last year, and there's just a little bit of catch-up on data center CapEx in Q1. But for the year, CapEx should still be down when you look at it for the year.

Operator

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

Jeffrey Robert Garro - *Piper Sandler & Co., Research Division - Senior Research Analyst*

I want to ask about M&A. And I appreciate Mark's framework for M&A considerations. I would ask him as well as the rest of the team if there are any strategic areas that will get a deeper look under that financial framework.

Donald D. Trigg - *Cerner Corporation - President*

Yes. This is Don. It's a great question. I think we continue to like RTHS-related strategies inside the hospital. I think you're going to continue to see us think about and focus on provider network activation strategies outside the 4 walls of the hospital. That's a space we've talked about throughout the morning as having significant trend, and that includes strategies around the home as venue.

And then we're still very energized by what's playing out around the data space and secondary data use strategies. So all 3 of those areas are line of sight in terms of where we see the growth potential for the business. And as Mark framed out, part of the dialogue that we'll have around how we deploy capital and put it to work with the right return profile.

Jeffrey Robert Garro - *Piper Sandler & Co., Research Division - Senior Research Analyst*

Excellent. That helps. And maybe a follow-up there by asking about healthy referrals. That's a product that I believe came from an acquisition that was small enough that you didn't need to disclose it last October, but it's already making a mark. So I'd be interested to hear about traction there. And I think Travis might have alluded to it in the context of the VA, which is pretty interesting. But then also more broadly, just the ability to integrate cloud native and EHR-agnostic technology that's acquired into HealtheIntent.

Donald D. Trigg - *Cerner Corporation - President*

Look, Mark alluded to it, I think there's large strategic M&A activity. And then I think we're also going to be smart in terms of thinking about tuck-ins as a component part of how we create total solution offering strategies. So that's certainly going to be a part of how we think about putting capital to work at a broad level. And then at a micro level relative to healthy referrals, look, it's a great use case around what's playing out from a provider network perspective, it's an opportunity for our clients to really think about how they manage referrals for key service line areas, CV, oncology, neuro orthopedics.

So they're figuring out how to manage supply-demand dynamics around that provider network as they recover from COVID. But it also begins to really help them understand what would it look like for me to take elevated rates of first dollar risk as part of a value strategy. And so what we're excited about in the provider network space is the chance to help our provider clients navigate that transition, maximize fee-for-service, but also begin to prepare for shifts in payment.

And then just the last thing I would say is that the big opportunity from a growth perspective that Travis and I think and talk about every day is -- Mark's right, we do have an enviable position with 1/3 of U.S. provider organizations. But there's a huge addressable market for us outside the scope of our Cerner Millennium base. And part of what growth needs to look like for us going forward is strategies to address that piece of the market, and referrals is a good example of how we can do that.

Operator

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

Maxi Ma - *Deutsche Bank - Analyst*

It's Maxi on for George. So last quarter, you talked about the company expects around 15% CAGR in the strategic growth business with 2020 as the new baseline. Could you provide some more update on how the business performing relative to your expectations, particularly Lumeris.

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

I think at the end of the day, we expect strategic growth to lead the company in its total revenue progression. We have targeted to have that segment grow at 20-plus percent per year. That will vary based on a combination of organic growth and nonorganic growth depending on the circumstances. We're very pleased with the Kantar Health acquisition, which we just recently closed on and expect that to contribute about $40 million per quarter, about $125 million of incremental revenue this year. So I would think the strategic growth businesses, collectively taken, will probably grow closer to maybe 30% this year. But it will vary as we go forward.

Operator

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

Jack Rogoff - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. This is Jack Rogoff on for Bob. I wanted to ask if the strategic review of the VA, if those impacts to revenue affect mix one way or the other as it relates to margins in 2021?

Allan Kells - *Cerner Corporation - SVP, IR*

Yes. This is Allan. Yes, there was some software that would have been included in that, but also some services. So I don't think at a whole company level, probably not a huge impact on mix. But there's certainly some high-margin mix within that, that we are offsetting. But all of the work to -- on the margin front is obviously more than offsetting any margin impact that, that mix shift would cause.

Jack Rogoff - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Makes sense. And then it looks like the implied back half guidance had a step-up in the level of revenues versus the second quarter Can you describe what drives that? Is it seasonality? Is it the impact from the VA? Or is there anything that has to get better in the underlying business in the back half?

Allan Kells - *Cerner Corporation - SVP, IR*

Yes. I think your -- I think a big part of that is the Kantar comes in, in Q2. And then there's really -- there's slight sequential increases factored in the next 2 quarters, but nothing that's substantial other than getting back on track on VA as you roll through the year and sort of getting that ramp continuing. So it's not really anything unusual relative to sequential revenue increases as you go Q3 to Q4.

Operator

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

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

Richard Close here. The lower software called out is there -- for the first quarter, is there any more details you can provide on that? And then second question, Mark, was maybe on the margin expansion, expanding on Sean's earlier question. Longer term, getting to that mid-20% level, are the efficiencies that have been put in place so far? Are those the main drivers? And anything that maybe you put your hands on here now that you're in the role of CFO could drive that even higher than the mid-20% level?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

Sure. Thank you. I'll answer the second question, and I'll let Allan comment on the first. So I talked earlier about the need for us to really put in place world-class management reporting systems. Another good example of where that's going to be invaluable is in our area of R&D spend. In the last 3 years, we spent $2.5 billion in R&D. And the simple truth of the matter is, is we haven't had the internal systems to allow us to take that spend all the way down to the individual product or project level. And our ability to do that going forward is going to dramatically enhance our ability to monetize that R&D investment.

Allan Kells - *Cerner Corporation - SVP, IR*

Yes. And on the software commentary relative to the quarter, I mean, keep in mind, we're reconciling a $7 million difference relative to the midpoint of our guidance, and we mentioned 3 things. So I wouldn't cite software as a huge impact in the quarter, so you could pick a lot of different things. But it was just -- it was one of the few things that led to us being slightly below where we expected.

Operator

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

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

I have a couple of questions. Brent, the first one is for you. When you sort of reflect on your time at Cerner, I mean, clearly, you talked about sort of the shift in strategic direction. But what do you think have been sort of the limiting factor to further sort of accelerate the shift?

And then the second question refers to something that Mark mentioned earlier on and an idea that you're competing for tech talent. I mean, clearly, it's a very hot market. So what are you seeing there in terms of that supply of individuals?

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

Yes. No, I appreciate it. Well, I think going back to 3 years ago, coming in the door, there's so much opportunity in Cerner. But in a lot of ways, our systems and our ways of operating were not really conducive to speed. They've been built up over time. And at this scale, we're not very efficient.

So it sounds kind of mechanical, but there's been a fair amount of time getting an operating model in place that's clear, that is understandable, accountability is deployed throughout the organization.

And so the intent to move is pretty clear. The ability to move quickly requires organization alignment and great execution. And so I think we have -- we are in a much stronger position to do that today and are ready to do that and have a leadership team ready to move that forward. So I think the stage has been set. And the direction is clear and the ability to accelerate now is in front of us.

So on your second question about talent, yes, there's definitely a global war for talent in tech, and we all know that. So we are doing everything we can to make sure that we're an attractive employer for our associates that this is a place that you can come and not only contribute to technology, but you can make a difference in the world because it's health care.

And that's somewhat unique. And a lot of the other places intact here may not be that bold charter. But that is our mission. And I think for -- especially technical talent that wants to be part of changing the world, making a difference. This is a great fit. And so we're very much interested in getting that worried about us as an employer, and we're proud of some of the progress in our culture over the last year and some of the things our associates have done to make a difference during COVID and to make a difference in the community. So But it's a competitive landscape for sure.

Operator

Your final question comes from the line of Jonathan Yong of Barclays.

Jonathan Yong - *Barclays Bank PLC, Research Division - Research Analyst*

Just on the operating margin of mid-20% by 2024. Given you are accelerating some of your operational improvements, is there a possibility that we could see that come in ahead of that current schedule time line? And then separately, you also mentioned it's going deeper down into your product portfolio and viewing what adds value to clients. Does that suggest that you may divest additional product sets, or is this more from a cost savings perspective?

Mark J. Erceg - *Cerner Corporation - Executive VP & CFO*

I guess I'd offer a couple of things. At this point, we have been able to reaffirm our pre-COVID commitments to our margin expansion endeavors. Whether we get there sooner than that, time will tell. But we are acting with a sense of urgency, and we believe that we have a great opportunity in the years ahead to monetize all the investments that have been made to date and 2 great leadership levels of TSR. That's our clear objective. As far as the product and portfolio review, with better data, we're able to sharpen our thinking. And I think it will be a combination of various matters all the time balancing our internal needs for profitable growth with our clients' needs in order to better service the health care industry, which is our mission.

Allan Kells - *Cerner Corporation - SVP, IR*

All right. I think that's it. Thank you, everybody, for joining us, and we look forward to talking to you next quarter.

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

Thank you all.

Operator

Again, thank you for participating in today's conference call. You may now disconnect.