



COMPANY UPDATE / ESTIMATE CHANGE TARGET CHANGE

Key Metrics

CERN - NASDAQ - as of	2/8/18	\$61.22
Price Target		\$64.00
52-Week Range	\$51.26 -	\$73.86
Diluted Shares Outstanding (mil.)		332.4
Market Cap. (\$mil)		\$20,350.4
1-Mo. Average Daily Volume		2,355,757
Institutional Ownership		84.1%
Debt/Total Capital (net)	Q4'17	0%
ROE		19.9%
Book Value / Share	Q4'17	\$14.44
Price / Book Value		4.2x
Indicated Dividend / Yield	\$0.00	0.0%
LTM EBITDA Margin		30.0%

non GAAP EPS FY 12/31*

	Prior	Current	Prior	Current
	2016A	2017	2017A	2018E
1Q	\$0.53	\$0.59	\$0.63	\$0.61
2Q	\$0.58	\$0.61	\$0.64	\$0.67
3Q	\$0.59	\$0.61	\$0.65	\$0.68
4Q	\$0.61	\$0.58	\$0.71	\$0.70
Year	\$2.30	\$2.38	\$2.63	\$2.66
P/E	26.6x	25.7x		23.0x

Revenue (\$mil)*

	Prior	Current	Prior	Current
	2016A	2017	2017A	2018E
1Q	\$1,138	\$1,260	\$1,353	\$1,335
2Q	\$1,215	\$1,291	\$1,390	\$1,381
3Q	\$1,184	\$1,276	\$1,373	\$1,372
4Q	\$1,257	\$1,313	\$1,447	\$1,417
Year	\$4,796	\$5,142	\$5,565	\$5,507

*Note figures may not equal due to rounding.

Company Description: *Kansas City, Missouri based Cerner Corporation was founded in 1979 and employs 21,000 associates worldwide. Cerner is the largest public, pure-play Health Care Information Technology (HCIT) company worldwide. The company is a supplier of HCIT software, solutions, services and a reseller of healthcare devices. Leading products include its electronic health record, population health management, revenue cycle management, and IT outsourcing services. Cerner products are licensed through ~20,000 facilities on a global basis.*

Cerner Corp.

CERN - NASDAQ – Neutral - 2

Cerner Reports Q4 Results – Reiterate Neutral

- Results.** Cerner reported Q4'17 EPS of \$0.58 vs. \$0.61 in the year ago period. This missed our \$0.64 estimate. Revenue of \$1.313 billion was up 4% y/y, missing our \$1.343 billion view. Cerner reported the percentage of contract Dollars from new client was 22%, well below the recent average. Bookings jumped 62% y/y to \$2.329 reaching a record high and was above management's guidance range of \$1.75 to \$2.00 billion view. Bookings jumped following large RevWorks and ITWorks deals. Book-to-bill ratio hit a recent high of 2.27. Backlog increased q/q to \$17.55 billion and was up 10% y/y. Free cash flow of \$185.1 million increased from \$141.5 million.
- Guidance.** Management guided Q1'18 revenue between \$1.315 billion to \$1.365 billion vs. our prior forecast of \$1.353 billion. Q1'18 EPS was guided to between \$0.57-\$0.59 vs our prior \$0.63 estimate. FY'18 revenue guidance was provided of \$5.450 billion to \$5.650 billion, below management's prior view, but roughly matching our prior view of \$5.565 billion. FY'18 EPS was guided to a midpoint of \$2.65, near our prior view of \$2.63 which incorporates tax reform. Q1'18 bookings are expected to grow at a midpoint of 8% y/y, marginally disappointing, in our view. Guidance was weaker as the company expects less revenue from the expected V. A. contract in 2018 and higher investments ahead of the associated revenue.
- Outlook.** Our Q1'18 forecast has been adjusted lower with EPS of \$0.61 on revenue of \$1.335 billion. Our FY'18 outlook moves up slightly to \$2.66 from \$2.63 on revenue of \$5.507 vs. our prior view of \$5.565.
- Valuation.** We reduce our FYE'18 price target to \$64 from \$66 on margin contraction vs. our prior view of margin expansion. Our price target is based on a forward P/E multiple of 24x our FYE'18 EPS estimate of \$2.66.
- Opinion.** FY'18 is now expected to be an investment year with increased spending weighing on profitability despite a significant benefit from a lower tax rate. FY'19 and beyond could provide margin expansion which could be a catalyst for us to gain a more favorable view of the stock. We also believe it will take Cerner's new CEO, Brent Shafer, several more months to develop his long term strategy for Cerner. With weaker than expected results, soft guidance, and a lofty multiple on the stock, we expect CERN shares to remain range bound. We maintain our Neutral rating.

Note Important Disclosures on Pages 5 - 6
Note Analyst Certification on Page 5

SUITABILITY

We assign shares of CERN a suitability rating of 2 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 2 rating is given based on Cerner's HCIT industry leading market position. Cerner's digital healthcare systems reside in roughly 23% of hospitals in the U.S. We also believe the company is stable and management has significant foresight into future business conditions as ~79% of Cerner's revenue is classified as recurring or visible revenue. Despite this high level of recurring revenue, new bookings can be lumpy as Cerner increases its presence in governmental departments, and as large hospitals remain budget constrained, while Obamacare's future remains uncertain. We believe a suitability rating of 2 incorporates these attributes and is appropriate given management's ability to efficiently run the company. We believe shares of CERN are suitable for growth oriented investors seeking long term capital appreciation within the healthcare information technology industry.

Cerner Corp. (USD\$ '000s)

Income Statement	2006	2009	2010	2011	2012	2013	2014	2015	2016	2017	Q1'18E	Q2'18E	Q3'18E	Q4'18E	2018E
Revenues:															
System Sales	\$ 505,743	\$ 504,561	\$ 550,792	\$ 706,714	\$ 902,799	\$ 847,809	\$ 945,858	\$ 1,281,889	\$ 1,265,962	\$ 1,355,172	\$ 332,650	\$ 361,720	\$ 336,982	\$ 378,026	\$ 1,409,379
Support, maintenance and services	833,244	1,136,871	1,266,977	1,451,747	1,707,329	1,992,830	2,366,959	3,070,576	3,441,966	3,685,636	982,514	999,983	1,015,973	1,014,369	4,012,839
Reimbursed travel	39,051	30,432	32,453	44,692	55,308	70,109	89,886	71,938	88,545	101,463	20,000	20,000	20,000	25,000	85,000
Total revenues	1,378,038	1,671,864	1,850,222	2,203,153	2,665,436	2,910,748	3,402,703	4,424,403	4,796,473	5,142,271	1,335,164	1,381,704	1,372,955	1,417,396	5,507,218
Costs and expenses:															
Cost of system sales	194,646	186,626	221,055	296,561	427,456	302,374	314,089	430,334	412,065	448,320	116,827	124,353	123,566	136,070	500,816
Cost of support, maint. & services	57,273	64,140	66,848	100,419	125,433	142,239	200,402	247,644	278,504	304,305	85,450	89,811	81,691	83,626	340,578
Cost of reimbursed travel	39,051	30,432	32,453	44,692	55,308	70,109	89,886	71,938	88,545	101,463	20,000	20,000	20,000	25,000	85,000
Total costs	290,970	281,198	320,356	441,672	608,197	514,722	604,377	749,916	779,114	854,088	222,277	234,164	225,257	244,696	926,394
Sales and client service	578,050	693,087	756,072	856,649	1,003,324	1,148,993	1,364,225	1,772,152	2,010,579	2,211,877	586,137	596,896	597,235	609,480	2,389,748
Software development	246,970	266,677	265,988	278,429	292,153	327,690	379,014	523,544	534,604	585,852	166,895	158,896	157,890	158,748	642,430
General and administrative	95,881	122,054	123,570	137,126	151,988	294,377	229,038	318,389	329,140	333,486	90,791	93,956	93,361	94,966	373,073
Amort. Acq. related intangibles								(2,731)	9,899	7,290	1,800	1,800	1,800	1,800	7,200
Total costs and expenses	1,211,871	1,363,016	1,465,986	1,713,876	2,055,662	2,285,782	2,576,654	3,361,270	3,663,336	3,992,593	1,066,101	1,083,912	1,073,743	1,107,890	4,338,846
Operating earnings	166,167	308,848	384,236	489,277	609,774	624,966	826,049	1,063,133	1,133,137	1,149,678	269,063	297,792	299,212	309,505	1,168,372
Other income, net	1,377	675	2,879	9,896	16,046	12,042	11,090	245	7,421	6,658	500	500	500	500	2,000
Earnings before income taxes	167,544	309,523	387,115	499,173	625,820	637,008	837,139	1,063,378	1,140,558	1,156,336	269,563	298,292	299,712	310,005	1,170,372
Income taxes	(57,653)	(105,490)	(134,269)	(174,323)	(205,054)	(208,307)	(270,842)	(322,265)	(350,117)	(351,383)	(64,695)	(71,590)	(71,931)	(74,401)	(282,617)
Net earnings	109,891	204,033	252,846	324,850	420,766	496,779	576,435	741,113	790,441	804,953	204,868	226,702	227,781	235,604	887,755
Diluted Non-GAAP EPS	\$ 0.34	\$ 0.61	\$ 0.76	\$ 0.93	\$ 1.20	\$ 1.41	\$ 1.65	\$ 2.11	\$ 2.31	\$ 2.38	\$ 0.61	\$ 0.67	\$ 0.68	\$ 0.70	\$ 2.66
Diluted weighted avg. shares	326,892	335,528	332,258	347,508	351,356	352,223	350,387	350,841	343,653	337,727	335,854	336,209	337,086	335,673	336,205
Yr./Yr. Percentage Chg.															
System Sales	12.5%	-3.4%	9.2%	28.3%	27.7%	-6.1%	11.6%	35.5%	-1.2%	7.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Support, maintenance and services	23.0%	1.9%	11.4%	14.6%	17.6%	16.7%	18.8%	29.7%	12.1%	7.1%	7.0%	9.0%	9.5%	10.0%	8.9%
Total revenues	18.7%	-0.2%	10.7%	19.1%	21.0%	9.2%	16.9%	30.0%	8.4%	7.2%	5.9%	6.9%	7.6%	7.9%	7.1%
Cost of system sales	13.8%	-5.3%	18.4%	34.2%	44.1%	-29.3%	3.9%	37.0%	-4.2%	8.8%	16.4%	6.0%	17.5%	8.5%	11.7%
Cost of support, maint. & services	14.0%	4.9%	4.2%	50.2%	24.9%	13.4%	40.9%	23.6%	12.5%	9.3%	12.2%	13.7%	11.1%	10.7%	11.9%
Sales and client service	24.0%	-3.1%	9.1%	13.3%	17.1%	14.5%	18.7%	29.9%	13.5%	10.0%	7.3%	9.2%	9.0%	6.6%	8.0%
Software development	16.8%	-2.1%	-0.3%	4.7%	4.9%	12.2%	15.7%	38.1%	2.1%	9.6%	17.8%	15.0%	6.0%	1.1%	9.7%
General and administrative	17.5%	8.0%	1.2%	11.0%	10.8%	93.7%	-22.2%	39.0%	3.4%	1.3%	8.9%	10.8%	16.4%	11.6%	11.9%
Total COGS	14.2%	-5.0%	13.9%	37.9%	37.7%	-15.4%	17.4%	24.1%	3.9%	9.6%	11.7%	5.0%	11.0%	6.8%	8.5%
Total Expenses	21.3%	-1.7%	5.9%	11.0%	13.8%	22.4%	11.4%	32.5%	10.0%	8.9%	9.4%	10.4%	9.2%	6.1%	8.8%
Total costs and expenses	19.5%	-2.4%	7.6%	16.9%	19.9%	11.2%	12.7%	30.5%	9.0%	9.0%	9.7%	9.0%	9.4%	6.1%	8.7%
Operating earnings	13.2%	10.7%	24.4%	27.3%	24.6%	2.5%	32.2%	28.7%	6.6%	1.5%	-6.7%	0.0%	1.7%	14.9%	1.6%
Net earnings	27.4%	8.1%	23.9%	28.5%	29.5%	18.1%	16.0%	28.6%	6.7%	1.8%	3.6%	10.3%	10.6%	20.4%	10.3%
Diluted Non-GAAP EPS	21.7%	7.6%	25.1%	22.8%	28.1%	17.8%	16.7%	28.4%	9.2%	3.3%	3.7%	10.9%	11.2%	21.2%	11.7%
Diluted weighted avg. shares	4.7%	0.5%	-1.0%	4.6%	1.1%	0.2%	-0.5%	0.1%	-2.0%	-1.7%	-0.1%	-0.5%	-0.5%	-0.7%	-0.5%
Percentage of Revenue															
System Sales	36.7%	30.2%	29.8%	32.1%	33.9%	29.1%	27.8%	29.0%	26.4%	26.4%	24.9%	26.2%	24.5%	26.7%	25.6%
Support, maintenance and services	60.5%	68.0%	68.5%	65.9%	64.1%	68.5%	69.6%	69.4%	71.8%	71.7%	73.6%	72.4%	74.0%	71.6%	72.9%
Cost of system sales	14.1%	11.2%	11.9%	13.5%	16.0%	10.4%	9.2%	9.7%	8.6%	8.7%	8.8%	9.0%	9.0%	9.6%	9.1%
Cost of support, maint. & services	4.2%	3.8%	3.6%	4.6%	4.7%	4.9%	5.9%	5.6%	5.8%	5.9%	6.4%	6.5%	6.0%	5.9%	6.2%
Sales and client service	41.9%	41.5%	40.9%	38.9%	37.6%	39.5%	40.1%	40.1%	41.9%	43.0%	43.9%	43.2%	43.5%	43.0%	43.4%
Software development	17.9%	16.0%	14.4%	12.6%	11.0%	11.3%	11.1%	11.8%	11.1%	11.4%	12.5%	11.5%	11.5%	11.2%	11.7%
General and administrative	7.0%	7.3%	6.7%	6.2%	5.7%	10.1%	6.7%	7.2%	6.9%	6.5%	6.8%	6.8%	6.8%	6.7%	6.8%
Total COGS	21.1%	16.8%	17.3%	20.0%	22.8%	17.7%	17.8%	16.9%	16.2%	16.6%	16.6%	16.9%	16.4%	17.3%	16.8%
Gross Margin	78.9%	83.2%	82.7%	80.0%	77.2%	82.3%	82.2%	83.1%	83.8%	83.4%	83.4%	83.1%	83.6%	82.7%	83.2%
Total Expenses	66.8%	64.7%	61.9%	57.7%	54.3%	60.8%	58.0%	59.9%	59.9%	60.8%	63.2%	61.5%	61.8%	60.9%	61.8%
Total costs and expenses	87.9%	81.5%	79.2%	77.8%	77.1%	78.5%	75.7%	76.0%	76.4%	77.6%	79.8%	78.4%	78.2%	78.2%	78.8%
Operating Margin	12.1%	18.5%	20.8%	22.2%	22.9%	21.5%	24.3%	24.0%	23.6%	22.4%	20.2%	21.6%	21.8%	21.8%	21.2%
Net Profit Margin	8.0%	12.2%	13.7%	14.7%	15.8%	17.1%	16.9%	16.8%	16.5%	15.7%	15.3%	16.4%	16.6%	16.6%	16.1%

Source: Company data & Hilliard Lyons estimates

Cerner Corp. (USD\$ '000s)

Balance Sheet	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current assets:													
Cash and cash equivalents	\$ 113,057	\$ 162,545	\$ 182,914	\$ 270,494	\$ 241,723	\$ 214,511	\$ 243,146	\$ 317,120	\$ 202,377	\$ 635,203	\$ 402,122	\$ 170,861	\$ 370,923
Short-term investments	161,230	146,239	161,600	38,400	317,113	356,501	531,635	719,665	677,004	785,663	111,059	185,588	434,844
Receivables, net	316,965	361,424	391,060	468,928	461,411	476,905	563,209	577,848	582,926	672,778	1,034,084	944,943	1,042,781
Inventory	9,585	18,084	10,744	10,096	11,242	11,036	23,296	23,681	32,299	23,789	15,788	14,740	15,749
Prepaid expenses and other	42,685	60,315	61,878	69,553	106,791	83,272	94,232	113,572	175,488	209,278	264,780	303,229	515,930
Deferred income taxes, net	8,109	2,423	10,368	1,402	8,055	3,836	46,795	38,620	91,614	22,075	-	-	-
Total current assets	651,631	751,030	818,564	858,873	1,146,335	1,146,061	1,502,313	1,790,506	1,761,708	2,348,786	1,827,833	1,619,361	2,380,227
Property and equipment, net	292,608	357,942	462,839	483,399	509,178	498,829	488,996	569,708	792,781	924,260	1,309,214	1,552,524	1,603,319
Software development costs, net	172,548	187,788	200,380	218,811	233,265	244,848	248,750	267,307	347,077	420,199	562,559	719,209	822,159
Goodwill	116,142	128,819	143,924	146,666	151,479	161,374	211,826	247,616	307,422	320,538	799,182	844,200	853,005
Intangible assets, net	60,448	54,428	46,854	51,925	33,719	38,468	75,366	132,045	144,132	126,636	688,058	566,047	479,753
Long-term investments	-	-	-	105,300	-	264,467	359,324	509,467	554,873	231,147	173,073	109,374	196,837
Other assets	10,252	16,426	17,395	16,014	74,591	68,743	113,783	187,819	190,371	158,999	202,065	219,248	134,011
Total assets	1,303,629	1,496,433	1,689,956	1,880,988	2,148,567	2,422,790	3,000,358	3,704,468	4,098,364	4,530,565	5,561,984	5,629,963	6,469,311
Current liabilities:													
Accounts payable	65,377	79,735	79,812	93,667	36,893	65,035	85,545	141,212	145,019	160,285	215,510	238,134	218,996
Current installments of long-term debt and capital leases obligations	28,743	20,242	14,260	30,116	25,014	24,837	39,722	59,582	54,107	67,460	41,797	26,197	11,585
Deferred revenue	79,890	93,699	98,802	107,554	137,095	109,351	153,139	189,652	209,746	209,655	278,443	311,839	311,337
Accrued payroll and tax withholdings	66,002	77,914	65,011	67,266	80,093	86,921	109,227	125,253	147,986	140,230	184,225	211,554	183,770
Other accrued expenses	20,078	40,584	30,238	42,620	79,008	19,788	51,087	64,413	83,574	56,685	57,891	57,677	63,907
Total current liabilities	260,090	312,174	288,123	341,223	358,103	305,932	438,720	580,112	640,432	634,315	777,866	845,401	789,595
Long-term debt and capital lease obligations	194,265	187,391	177,606	111,370	95,506	67,923	86,821	136,557	111,717	62,868	563,353	537,552	515,130
Deferred income taxes and other liabilities	72,922	58,731	68,738	100,546	98,372	126,215	150,229	143,212	170,392	256,601	324,516	306,263	365,674
Deferred revenue	14,533	14,557	21,775	15,554	15,788	17,303	13,787	10,937	8,159	10,813	25,865	12,800	13,564
Total liabilities	541,810	572,853	556,242	568,693	567,769	517,373	689,557	870,818	930,700	964,597	1,691,600	1,702,016	1,683,963
Shareholders' Equity:													
Common stock	785	784	801	810	826	1,665	1,696	1,721	3,443	3,470	3,503	3,537	3,592
Additional Paid-in Capital	325,119	376,595	451,876	491,080	557,545	616,988	723,490	842,490	812,853	933,446	1,075,782	1,230,913	1,380,371
Retained earnings	430,262	544,315	671,440	860,098	1,053,563	1,290,835	1,597,462	1,994,694	2,393,048	2,918,481	3,457,843	4,094,327	4,938,866
Treasury stock	-	-	-	(28,002)	(28,002)	-	-	-	(28,251)	(245,333)	(590,390)	(1,290,665)	(1,464,099)
Accumulated other comp. loss, net	4,367	600	8,311	(12,977)	(3,254)	(4,191)	(11,967)	(5,255)	(13,429)	(44,096)	(76,354)	(110,165)	(73,382)
Noncontrolling interest	1,286	1,286	1,286	1,286	120	120	120	120					
Total shareholders' equity	761,819	923,580	1,133,714	1,312,295	1,580,798	1,905,417	2,310,801	2,833,650	3,167,664	3,565,968	3,870,384	3,927,947	4,785,348
Total liabilities and shareholders' equity	1,303,629	1,496,433	1,689,956	1,880,988	2,148,567	2,422,790	3,000,358	3,704,468	4,098,364	4,530,565	5,561,984	5,629,963	6,469,311

Source: Company data

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- Changes in macro economic conditions or government regulations that affect HCIT spending
- Product related liabilities and liabilities from system errors and warranties
- Disruption of data center or customer support centers
- Heavy reliance on significant sales to existing customers
- Risks resulting from international business including foreign currency exchange effects
- New disruptive technologies enter the marketplace or the introduction of defective products
- Increased competition from large cap companies may reduce product pricing and/or profitability
- Retaining key personnel
- Reliance on third party suppliers
- Poor integration of newly acquired businesses
- Breach of security could impact the company for a significant period of time
- Legal proceedings involving intellectual property rights and other business activities
- Regulatory, political and tax implications from government bodies including additional modifications of the Health Insurance Portability and Accountability Act (HIPAA), Health Information Technology for Economic and Clinical Health Act (HITECH), Patient Protection and Affordable Care Act, and the Health Care and Education Reconciliation Act

Additional information is available upon request.

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

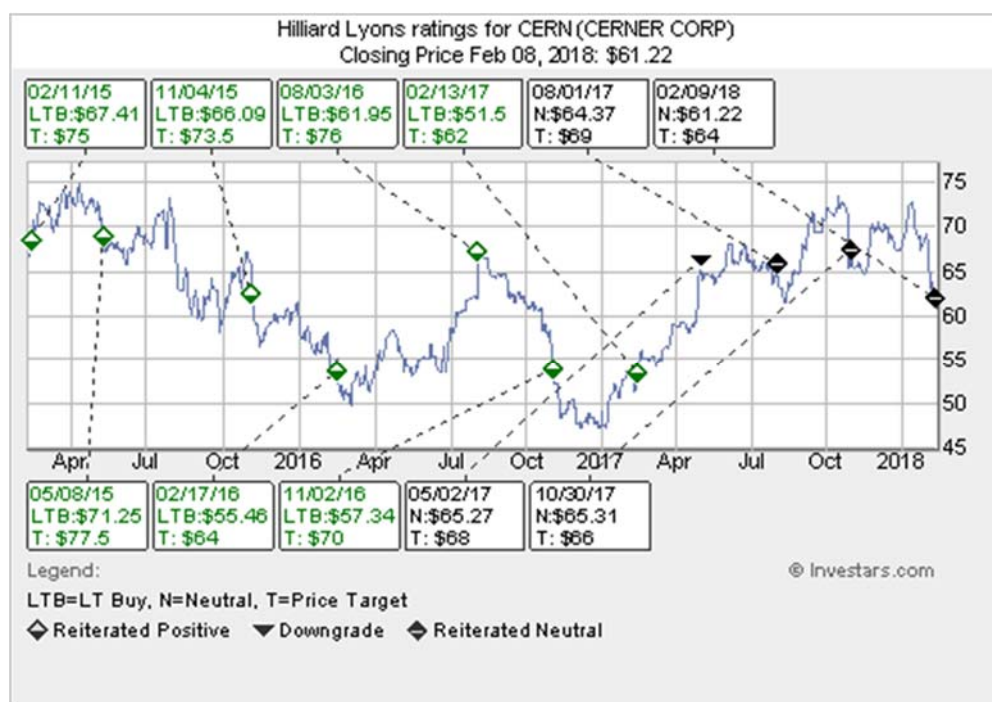
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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