



COMPANY UPDATE / ESTIMATE CHANGE TARGET CHANGE

Key Metrics

CERN - NASDAQ - as of	2/10/17	\$51.50
Price Target		\$62.00
52-Week Range	\$47.01 -	\$67.50
Diluted Shares Outstanding (mil.)		344.8
Market Cap. (\$mil)		\$17,758.1
1-Mo. Average Daily Volume		2,849,857
Institutional Ownership		81.6%
Debt/Total Capital (net)	Q416	0%
ROE		19.3%
Book Value / Share	Q4'16	\$13.69
Price / Book Value		3.8x
Indicated Dividend / Yield	\$0.00	0.0%
LTM EBITDA Margin		28.1%

non GAAP EPS FY 12/31*

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$0.53	\$0.60	\$0.69	\$0.65
2Q	\$0.58	\$0.64	\$0.74	\$0.70
3Q	\$0.59	\$0.64	\$0.72	\$0.69
4Q	\$0.61	\$0.69	\$0.77	\$0.76
Year	\$2.30	\$2.57	\$2.91	\$2.81
P/E	22.4x	20.4x		18.3x

Revenue (\$mil)*

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$1,138	\$1,239	\$1,350	\$1,341
2Q	\$1,215	\$1,331	\$1,457	\$1,443
3Q	\$1,184	\$1,306	\$1,422	\$1,411
4Q	\$1,257	\$1,388	\$1,520	\$1,499
Year	\$4,796	\$5,266	\$5,750	\$5,695

*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 – Long-term Buy - 2

Cerner Reports Inline Q4'16 Results; Outlook Reduced; Cutting Long Term Price Target to \$62 from \$70

- Results.** Cerner reported Q4'16 EPS of \$0.61, flat with the year ago period, below our \$0.62 view, but in line with the consensus view. Revenue was \$1.257 billion, up 7% y/y, slightly below our \$1.265 billion view and the consensus view of \$1.260 billion. Revenue missed expectations due to lower than expected software sales from a growing subscription business and a decline in low margin tech resale. Bookings were at the low end of the guidance range at \$1.44 billion, a 7% y/y increase, resulting from a lack of ITWorks deals. Cerner's book-to-bill ratio was inline with last year at 1.47. Backlog increased to a record \$15.927 billion, up 12% y/y.
- Guidance.** Management guided Q1'17 revenue between \$1.200 billion to \$1.275 billion. This compares to our prior forecast of \$1.239 billion. Q1'17 EPS were guided to between \$0.57 and \$0.59 vs. our prior \$0.60 estimate. Conservative FY'17 revenue guidance was given below prior guidance of \$5.1 to \$5.3 billion and compares to our \$5.266 billion prior view. Backlog conversion alone represents 82% of 2017 revenue guidance, which is achievable, in our view. Management expects FY'17 EPS of \$2.44-\$2.56 vs. a prior view of \$2.50-\$2.70, compared to our prior estimate of \$2.57
- Outlook.** We have reduced our Q1'17 EPS estimate to \$0.58 vs. our prior \$0.60 view. Our FY'17 revenue forecast decreases to \$5.235 billion vs \$5.266 billion while our EPS estimate is adjusted lower to \$2.53 from \$2.57. Our FY'18 EPS estimate has also decreased to \$2.81 from \$2.91. Our outlook has been adjusted lower to reflect a more conservative posture related to HCIT related spending and a larger percentage of software sales sold as a subscription recognized ratable vs. upfront. We also expect margins to remain near current levels vs. our prior view of significant margin expansion.
- Valuation.** We lower our FYE'18 price target to \$62 from \$70 on our reduced EPS outlook which reflects the lack of multi-year margin expansion previously included within our forecast. We obtain our price target by multiplying our FYE'18 EPS estimate of \$2.81 by a forward multiple of 22x, which is below our prior 24x multiple and near a historically low valuation.

Note Important Disclosures on Pages 6 - 7
Note Analyst Certification on Page 6

ADDITIONAL DISCUSSION

Cerner had 37% of bookings from new customers outside of the core Millennium EHR install base, above that of last quarter and the year ago period on continued market share gains within the current EHR replacement cycle and strong growth in revenue cycle, population health, ambulatory and other new markets across the continuum of care. During Q4, Cerner had 60 contracts valued at over \$5 million vs. 46 last year, 35 of which were over \$10 million. Operating cash flow totaled \$333 million in Q4 vs. \$353 million last year. Free cash flow was \$136.7 million vs. \$186.4 million last year on higher building capex and capitalized software expense. We expect operating cash flow improvements throughout our investment timeframe and expect larger increases in free cash flow growth as Cerner reduces construction spending at its new campus. Total cash & investments was \$465 million vs. \$836 million, while total debt was \$563 million vs. \$572 million, following \$500 million of share repurchases during the quarter. Cerner has \$100 million remaining on its repurchase authorization.

Revenue (Figures in Millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Licensed Software	\$ 239	\$ 272	\$ 239	\$ 255	\$ 254	\$ 268	\$ 325	\$ 345	\$ 388	\$ 453	\$ 564	\$549
Technology Resale	147	158	170	172	152	177	245	392	263	273	330	274
Subscription / Transaction	64	76	91	95	99	106	136	166	197	220	388	442
Professional Services	305	383	440	444	397	455	550	686	851	1,093	1,237	1,445
Managed Services	76	110	145	200	247	294	351	417	479	549	858	982
Support & Maintenance	297	340	398	472	493	518	551	604	662	725	976	1,016
Total Revenue (Before Travel)	\$ 1,128	\$ 1,339	\$ 1,483	\$ 1,638	\$ 1,642	\$ 1,818	\$ 2,158	\$ 2,610	\$ 2,840	\$ 3,313	\$ 4,353	\$ 4,708
Revenue Mix (%)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Licensed Software	21%	20%	16%	16%	15%	15%	15%	13%	14%	14%	13%	12%
Technology Resale	13%	12%	11%	11%	9%	10%	11%	15%	9%	8%	8%	6%
Subscription / Transaction	6%	6%	6%	6%	6%	6%	6%	6%	7%	7%	9%	9%
Professional Services	27%	29%	30%	27%	24%	25%	26%	26%	30%	33%	28%	31%
Managed Services	7%	8%	10%	12%	15%	16%	16%	16%	17%	17%	20%	21%
Support & Maintenance	26%	25%	27%	29%	30%	28%	26%	23%	23%	22%	22%	22%
Total Revenue (Before Travel)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue Y/Y Growth	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Licensed Software	12%	14%	-12%	7%	0%	6%	21%	6%	12%	17%	25%	-3%
Technology Resale	30%	7%	7%	1%	-12%	16%	39%	60%	-33%	4%	21%	-17%
Subscription / Transaction	146%	19%	20%	4%	4%	7%	29%	22%	19%	12%	76%	14%
Professional Services	22%	26%	15%	1%	-11%	15%	21%	25%	24%	28%	13%	17%
Managed Services	52%	45%	32%	38%	24%	19%	20%	19%	15%	15%	56%	14%
Support & Maintenance	23%	14%	17%	19%	4%	5%	6%	10%	10%	10%	35%	4%
Total Revenue (Before Travel)	26%	19%	11%	10%	0%	11%	19%	21%	9%	17%	31%	8%

Source: Company reports

During 2016, as noted in the chart above, licensed software declined 3% resulting from the transition to subscriptions which increased 14% y/y. Technology resale also declined but was expected, and is a low margin business that had little impact on bottom line results. For the year, revenue cycle management recorded record bookings and grew revenue 19%. Population health revenue increased 13% y/y from strong growth in HealtheIntent solutions, offset by weakness in legacy solutions. Ambulatory bookings increased 16% in 2016, while Cerner continued to gain share in the small hospital market.

OUTLOOK

Management guided to Q1 bookings growth of 3% y/y to \$1.125 billion-\$1.275 billion. This compares to 7% bookings growth in Q4 and flat growth in 2016. However, this lower than expected booking growth rate is offset by a higher percentage of current year revenue expected from backlog. We have reduced our Q1'17 EPS estimate to \$0.58 vs. our prior \$0.60 view, while our revenue view of \$1.236 billion is adjusted only slightly. Our FY'17 revenue forecast decreases to \$5.235 billion vs. \$5.266 billion, while our EPS estimate is adjusted lower to \$2.53 from \$2.57. Our FY'18 EPS estimate has also decreased to \$2.81 from \$2.91. Our outlook has been adjusted lower to reflect a more conservative posture related to HCIT related spending and a larger percentage of software sales sold as a service. This is noteworthy as we previously modeled for significant margin improvement as revenue growth was expected to slow, this is no longer in our forecast. Revenue growth could also be constrained as 30% of software sales are now software-as-a-service (SAAS) and expected to grow due to population health initiatives which recognize revenue ratable vs. upfront. Cerner had 83% of total revenue in the form as services and recurring revenue in 2016, representing an all-time high.

Cerner management stated they have not experienced any weakness from the election or the Republican agenda to repeal ACA and we believe the transition to value-based care will continue long-term with bipartisan support for HCIT initiatives. However, with the uncertainty hanging over the company, we expect CERN shares to remain near the bottom of its 52 week price range until more clarity is provided. Cerner and the HCIT industry growth remains attractive relative to other industries within the Technology sector and we believe the company is well positioned among peers to gain share.

We expect continued growth from new Cerner clients; however, we expect the EHR sales cycle to normalize to a slower rate following an expanded period of accelerated growth from government mandated opportunities. We expect Cerner will continue to win new customers with their clinically driven revenue cycle solution, and HealthIntent population health platform. The EHR replacement cycle while normalizing is expected to continue for several years which will drive growth at Cerner based on their competitive advantages, in our opinion. We also expect growth from Cerner Revenue Cycle, CommunityWorks within the small hospital market, Health Services conversions, IT Works, global growth, and continued success vs competitors with the HealthIntent platform as industry changes from Medicare Access and CHIP Reauthorization Act (MACRA) and Merit Based Incentive Payments System (MIPS) from the Centers for Medicare & Medicaid Services (CMS) highlight future demand needs for Cerner's population health management solution. The Cures Act was also recently passed which provides several billion dollars to progress the digitization of healthcare and is expected to benefit healthcare IT providers.

VALUATION

We maintain our Long term Buy rating while lowering our price target to \$62 from \$70 on our view of lower revenue growth and a lack of multi-year margin improvement vs. our prior expectation of significant margin expansion. We obtain our price target by multiplying our FYE'18 EPS estimate of \$2.81 by a forward multiple of 22x, which is below our prior 24x multiple as a result of our lower growth outlook. CERN shares currently trade at a forward price to earnings multiple of 20.5x, at the low end its five year historical range. We believe this is appropriate given the potential headline risk surrounding the repeal of the Affordable Care Act and management's previous challenges meeting growth expectations and our lower growth profile. Our forward multiple of 22x is conservative, in our opinion, but slightly above the current multiple as we expect faster growth in 2017 and '18 vs. 2016, and continued support for valued-based care and HCIT within a Republican strategy to repeal and replace the ACA.

Cerner and HCIT industry growth remain above that of the overall Technology sector and we believe the company is well positioned among peers to gain market share. We continue to recommend the purchase of CERN shares for those investors seeking exposure to a large cap pure-play within the healthcare IT industry. Our price target offers total return potential of 20% through our FYE'18 investment timeframe. The next potential catalyst for shares of CERN may come from the investment community meeting on February 21, 2017 at HIMSS.

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 industry leading market position. 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. 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	Q1'17E	Q2'17E	Q3'17E	Q4'17E	2017E	2018E
Revenues:															
System Sales	\$ 505,743	\$ 504,561	\$ 550,792	\$ 706,714	\$ 902,799	\$ 847,809	\$ 945,858	\$ 1,281,889	\$ 1,265,962	\$ 289,131	\$ 344,763	\$ 317,821	\$ 369,865	\$ 1,321,579	\$ 1,374,443
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	927,800	959,737	960,110	986,151	3,833,798	4,241,437
Reimbursed travel	39,051	30,432	32,453	44,692	55,308	70,109	89,886	71,938	88,545	20,000	20,000	20,000	20,000	80,000	80,000
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	1,236,931	1,324,500	1,297,931	1,376,016	5,235,378	5,695,880
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	98,955	119,205	115,516	132,098	465,773	508,212
Cost of support, maint. & services	57,273	64,140	66,848	100,419	125,433	142,239	200,402	247,644	278,504	71,742	72,848	72,684	75,681	292,954	321,032
Cost of reimbursed travel	39,051	30,432	32,453	44,692	55,308	70,109	89,886	71,938	88,545	20,000	20,000	20,000	20,000	80,000	80,000
Total costs	290,970	281,198	320,356	441,672	608,197	514,722	604,377	749,916	779,114	190,697	212,053	208,200	227,778	838,727	909,245
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	524,459	556,290	542,535	560,726	2,184,010	2,370,990
Software development	246,970	266,677	265,988	278,429	292,153	327,690	379,014	523,544	534,604	142,247	152,318	149,262	155,490	599,316	644,818
General and administrative	95,881	122,054	123,570	137,126	151,988	294,377	318,389	329,140	329,140	89,059	89,404	87,610	89,441	355,514	385,821
Amort. Acq. related intangibles								(2,731)	9,899	1,800	1,800	1,800	1,800	7,200	7,500
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	946,462	1,010,064	987,607	1,033,436	3,984,768	4,318,372
Operating earnings	166,167	308,848	384,236	489,277	609,774	624,966	826,049	1,063,133	1,133,137	290,470	314,436	310,323	342,580	1,250,609	1,377,508
Other income, net	1,377	675	2,879	9,896	16,046	12,042	11,090	245	7,421	400	400	400	400	1,600	1,800
Earnings before income taxes	167,544	309,523	387,115	499,173	625,820	637,008	837,139	1,063,378	1,140,558	290,870	314,836	310,723	342,980	1,252,209	1,379,308
Income taxes	(57,653)	(105,493)	(134,269)	(174,323)	(205,054)	(208,307)	(270,842)	(322,265)	(350,117)	(93,078)	(100,748)	(99,431)	(109,754)	(403,011)	(440,210)
Net earnings	109,891	204,033	252,846	324,850	420,766	428,701	566,297	741,113	790,441	197,791	214,089	211,292	233,226	849,198	939,097
Diluted Non-GAAP EPS	\$ 0.34	\$ 0.61	\$ 0.76	\$ 0.93	\$ 1.20	\$ 1.41	\$ 1.65	\$ 2.11	\$ 2.31	\$ 0.58	\$ 0.63	\$ 0.62	\$ 0.69	\$ 2.53	\$ 2.81
Diluted weighted avg. shares	326,892	335,528	332,258	347,508	351,356	352,223	350,387	350,841	343,653	339,250	338,750	338,500	338,000	338,625	336,932
Yr./Yr. Percentage Chg.															
System Sales	12.5%	-3.4%	9.2%	28.3%	27.7%	-6.1%	11.6%	35.5%	-1.2%	3.5%	3.5%	5.5%	5.0%	4.4%	4.0%
Support, maintenance and services	23.0%	1.9%	11.4%	14.6%	17.6%	16.7%	18.8%	29.7%	12.1%	10.5%	11.5%	11.5%	12.0%	11.4%	10.6%
Total revenues	18.7%	-0.2%	10.7%	19.1%	21.0%	9.2%	18.9%	30.0%	8.4%	8.7%	8.9%	9.6%	9.4%	9.2%	8.8%
Cost of system sales	13.8%	-5.3%	18.4%	34.2%	44.1%	-29.3%	3.9%	37.0%	-4.2%	10.9%	4.7%	23.8%	14.1%	13.0%	9.1%
Cost of support, maint. & services	14.0%	4.9%	4.2%	50.2%	24.9%	13.4%	40.9%	23.6%	12.5%	6.7%	4.6%	7.7%	2.0%	5.2%	9.6%
Sales and client service	24.0%	-3.1%	9.1%	13.3%	17.1%	14.5%	18.7%	29.9%	13.5%	7.7%	10.4%	9.2%	7.3%	8.6%	8.6%
Software development	16.8%	-2.1%	-0.3%	4.7%	4.9%	12.2%	15.7%	38.1%	2.1%	9.6%	16.7%	12.7%	9.7%	12.1%	7.6%
General and administrative	17.5%	8.0%	1.2%	11.0%	10.8%	93.7%	-22.2%	39.0%	3.4%	10.2%	6.5%	7.8%	7.6%	8.0%	8.5%
Total COGS	14.2%	-5.0%	13.9%	37.9%	37.7%	-15.4%	17.4%	24.1%	3.9%	8.6%	3.2%	13.8%	5.9%	7.7%	8.4%
Total Expenses	21.3%	-1.7%	5.9%	11.0%	13.8%	22.4%	11.4%	32.5%	10.0%	8.3%	11.1%	9.7%	7.8%	9.2%	8.4%
Total costs and expenses	19.5%	-2.4%	7.6%	16.9%	19.9%	11.2%	12.7%	30.5%	9.0%	8.0%	9.0%	10.5%	7.2%	8.8%	8.4%
Operating earnings	13.2%	10.7%	24.4%	27.3%	24.6%	2.5%	32.2%	28.7%	6.6%	11.0%	8.7%	6.7%	16.7%	10.4%	10.1%
Net earnings	27.4%	8.1%	23.9%	28.5%	29.5%	18.1%	16.0%	28.6%	6.7%	8.4%	7.5%	3.2%	13.1%	7.4%	10.6%
Diluted Non-GAAP EPS	21.7%	7.6%	25.1%	22.8%	28.1%	17.8%	16.7%	28.4%	9.2%	10.6%	9.2%	5.1%	13.7%	9.6%	11.1%
Diluted weighted avg. shares	4.7%	0.5%	-1.0%	4.6%	1.1%	0.2%	-0.5%	0.1%	-2.0%	-1.9%	-1.5%	-1.8%	-0.6%	-1.5%	-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%	23.4%	26.0%	24.5%	26.9%	25.2%	24.1%
Support, maintenance and services	60.5%	68.0%	68.5%	65.9%	64.1%	68.5%	69.6%	69.4%	71.8%	75.0%	72.5%	74.0%	71.7%	73.2%	74.5%
Cost of system sales	14.1%	11.2%	11.9%	13.5%	16.0%	10.4%	9.2%	9.7%	8.6%	8.0%	9.0%	8.9%	9.6%	8.9%	8.9%
Cost of support, maint. & services	4.2%	3.8%	3.6%	4.6%	4.7%	4.9%	5.9%	5.8%	5.8%	5.8%	5.5%	5.6%	5.5%	5.6%	5.6%
Sales and client service	41.9%	41.5%	40.9%	38.9%	37.6%	39.5%	40.1%	40.1%	41.9%	42.4%	42.0%	41.8%	40.8%	41.7%	41.6%
Software development	17.9%	16.0%	14.4%	12.6%	11.0%	11.3%	11.1%	11.8%	11.1%	11.5%	11.5%	11.5%	11.3%	11.4%	11.3%
General and administrative	7.0%	7.3%	6.7%	6.2%	5.7%	10.1%	6.7%	7.2%	6.9%	7.2%	6.8%	6.8%	6.5%	6.8%	6.8%
Total COGS	21.1%	16.8%	17.3%	20.0%	22.8%	17.7%	17.8%	16.9%	16.2%	15.4%	16.0%	16.0%	16.6%	16.0%	16.0%
Gross Margin	78.9%	83.2%	82.7%	80.0%	77.2%	82.3%	82.2%	83.1%	83.8%	84.6%	84.0%	84.0%	83.4%	84.0%	84.0%
Total Expenses	66.8%	64.7%	61.9%	54.3%	57.7%	60.8%	58.0%	59.1%	59.9%	61.1%	60.3%	60.1%	58.6%	60.0%	59.7%
Total costs and expenses	87.9%	81.5%	79.2%	77.8%	77.1%	78.5%	75.7%	76.0%	76.4%	76.5%	76.3%	76.1%	75.1%	76.1%	75.8%
Operating Margin	12.1%	18.5%	20.8%	22.2%	22.9%	21.5%	24.3%	24.0%	23.6%	23.5%	23.7%	23.9%	24.9%	23.9%	24.2%
Net Profit Margin	8.0%	12.2%	13.7%	14.7%	15.8%	17.1%	16.9%	16.8%	16.5%	16.0%	16.2%	16.3%	16.9%	16.2%	16.5%

Source: Company data & Hilliard Lyons estimates

Cerner Corp. (USD\$ '000s)

Balance Sheet	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016
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	\$ 295,589	\$ 377,582	\$ 431,497	\$ 170,861	\$ 170,861
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	207,860	252,309	261,185	185,588	185,588
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	941,792	983,310	985,164	944,943	944,943
Inventory	9,585	18,084	10,744	10,096	11,242	11,036	23,296	23,681	32,299	23,789	15,788	22,579	16,694	19,705	14,740	14,740
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	260,818	303,813	300,764	303,229	303,229
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	1,728,638	1,933,708	1,998,315	1,619,361	1,619,361
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	1,366,479	1,437,825	1,476,126	1,552,524	1,552,524
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	605,931	652,486	690,972	719,209	719,209
Goodwill	116,142	128,819	143,924	146,666	151,479	161,374	211,826	247,616	307,422	320,538	799,182	849,490	847,939	848,452	844,200	844,200
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	640,235	613,449	591,447	566,047	566,047
Long-term investments	-	-	-	105,300	-	264,467	359,324	509,467	554,873	231,147	173,073	203,268	89,930	143,859	109,374	109,374
Other assets	10,252	16,426	17,395	16,014	74,591	68,743	113,783	187,819	190,371	158,999	202,065	200,451	204,214	199,356	219,248	219,248
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	5,594,492	5,779,551	5,948,527	5,629,963	5,629,963
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	209,388	242,122	219,531	238,134	238,134
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	41,762	38,408	36,619	26,197	26,197
Deferred revenue	79,890	93,699	98,802	107,554	137,095	109,351	153,139	189,652	209,746	209,655	278,443	279,906	299,750	308,713	311,839	311,839
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	191,105	175,478	204,774	211,554	211,554
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	53,771	59,335	58,423	57,677	57,677
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	775,932	815,093	828,060	845,401	845,401
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	553,680	546,174	535,920	537,552	537,552
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	336,491	352,260	292,769	306,263	306,263
Deferred revenue	14,533	14,557	21,775	15,554	15,788	17,303	13,787	10,937	8,159	10,813	25,865	12,062	12,048	13,743	12,800	12,800
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	1,678,165	1,725,575	1,670,492	1,702,016	1,702,016
Shareholders' Equity:																
Common stock	785	784	801	810	826	1,665	1,696	1,721	3,443	3,470	3,503	3,511	3,516	3,536	3,537	3,537
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	1,112,743	1,148,622	1,205,075	1,230,913	1,230,913
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	3,608,203	3,774,657	3,944,636	4,094,327	4,094,327
Treasury stock	-	-	-	(28,002)	(28,002)	-	-	-	(28,251)	(245,333)	(590,390)	(740,446)	(790,465)	(790,465)	(1,290,665)	(1,290,665)
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)	(67,684)	(82,354)	(84,747)	(110,165)	(110,165)
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	3,916,327	4,053,976	4,278,035	3,927,947	3,927,947
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	5,594,492	5,779,551	5,948,527	5,629,963	5,629,963

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	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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