

# Mark Riley, Activity 3

DS735 – Fall 2019

## 1. Executive Summary

### *A Letter to Our Shareholders, Clients and Associates*

2018 was an eventful and important year. I joined Cerner as the CEO and Chairman at the beginning of February 2018. My first imperative was to quickly gain an understanding of the business and listen to key constituents— Cerner clients, associates, partners, and, of course, shareholders. As a result of these conversations and recognizing the vast opportunity in front of Cerner, we made some changes to fortify the company to speed innovation, create more value for our clients and drive profitable growth.

We are now in an era where we have an opportunity to play a significant role in leveraging data to materially impact quality and costs in health care and doing so brings us to bigger addressable markets. As Neal Patterson, the late co-founder and former Cerner CEO would say, “the intersection of health care and information technology is a great place to wake up every morning.”

BRENT SHAFER

Chairman of the Board and Chief Executive Officer

### *2018 Highlights*

- U.S. Department of Veterans Affairs Signs \$10B Contract with Cerner to Digitize Health Records.
- Sweden Chooses Cerner as IT Health Solution to Support Nearly Three Million People.
- Cerner Invests \$266M in Lumeris to Tackle Inefficiencies in Value-based Care.

#### 1.1. 2018 Financial Results

In 2018, we grew bookings (value of contracts signed during the year) by 6% and total revenue by 4%. The non-U.S. revenue component grew at a healthy rate of 12%. Both our revenue (Figure 1) and earnings (Figure 2) were below expectations that had been established at the beginning of the year. The main drivers of this were a slowdown in our core EHR market and the VA contract signing later than we expected. Our results, combined with a poor year for the broader stock market, led to a 22% decline in our stock price for 2018. While we did deliver within a revised guidance range that we provided shortly after I joined, I was not pleased with our overall performance and expect us to deliver better results.

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Cerner Corp. (CERN) 2018 Revenue

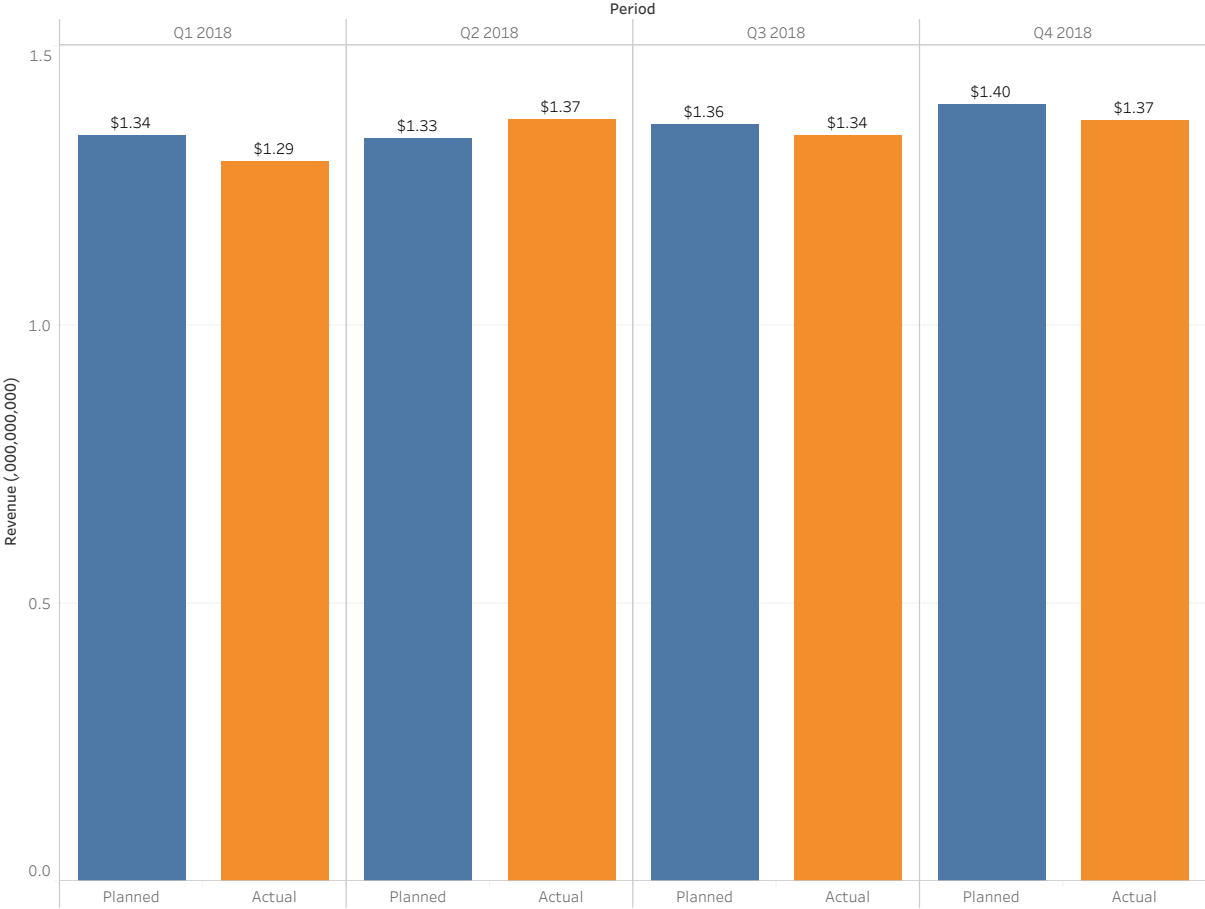


Figure 1

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Cerner Corp. (CERN) 2018 EPS

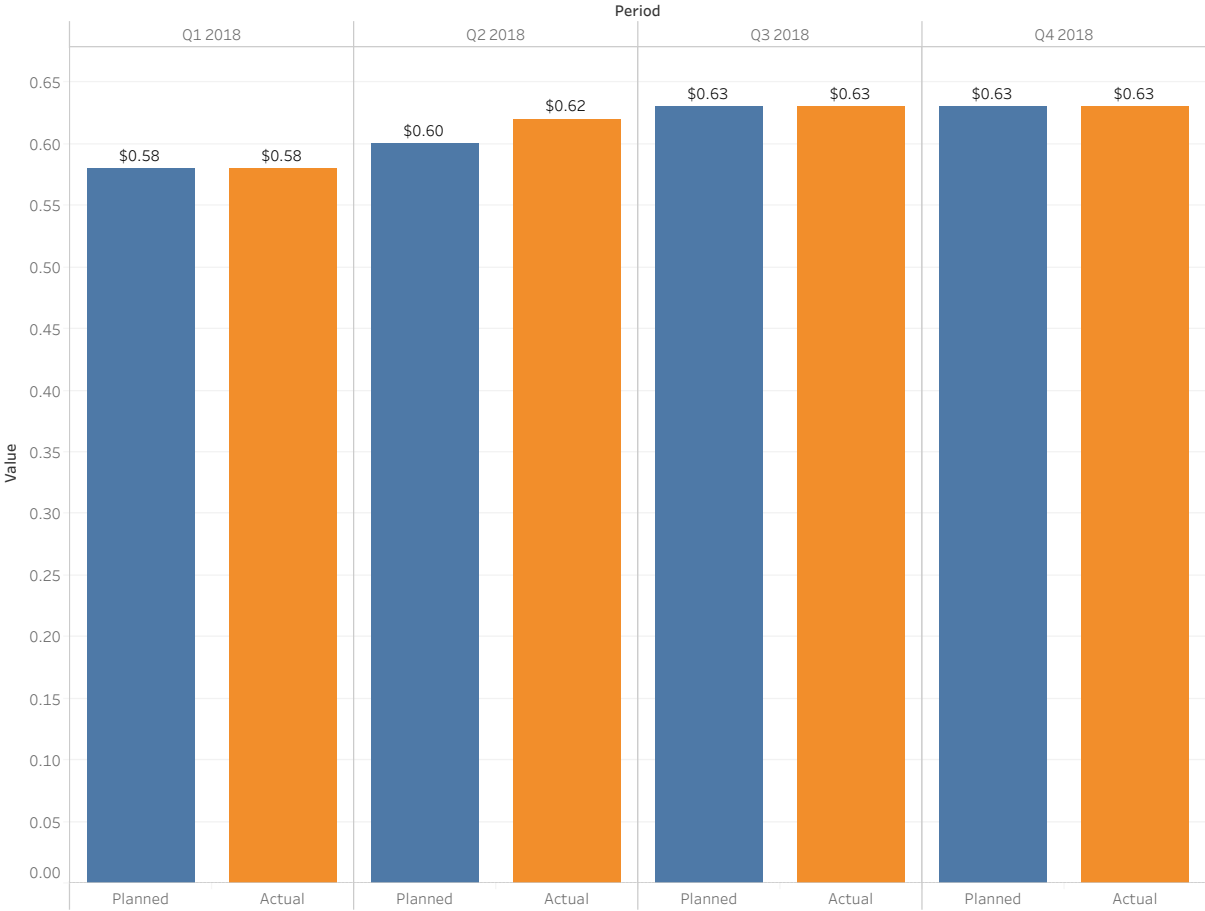


Figure 2

## 1.2. Capital Allocation Strategy

As mentioned earlier in this letter, 2018 was a year of assessments and evaluations. One important area to address was Cerner’s capital allocation strategy. Earlier this year, we shared the result of this review, which included the announcement that we plan to add a quarterly dividend to our capital allocation program in 2019.

There are several objectives we are looking to accomplish with our capital allocation program. First, we want to provide recurring income to existing shareholders while also increasing the attractiveness of Cerner shares to a wider investor base. Second, we expect to continue using free cash flow for share repurchases to offset dilution from equity compensation and perform additional share repurchases as deemed appropriate. Third, we want to have flexibility to make other investments in growth, including relationships like Lumeris or other potential strategic acquisitions that complement Cerner’s organic growth investments.

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## 1.3. Health Care Landscape

There are extensive opportunities for Cerner resulting from “megatrends” affecting health care.

- Increasing demand for predictive tools that enable preventative care to avoid costly acute care.
- Continued movement toward alternative payment models, including momentum for value-based care.
- Industry consolidation driven by the pursuit of greater efficiencies, a shift from inpatient to outpatient volumes and the emergence of capitation-based payments.

Cerner’s population health platform, *HealthIntent*, aggregates data from disparate sources, including Cerner and non-Cerner EHRs, to drive insights at the clinician’s fingertips. By leveraging vast stores of information already available through digitization, *HealthIntent* uses predictive modeling to identify individuals at risk for costly episodes of care before they are symptomatic. The platform also catalogues and analyzes episodes of care, using data and intelligence to determine and prompt the most effective and cost-efficient intervention models available.

## 1.4. Realigned for Growth

As a result of considerable strategic planning, we have four commitments that shape Cerner’s focus going forward. We believe that delivering on these client-facing commitments will drive growth and improved profitability for the company.

1. We must relentlessly advance our clients’ successes
2. We will imagine, design and implement intelligent health networks
3. We will focus on better health care experiences and outcomes
4. We will become the partner of choice for health care innovation

Organizationally, we needed to more optimally align Cerner’s internal structure to maximize success relative to these commitments. The team spent a great deal of time working to create better resource alignment and began the roll-out in late 2018.

The Operating Model consists of four major pillar organizations: Client Relationships, Greenhouse, Strategic Growth, and Operations. There are also Cerner associates in Marketing, Finance, Communications, Human Resources and other corporate support roles that will play a foundational role in the refocused organization.

## 2. Reflection

**Who was the target audience for the annual report?**

The audience is Cerner’s shareholders, clients and employees

**Using what you have learned so far in class, what was done well in the original annual report and what could have been done better?**

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## Done well

- Audience was clearly identified.
- Explained the key points to be communicated and why they are important.
- Used short sentences in the active voice.
- Organized the data in a logical order.
- Included visuals that supported the key points, using good data visual design principles (good data-ink ratio, low chart junk, clear labeling, etc.).

## Room for improvement

- Use more white space.
- Use single-column format for easier reading.
- Use numbered headings for clarity in layout and navigation.
- Include comparisons in the data to give the audience more context, e.g. performance against plans over the same time period.

## **What five key points did you focus on from the original annual report for your executive summary?**

1. Introduction
2. 2018 Financial Results
3. Capital Allocation Strategy
4. Healthcare Landscape
5. Realignment for Growth

## **Why did you select those key points?**

I felt those points were the most important to pass the “Parking Lot Test” and best communicated the data needed to make a decision about future investment in Cerner Corporation. Each topic builds on build on top of the last. Reflecting on the past year’s lower than expected results. A plan to make Cerner’s stock my appealing by announcing regular dividends. What is shaping the future markets. How Cerner plans to grow in the future by leveraging changes in the market.

## **How did you modify the information for the executive summary?**

- Added context to the graphic.
- Shortened the context to emphasize the main points and why they are important without including too much background.
- Reorganized the information to prioritize the information I thought the audience would most want to know.

## **How is a document like the executive summary you created beneficial? When would you use this type of communication technique?**

Executive summaries are beneficial when you have a longer document, such as Cerner’s Annual report with 100 pages, to summarize the information for the audience. The audience will then

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know what to expect as they continue to read the document. It can also help an audience decide which portions of the communication they want to further investigate and which they would like to skip over.

I would use this communication technique when I have a long document with multiple sections and supporting information that can be challenging to digest without an executive summary.

## **How can the “Parking Lot” test be used with other written communications?**

The parking lot test is great because it is simple and universal. It could be used as a checklist for any written or verbal communication as well.

## 3. Appendix

### 3.1. Source

Cerner Corporation 2018 Annual Report

<https://www.cerner.com/-/media/cerner-media-united-states/annualreports/2018-cerner-annual-report.pdf?la=en&vs=1>