



Call Buyers See More Upside to Cerner

Ticker/Price: CERN (\$70.30)

Analysis:

Cerner (CERN) shares have been trading relatively strong since gapping higher in April and seen plenty of bullish options positioning as well including action on 5/30 with 5,000 December \$72.50 calls opening a \$2.25M position in a June position adjustment as well as some December \$77.50 calls bought. CERN has also seen size opening sales in September \$60 puts, December \$57.5 Puts, and December \$60 puts. Shares are pushing back to the high-end of a 5-5 year range \$47/\$73 and could look for a major monthly range breakout as monthly RSI has already broken a long downtrend and MACD has crossed over bullish. The \$22.7B provider of electronic health records trades 22.3X Earnings, 4.15X Sales and 25.9X FCF with stable 5-8% annual revenue growth guidance. In early April Cerner entered a cooperation agreement with Starboard Value appointing four new board members to improve operations, operating margins, and expand capital return as well as drive a new phase of growth and value creation. CERN is looking beyond the saturated electronic health records market to drive growth in new markets transforming the future of health care. Analysts have an average target of \$70 on shares and short interest at 5% of the float has been rising the last few months. SunTrust upgraded shares to Buy in early April citing a margin pick-up, expanded buyback and cash flows seeing an activist providing a valuation floor for shares. BAML raised its target to \$77 on 5-21 seeing a path to 25% peak margins and sees potential to partner/divest the Works businesses for a positive mix shift. Canaccord raised its target to \$77 as well citing the \$1.5B buyback and dividend initiation as well as refocusing on profitable innovation and growth. Starboard holds CERN as its 8th largest position and overall hedge fund ownership rose 50% in Q1 filings with a number of notable buyers.

Hawk Vision:



Trading Strategy: CERN looks like a solid redemption story though could wait for some pullbacks closer to the short put strikes.

Confidence Ranking: \$\$