

Oracle Acquires Cerner for \$28.3bn

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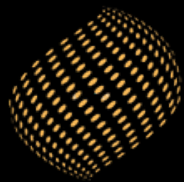




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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

Oracle Corporation, a technology company specializing in cloud infrastructure and enterprise software, is set to acquire Cerner Corporation, a health information technology company for \$28.3 billion. The deal was completed in June 2022 after being announced in December 2021.

The deal is an all-cash offer of \$95.00 per share, valuing Cerner corporation at \$28.3 billion. This offer represents a 20% premium over Cerner's market value as of the time of the deal announcement.

The purchase represents Oracle's largest since its \$8.7 billion acquisition of NetSuite Inc. in 2016. As a result of that acquisition, Oracle now provides financial software geared towards small and medium-sized enterprises, which is one of its fastest-growing products.

According to its quarterly earnings report, as of Nov. 30, 2021, Oracle had \$22.8 billion in cash and **marketable securities**. According to the business, the Cerner acquisition will not influence its investment-grade credit rating.

The Austin, Texas-based company delivered six consecutive quarters of sales growth after several years of stagnant revenue, propelling its shares to a record high on December 15, 2021 before the news of the talks with Cerner became public.

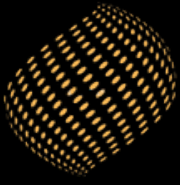


INDUSTRY OVERVIEW - HEALTHCARE IT

HISTORICAL TRENDS

The healthcare IT industry promotes information technology in healthcare settings to manage patient information, streamline clinical workflows, and improve patient care. The sector incorporates various technologies and systems, including electronic health records (EHRs), clinical decision support systems, telehealth and remote monitoring systems, and patient engagement tools.

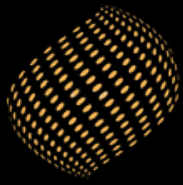
Historically, some key trends have been established in the industry. These include adopting electronic health records (EHRs), using clinical decision support systems (CDSS), and telehealth and remote monitoring. The implementation of EHRs was a significant trend in the healthcare IT industry in the early 2000s. This trend has continued, with most healthcare providers now using EHRs to manage patient data. CDSS was developed to provide clinicians with decision-making support based on patient data. This technology has been used in the healthcare industry since the 1970s but has become increasingly sophisticated in recent years. Telehealth and remote monitoring technologies have been used in the healthcare industry since the 1990s. Still, they have seen increased adoption in recent years due to technological advancements and changes in healthcare delivery models.



CURRENT TRENDS IN THE INDUSTRY

In 2023, newer trends, such as AI, interoperability, cybersecurity, patient engagement and personalised medicine, are emerging into the industry. A growing number of companies are looking to use AI and machine learning technologies to analyse vast amounts of healthcare data and provide insights that can be used to improve patient outcomes. Regarding interoperability, the healthcare industry is increasingly focused on the need for different systems to communicate with each other, enabling the sharing of patient data between various providers and care settings. The increasing use of technology in healthcare has also led to a growing concern around cybersecurity threats, with the need to protect patient data becoming a top priority for healthcare providers. Growing demand for patient engagement has led to the development of mobile health (mHealth) apps that enable patients to manage their health more effectively. Industry players are looking to combine patient engagement with personalised medicine by harnessing patient data to create personalised treatment plans tailored to individual patients.





ACQUIRER OVERVIEW

ORACLE

TICKER: ORCL

ORACLE

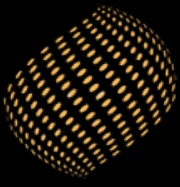
Oracle is an American multinational computer technology corporation that provides products and services that address enterprise information technology (IT) environments. Oracle's products and services include enterprise applications and infrastructure offerings that are delivered worldwide through a variety of flexible and interoperable IT deployment models.

KEY FINANCIALS

(Dollars in millions)	Year Ended May 31,		
	2022	Change	2021
Net cash provided by operating activities	\$ 9,539	-40%	\$ 15,887
Capital expenditures	(4,511)	111%	(2,135)
Free cash flow	\$ 5,028	-63%	\$ 13,752
Net income	\$ 6,717		\$ 13,746
Free cash flow as percent of net income	75%		100%

ESG PRACTICES

Oracle provides products that help companies regulate and manage ESG practices, including Oracle Fusion Cloud Enterprise Performance Management (EPM) which helps integrate financial and nonfinancial data to do this



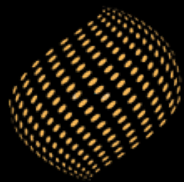
BUSINESS MODEL

Oracle sells database software and technology, cloud-engineered systems, and enterprise software products, such as enterprise resource planning (ERP) software, human capital management (HCM) software, customer relationship management (CRM) software, enterprise performance management (EPM) software, and supply chain management (SCM) software.

The company is best known for its Oracle database software, a relational database management system, and for computer systems and software, such as Solaris and Java, acquired in its purchase of Sun Microsystems in 2010. Oracle is based in Redwood Shores, California.

Oracle applications offerings include Oracle Cloud SaaS offerings, which are available for customers as a subscription, and Oracle applications license offerings, which are available for customers to purchase for use within the Oracle Cloud, and other cloud-based and on-premise IT environments and include the option to purchase related license support.





TARGET OVERVIEW



TICKER: CERN

CERNER

Cerner Corporation is an American supplier of health information technology services, devices, and hardware.

KEY FINANCIALS

Balance Sheet	Total Assets	\$26	\$3,000	\$7,434
	Cash and Short-term Investments	\$8	\$775	\$842
	Days Sales Outstanding	161	83	73
	Total Debt	\$1	\$127	\$1,836
	Equity	\$16	\$2,311	\$3,680
Cash Flow	Operating Cash Flow	\$1	\$546	\$1,772
	Free Cash Flow ¹	(\$1)	\$359	\$1,174

BUSINESS MODEL

Cerner offers a comprehensive range of solutions and services which assist the clinical, financial and operational needs of organisations. Its major solutions include ambulatory, critical care, acute EHR solutions, women's health, customer relationship management, patient engagement and revenue cycle management.

Cerner offers solutions on the unified Cerner Millennium architecture and the **HealthIntent** cloud-based platform. Services include implementation and training, remote hosting, revenue cycle services, operational management, health care data analysis, support and maintenance, consulting, and clinical process optimization, among others.



DEAL ANALYSIS

STRENGTHS

The acquisition will make Oracle a major player in the healthcare technology sector, which is expected to spend \$15.8 billion on cloud infrastructure and software by 2023.

Oracle will gain access to Cerner's robust user base, which includes many of the top US hospital systems.

The acquisition is expected to be "immediately **accretive** to Oracle's earnings" and contribute "substantially more to earnings in the second fiscal year and thereafter." As said by Oracle Chief Executive Officer Safra Catz

WEAKNESSES

Oracle was struggling at the time of this deal to gain ground in cloud computing, trailing far behind market leaders such as Amazon Inc. and Microsoft Corp.

Persuading Cerner customers to make the jump to Oracle's cloud-based applications may prove to be a challenge.

Two years ago, Cerner announced a partnership with Amazon's cloud business to create software that tries to anticipate medical diagnoses or suggest treatment plans for patients. Given that it would be a challenging task to transition systems that are currently supported by AWS onto Oracle's infrastructure, it is unclear how Oracle will handle that difficulty.



DEAL ANALYSIS

OPPORTUNITIES

The acquisition provides Oracle with an important case study to help future sales as it moves more of Cerner's systems onto its own cloud infrastructure.

Oracle can showcase its database capabilities to the healthcare industry, which is heavily reliant on data.

The acquisition will allow Oracle to tailor its healthcare offerings to the market's needs, aiming to attract a large client base in the sector.

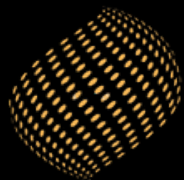
THREATS

Microsoft, a major competitor, has also announced plans to invest heavily in healthcare technology.

Epic Systems Corp. and Allscripts Healthcare Solutions are also competitors in the healthcare technology sector.

The acquisition may not impact Oracle's investment-grade credit rating, but it is still a major financial investment for the company.

Overall, Oracle's acquisition of Cerner presents significant opportunities for the company to expand its presence in the healthcare technology sector. However, it will also face challenges in convincing customers to switch to its cloud-based applications and competing with established players in the market.



VALUATION ANALYSIS

COMPARABLE COMPANIES ANALYSIS

CCA Model Summary		
	Low	High
EV/EBITDA Multiple	19.2x	21.5x
EBITDA	1,579	1,579
CCA-Implied Enterprise Value	30,237	34,010
Diluted Shares	298	298
CCA-Implied Share Price	\$ 101.36	\$ 114.01
Average Price		\$ 107.69
Acquirer Offer per Share		\$ 95.00
% Acquisition Premium/(Discount)		(11.78%)

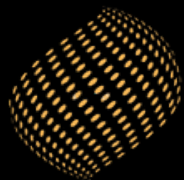
[Please click on the table to access full model.](#)

As shown in the model, the CCA-Implied Share price of Cerner is \$107.69. This represents a discount of 11.78%, when compared to Oracle's offer per share of \$95. This shows that the company was undervalued relative to its peers at the time of the transaction.

When looking at profitability, Cerner's **EBITDA** margin of 27.18% falls slightly above the industry average of 25.39%. Their EBIT margin of 19.32% is slightly lower than the industry average of 20.47%.

In terms of the **valuation multiples**, Cerner is trading at a discount to rest of the industry. For example, their EV/EBITDA multiple of 18.1x is lower than the peer average of 21.5x. EV/Revenue is also strong, with Cerner having the 4th lowest figure in the comp set of 4.9x, versus an industry average of 5.8x. Cerner's **P/E Ratio** is quite high, with a value of 47.98 versus a peer average of 33.94.

Overall, we can apply these multiples to value Cerner shares, after which we find that the company is undervalued on a comparative basis. Hence, Oracle was able to acquire the company at a 13.65% discount to their CCA-Implied share price of \$110.02.



VALUATION ANALYSIS

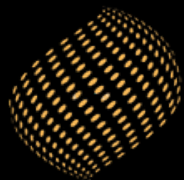
DISCOUNTED CASH FLOW MODEL

Enterprise Value	25,437
(+) Cash	842
(-) Debt	(1,836)
Equity Value	24,443
No. of Shares	294
Implied Share Price	83.11
Share Price as per acquisition	95.00
Premium Paid	14%

[Please click on the table to access full model.](#)

The Discounted Cash Flow (DCF) Analysis was used to calculate the value of Cerner's share price at the time of its acquisition by Oracle, yielding a value of \$83.11. This figure reflects a modest 14% premium compared to the \$95 per share price paid by Oracle. The model's sensitivity analysis revealed that Cerner's share price could have potentially ranged from \$31.02 to \$83.11. It is noteworthy that Cerner's share price in the year leading up to Oracle's offer ranged from \$69.08 to \$95.4, which slightly exceeds the predicted range determined by the DCF model.

It is important to keep in mind that the model was built on several assumptions, including a Terminal Growth Rate of 3% in the base case and a Weighted Average Cost of Capital (WACC) of 6.2% in the base case, which was determined using the **CAPM model**. As a result, the value of the share price obtained from the DCF Analysis was influenced by these assumptions.



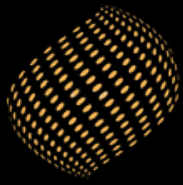
VALUATION ANALYSIS

ACCRETION / DILUTION ANALYSIS

Post-merger EPS Calculation	
Revenues	46,244
Less: COGS	8,856
Gross Profit	37,388
Less: Operating Expense	21,026
EBIT	16,361
Interest Foregone on Cash	1,132
PBT	15,229
Less: Income Tax	1,855
Net Income	13,374
Outstanding Diluted Shares of Combined Company	3,323
EPS of Combined Company	4.024
EPS of Acquirer Standalone	4.549
Accretive/Dilutive	Dilutive
Accretive/Dilutive	(0.52)
Accretive/Dilutive (%)	-12%

[Please click on the table to access full model.](#)

The merger model overall suggests a 12% dilution in the case of a merger since the combined company **EPS** appears to be lower than the standalone EPS of the acquirer. Although this analysis goes against the vision that Oracle's CEO announced, it should be noted that the analysis was made purely comparing financial statement items. If Cerner's financials were combined with Oracle's through integrating the DCF for Cerner with Oracle's DCF, more accurate conclusions could have drawn.



CONCLUSION

IMPACT ON THE INDUSTRY

Oracle's acquisition of Cerner is just one of a few recent acquisitions, including Microsoft's acquisition of Nuance Communications Inc., that may have a significant impact on the healthcare technology industry through technological advancements that streamline the administrative workload of healthcare professionals. The acquisition of Cerner enables Oracle to address the issues that doctors currently face, such as spending 1-2 hours on administrative tasks or EHRs for every hour they spend treating patients. Oracle can achieve this by equipping doctors with voice-operated user interfaces, AI and cloud computing solutions; this may even be the beginning of an evolution in healthcare technology. Depending on how effectively companies like Oracle can harness their cloud computing infrastructure to optimise healthcare technology, acquisitions such as Oracle acquiring Cerner will likely impact the industry positively.

IMPACT ON CLOSE COMPETITORS

Cerner is currently the second largest provider of electronic health records (EHRs) in the US; they are only behind Epic Systems Corporation, which has around 39% market share and 2683 installs compared to Cerner, with approximately 28% market share and 1939 installs. Oracle's acquisition of Cerner is likely to improve Cerner's position in the market, implying a potential threat to competitors such as Epic Systems Corporation and Meditech. The key reason is that Oracle can leverage its cloud computing infrastructure to bolster Cerner's EHR capabilities. These improvements will likely impact how Cerner's EHRs are created, stored, secured, accessed and shared. These enhancements, alongside the streamlined administrative workload for nurses and reduced overall health costs, will likely enable Cerner to capture market share from its competitors.



GLOSSARY

CAPM Model: *Capital Asset Pricing Model is a method to estimate the WACC of a company by taking into account the expected rate of return for an investment*

EBIT: *Earnings before Interest and Tax. A useful measure in measuring a company's ability to undertake its operations and pay off debt.*

EPS: *Earnings per share represents company's net profit divided by the number of shares outstanding. It is a useful ratio used to compare companies in the same industry to understand profitability.*

HealthIntent: *Population health management platform, designed in partnership by Oracle Cerner*

Marketable securities: *The term refers to the assets that can be liquidated quickly*

P/E Ratio: *Price to earnings ratio represents the company's share price divided by its earnings per share, a useful tool to determine the analyse company's share price relative to other players in the same industry*

Terminal Growth Rate (TGR): *A growth rate that a company is expected to grow at forever based on the market and industry conditions.*

Valuation Multiples: *Financial tool providing one metric as a ratio of another; often used to compare similar companies.*

WACC: *Cost of capital used to represent a firm's after-tax costs from all resources.*



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