Complementary Summary of Omnicell Q2 2014 Results: July 31, 2014

This complementary summary of Omnicell's July 31, 2014 conference call will include forward-looking statements subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied. For a more detailed description of the risks that impact these forward-looking statements, please refer to the information in our press release dated July 31, 2014, in the Omnicell annual report on Form 10-K filed with the SEC on March 17, 2014, and in other more recent reports filed with the SEC. Please be aware that you should not place undue reliance on any forward-looking statements made today. All forward-looking statements made on this call are made based on the beliefs of Omnicell as of this date only. Future events or simply the passage of time may cause these beliefs to change.

Rob Seim:

Good afternoon and welcome to the Omnicell 2014 second quarter results conference call. Joining me today is Randall Lipps, Omnicell Chairman, President, and CEO. You can find our results in the Omnicell second quarter earnings press release posted in the "Investor Relations" section of our Web site at www.omnicell.com.

Today, Randy will first cover an update on our business, then I'll cover our results for Q2 and our guidance for 2014. Following our prepared remarks we will take questions.

Randy Lipps:

We had an outstanding quarter in Q2. Strong customer demand for our solutions resulted in 47% of our orders for Automation and Analytics products coming from new and competitive conversion customers. Included in those orders are several large multi-hospital systems that converted from our competitors. Revenue and earnings results are ahead of analyst expectations. And topping it all off, Omnicell was chosen as Top Overall Pharmacy Automation Vendor in the annual survey by KLAS, the prestigious third party rating organization.

KLAS is a measure of customer satisfaction and highly satisfied customers turn into great references that lead to competitive conversions for Omnicell. One example from this quarter: the Allina Health System in Minnesota, one of the pioneer Accountable Care Organizations. Allina selected Omnicell as its new system-wide medication automation partner earlier in Q2. The Allina system is comprised of 12 hospitals with 2500 beds, as well as multiple retail pharmacies, long term care pharmacies, and post-acute care clinics.

Following an extensive internal review by Allina involving nursing, pharmacy, anesthesia providers, emergency medical services and information technology, the health system will be replacing a competitor's products with a full range of Omnicell solutions. The implementation will include OmniRx medication dispensing systems with two of our efficiency workflow software products, SinglePointe and AnywhereRN; our Controlled Substance Management system; Anesthesia Workstations; and Pandora Analytics. Allina also utilizes our multi-med medication adherence products in skilled nursing facilities that are serviced by its pharmacy.

We also recently took orders from another of the nation's largest Accountable Care Organizations, Atlantic Health System of New Jersey, where our solutions will replace competitive installations at four hospitals across this 1600-bed system. Atlantic Health made an enterprise-wide decision to implement our Unity platform with a single server and a single database, supporting a mix of Omnicell solutions including systems for the nursing units and the operating room.

Continuing our success in the Middle East, we recently signed a new contract for three hospitals in the Seha integrated health network of Abu Dhabi, a preeminent health system in the Middle East. These hospitals include Mafraq Hospital, the flagship of the 12 hospitals in the 2600-bed Seha acute care system. Mafraq is currently a 450-bed hospital that is expanding to a new 740-bed campus. They have standardized on our OmniRx and Anesthesia workstations.

These wins underscore the long-term value designed and built into every Omnicell system. Our Unity platform puts medication and supply management, from the Central pharmacy to the nursing units and operating rooms, into one comprehensive database for improved efficiency and patient safety. Our modular systems and practice of frequent software releases allow our customers the ultimate flexibility in configuration and the capability to keep their system technologically current while protecting their investment.

This is why the annual KLAS survey of medication automation users has highlighted Omnicell as the brand with the highest customer satisfaction year after year. KLAS announced this week that we won top honors in five product categories, including top honors for our OmniRX medication dispensing systems for the ninth year in a row. In the last two years, KLAS has also named a *Best Overall Pharmacy Vendor*, which we have won both years.

We are very proud of our accomplishments, but we are not standing still. We continue to invest in our three-leg strategy of differentiated products, expansion into new markets, and acquisitions and partnerships, the same three legs that have driven our success to date. As an example of our acquisition growth strategy, we've recently received some encouraging news from regulatory authorities in the UK regarding our pending acquisition of SurgiChem. While nothing is yet final, the regulators' provisional findings were for approval of the acquisition. We expect a final statement from the regulators later this quarter. So our three-leg growth strategy is working, delivering state of the art medication management and workflow efficiency to our customers, results for investors, and better healthcare for everyone. I believe we have all the ingredients for continued success.

Now I'd like to turn the call back over to Rob to cover our financial performance.

Rob Seim:

Thanks Randy. As Randy said, 47% of our Automation and Analytics orders were from New and Competitive Conversion customers in Q2. Approximately three-fourths came from Competitive Conversions and one-fourth from Greenfield customers who had never purchased automation before. Whether competitive conversion or greenfield, we go head to head with our competitors' products and we are clearly doing very well. Year to date, 40% of our orders are from new and competitive conversion customers, very consistent with the last nine years.

Our revenues of $105.1 million were up 12% from the same quarter last year and up 3% from last quarter. We continue to have great revenue visibility from our backlog model in Automation and Analytics and the recurring revenue nature of consumables in our Medication Adherence business. GAAP earnings per share were $0.21, up 24% from Q2 2013. We had some variations in GAAP Gross Margin in Q2 relative to prior quarters. Product gross margins were down 100 basis points entirely due to product mix. Service gross margins were up 320 basis points. The high quality of our G4 product line, which is becoming an increasing percentage of our installed base, results in fewer service calls, good news for our customers and for our financial results.

In addition to GAAP financial results, we report our results on a Non-GAAP basis which excludes stock compensation expense and amortization of intangible assets associated with acquisitions. We use Non-GAAP financial statements in addition to GAAP financial statements because we believe it is useful for investors to understand acquisition related costs and non-cash stock compensation expenses that are a component of our reported results. A full reconciliation of our GAAP to non-GAAP results is included in our second quarter earnings press release and is posted on our web site.

On a Non-GAAP basis, earnings per share were $0.30 in Q2, up $0.03 from Q2 2013 and $0.01 over analyst expectations. Non-GAAP EPS was up sequentially from $0.26 in Q1 2014. One of our major goals is to generate 15% non-GAAP operating margins, and we exceeded that goal in Q2, coming in at 15.5%.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization, which also excludes stock compensation amortization and the amortization of acquisition related costs, was $20.0 million for the second quarter of 2014, up 18% from $16.7 million a year ago.

On a segment basis, our Automation and Analytics segment contributed $84.7 million in revenue, up from $73.7 million in Q2 2013. $12.2 million

GAAP operating income this quarter compares to $8.1 million GAAP operating income last year, and $14.9 million of non-GAAP operating income in Q2 2014 compares to $10.7 million last year.

The Medication Adherence segment contributed $20.4 million of revenue to the quarter, compared to $19.8 million in Q2 2013. GAAP operating income of $0.4 million compares to $1.2 million a year ago, and $1.4 million of non-GAAP operating income compares to $2.4 million of Non-GAAP operating income in Q2 a year ago.

During Q2 our cash grew $19 million to $126 million, driven mostly by our operating performance. We have board authorization to repurchase up to $25 million of our stock, but we made no repurchases during Q2. Our intended use of cash remains primarily to fund acquisitions. If we gain approval for the SurgiChem acquisition, it will consume approximately $20 million. Accounts Receivable days sales outstanding were 72, up four days from last quarter. Inventories were $31.5 million, up $0.5 million from Q1. Our headcount was 1172.

Looking forward, we believe we are right on track to the growth guidance we gave in February. We expect revenue to be between $415 and $425 million, an increase of 9-12% from 2013. We expect non-GAAP earnings to be $1.17 to $1.23 per share, up 8-14% year to year. EPS estimates reflect an effective annual tax rate of 38% on GAAP earnings by year-end. We expect to finish with an average annual operating income of approximately 15%. We expect 2014 product bookings to be between $340 and $350 million. All this guidance is the same as we provided in February and excludes the pending acquisition of SurgiChem. As a reminder, SurgiChem has an annual revenue run rate of approximately $12 million. If the SurgiChem acquisition is completed, we will update guidance at that time.

Omnicell, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except per share data)

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:					
Product	$ 85,244	$ 82,580	$ 75,581	$ 167,824	$ 144,817
Services and other revenues	19,808	19,184	18,105	38,992	35,979
Total revenue	105,052	101,764	93,686	206,816	180,796
Cost of revenues:					
Cost of product revenues	41,003	38,900	36,286	79,903	69,833
Cost of services and other revenues	8,009	8,369	8,032	16,378	16,228
Total cost of revenues	49,012	47,269	44,318	96,281	86,061
Gross profit	56,040	54,495	49,368	110,535	94,735
Operating expenses:					
Research and development	6,471	6,121	7,150	12,592	15,104
Selling, general and administrative	37,011	38,420	32,859	75,431	66,104
Total operating expenses	43,482	44,541	40,009	88,023	81,208
Income from operations	12,558	9,954	9,359	22,512	13,527
Interest and other income (expense), net	(40)	(256)	63	(296)	(159)
Income before provision for income taxes	12,518	9,698	9,422	22,216	13,368
Provision for income taxes	4,729	3,504	3,406	8,233	3,967
Net income	$ 7,789	$ 6,194	$ 6,016	$ 13,983	$ 9,401
Net income per share:					
Basic	$ 0.22	$ 0.18	$ 0.17	$ 0.39	$ 0.28
Diluted	$ 0.21	$ 0.17	$ 0.17	$ 0.38	$ 0.27
Weighted average shares outstanding:					
Basic	35,661	35,225	34,450	35,451	34,177
Diluted	36,618	36,305	35,374	36,478	35,099

Omnicell, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 126,379	$ 104,531
Accounts receivable, net	82,560	58,597
Inventories	31,542	31,457
Prepaid expenses	16,739	18,883
Deferred tax assets	12,636	12,635
Other current assets	6,040	7,675
Total current assets	275,896	233,778
Property and equipment, net	37,257	35,254
Non-current net investment in sales-type leases	10,872	11,485
Goodwill	111,343	111,343
Intangible assets, net	79,561	81,602
Non-current deferred tax assets	1,102	1,102
Other assets	21,220	17,937
Total assets	$ 537,251	$ 492,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	18,965	16,471
Accrued compensation	15,694	19,604
Accrued liabilities	16,170	13,746
Deferred service revenue	21,720	22,626
Deferred gross profit	30,745	19,957
Total current liabilities	103,294	92,404
Non-current deferred service revenue	21,309	17,763
Non-current deferred tax liabilities	29,023	28,162
Other long-term liabilities	6,004	5,175
Total liabilities	56,336	143,504
Stockholders' equity:		
Total stockholders' equity	377,621	348,997
Total liabilities and stockholders' equity	$ 537,251	$ 492,501

Omnicell, Inc.
Reconciliation of GAAP to Non-GAAP
(Unaudited, in thousands, except per share data)

	Three Months Ended					
	June 30, 2014		March 31, 2014		June 30, 2013	
	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted
GAAP	$ 7,789	$ 0.21	$ 6,194	$ 0.17	$ 6,016	$ 0.17
Non-GAAP adjustments:						
Amortization of intangible assets acquired by acquisition	1,048		1,048		1,060	
Subtotal pretax adjustments	1,048		1,048		1,060	
Income tax effect of non-GAAP adjustments (a)	(395)		(379)		(382)	
Subtotal after-tax adjustments	653		669		678	
ASC 718 share-based compensation adjustment (b):						
Gross profit	264		268		325	
Operating expenses	2,456		2,461		2,362	
Subtotal ASC 718 share-based compensation adjustments	2,720		2,729		2,687	
Total non-GAAP adjustments	3,373	0.09	3,398	0.09	3,365	0.10
Non-GAAP	$ 11,162	$ 0.30	$ 9,592	$ 0.26	$ 9,381	$ 0.27

(a) Tax effect amounts are calculated using the effective tax rates for the respective periods presented.

(b) This adjustment reflects the accounting impact of non-cash stock-based compensation expense for the periods shown.

Omnicell, Inc.
Reconciliation of GAAP to Non-GAAP
(Unaudited, in thousands, except per share data)

	Six Months Ended			
	June 30, 2014		June 30, 2013	
	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted
GAAP	$ 13,983	$ 0.38	$ 9,401	$ 0.27
Non-GAAP adjustments:				
Reorganization costs (a)	—		732	
Amortization of intangible assets acquired by acquisition	2,096		2,120	
Subtotal pretax adjustments	2,096		2,852	
Income tax effect of non-GAAP adjustments (b)	(774)		(1,099)	
Subtotal after-tax adjustments	1,322		1,753	
ASC 718 share-based compensation adjustment (c):				
Gross profit	532		629	
Operating expenses	4,917		4,984	
Subtotal 718 share-based compensation adjustment (c)	5,449		5,613	
Total non-GAAP adjustments	6,771	0.19	7,366	0.21
Non-GAAP	$ 20,754	$ 0.57	16,767	$ 0.48

(a) Non-recurring reorganization costs related to our Medication Adherence segment.

(b) Tax effect amounts are calculated using the effective tax rates for the respective periods presented.

(c) This adjustment reflects the accounting impact of non-cash stock-based compensation expense for the periods shown.

Omnicell, Inc.
Calculation of Adjusted EBITDA (1)
(Unaudited, in thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
GAAP net income	$ 7,789	$ 6,194	$ 6,016	$ 13,983	$ 9,401
Add back:					
ASC 718 stock compensation expense	2,720	2,729	2,687	5,449	5,613
Reorganization costs	—	—	—	—	732
Interest (income) and expense, net	(32)	(2)	(7)	(35)	99
Depreciation and amortization expense	4,779	4,612	4,773	9,391	9,244
Income tax expense	4,729	3,504	3,406	8,233	3,967
Non-GAAP adjusted EBITDA (1)	$ 19,985	$ 17,037	$ 16,875	$ 37,021	$ 29,056

(1) Defined as GAAP net income excluding: (i) ASC 718 stock compensation expense, (ii) unusual and non-recurring costs and expenses, (iii) interest (income) and expense, net, (iv) depreciation and amortization, and (v) provision for income taxes.