Complementary Summary of Omnicell Q1 2014 Results: May 1, 2014

This complementary summary of Omnicell's May 1, 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 May 1, 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 first quarter results conference call. Joining me today is Randall Lipps, Omnicell Chairman, President, and CEO. You can find our results in the Omnicell first 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 Q1 and our guidance for 2014. Following our prepared remarks we will take questions.

Randy Lipps:

Good afternoon. Our momentum from 2013 has continued through the first quarter of 2014 and we are right on track to the growth guidance we gave 90 days ago. Our revenue is ahead of expectations and grew 17% from Q1 of 2013, and earnings are also ahead of our guidance for the quarter.

Investments in our three-leg strategy of differentiated products, expansion into new markets, and acquisitions and partnerships have paid off and continue to drive our success.

One of the major market trends we see is our customers moving towards more integrated, enterprise-wide systems management. Whether it is a community hospital taking a more holistic approach to patient care, or a multi-hospital organization driving consistency across the entire enterprise, these healthcare providers are seeking a consistent, safer patient experience and increased efficiency. Our solutions have the capabilities these institutions are asking for.

The Unity Platform that the majority of our systems now run on creates a single point of management for all drug and supply information from receiving dock to bedside, saving administration, installation, and maintenance time while improving patient safety. We believe Omnicell is the only company that provides this fully integrated solution.

Some of the products we announced back in December that began shipping this month are great examples of our continued investment in this platform. Among them is an exciting new software solution for the Central Pharmacy. Central Pharmacy automation usually includes larger scale equipment that is often out of reach for smaller hospitals or hospitals with space constraints. Our new Central Pharmacy automation software gives these customers a solution, expanding our market, and improving workflows between the wholesaler, the pharmacy and our systems.

Our latest Pandora Analytics release now consolidates information across dispensing systems in the nursing area, the perioperative area, and the Central Pharmacy. Finally, we are also shipping larger scale Omnicenter server software that handles up to 1000 automated dispensing cabinets, making implementations of large multi-hospital enterprises and distributed non-acute facilities from a single server more efficient than ever.

Enterprise capabilities like these are important to our larger customers and contribute to our successful track record of competitive conversions, such as Sisters of Charity Leavenworth Health System, which recently decided to standardize on Omnicell medication systems. Sisters of Charity is an eight-hospital group in Colorado, Kansas and Montana who conducted a thorough analysis of all products available on the market. The group currently had a mixture of Omnicell and a competitor's products and will now be exclusively Omnicell in all of its hospitals. The order includes market-leading products that aid nursing in their workflow.

Another new win is the Capital Health system in New Jersey, who is installing our OmniRx systems to take advantage of nurse efficiency features such as AnywhereRN, SinglePointe, and OmniDispenser.

Internationally, the Guy's and St. Thomas' Trust of London, who installed supply systems house-wide and did a partial implementation of medication systems in 2008, is now expanding the use of medication systems house-wide as well.

These wins underscore the strength of our G4 platform with both new and existing customers. Over 1000 customers have ordered G4 since it was launched in 2011 and among existing customers on our older G3 technology, 41% have now upgraded to G4.

Our presence with medication adherence products also continues to expand, with 600,000 patients now receiving medications in our multimed adherence packaging in Europe. Those figures exclude our announced pending acquisition of SurgiChem, which is still being reviewed by regulatory authorities in the UK. We expect an answer from them in Q3 of this year.

Before I turn the call over to Rob, I'd like to comment on some other changes at Omnicell. Don Wegmiller is retiring from our board effective later this month after ten years of service. His operational and industry expertise has been invaluable to Omnicell's growth and contributed to our position of innovation leadership. I want to thank him for his many contributions. I'd like to also welcome Bruce Smith to the board. Bruce is the Chief Information Officer of Advocate Health in Chicago. Bruce has a distinctive mix of executive leadership and technical savvy in a healthcare setting that makes him an excellent addition to the Omnicell board and I look forward to his contributions.

We believe our hard work over the years and the execution of our three-leg strategy has laid the foundation for our current successes, and sets us up for continued growth in the future. In today's changing and tumultuous healthcare environment, we remain focused on our mission to change the practice of healthcare with solutions that improve patient and provider outcomes. Our solutions provide clinicians greater assurance that medications and supplies are administered correctly, are not misused, and are handled in a cost effective manner. Every day our products serve caregivers and millions of patients around the globe, saving money, and improving patient safety.

Now I'd like to turn the call back over to Rob.

Rob Seim:

Thanks Randy. Q1 was a great start to 2014 for us. Consistent with the last nine years, 30% of our automated dispensing system orders were from new and competitive conversion customers with approximately three-fourths coming from Competitive Conversions and one-fourth from Greenfield customers who had never purchased automation before.

Our revenues were $101.8 million, which as Randy highlighted, is up 17% from the same quarter last year. GAAP earnings per share were $0.17, up 70% from Q1 2013. 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 first quarter earnings press release and is posted on our web site.

On a Non-GAAP basis, earnings per share was $0.26 in Q1, up 24% from 2013 and $0.02 over analyst expectations. Non-GAAP EPS was down sequentially from $0.29 in Q4 2013, as expected, but up from $0.21 in Q1 of 2013. The sequential decline from Q4 2013 occurred because of an anticipated decline in revenue and because Omnicell has some seasonally high expenses in Q1 of every year that affect both cost and operating expenses.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization, which also excludes stock compensation amortization and the amortization of acquisition related costs, was $17.0 million for the first quarter of 2014, up 39% from $12.2 million a year ago.

Since acquiring MTS almost two years ago, we have reported our business on two segments that corresponded to a customer orientation. Acute Care was the descriptor we used for everything we sold to hospitals and Non-acute Care referred to everything we sold outside the hospital setting. While everything we do is customer focused of course, we are finding that these two customer segments are beginning to blend together due to the evolving marketplace and the increasingly broad application of our solutions. More and more, hospitals are combining with longer term non-acute facilities to provide services across the continuum of care and to manage population health. Similar to our customers, Omnicell's approach to the market is blending also. To better reflect how we are now managing the business, we are going to change our segmentation to a product orientation.

Our new segments will be the Automation and Analytics Solutions segment, which will include our OmniRX, Anesthesia Workstations, Central Pharmacy, OmniSupply, and Pandora Analytics products, and the Medication Adherence Solutions segment that will include our MTS blister card packaging products and related consumables. Our investor relations material posted to our website today contains a table that provides our historical quarterly results broken into these new segments.

Our Automation and Analytics segment, contributed $81.5 million in revenue and $11.8 million of non-GAAP operating income in Q1 2014. This compares to $68.7 million of revenue and $7.7 million of non-GAAP operating income in the quarter one year ago.

The Medication Adherence segment contributed $20.3 million of revenue to the quarter and $2.0 million of non-GAAP operating income. This compares to $18.4 million of revenue and $1.2 million of operating income in Q1 a year ago.

During Q1 we completed share repurchases totaling $4 million. We bought back approximately 146,000 shares at an average price of $27.92. Cash grew $3 million to $108 million at the end of Q1 2014. Excluding the buy back, cash was up $7 million. We have board authorization to repurchase up to another $25 million of our stock. Accounts Receivable days sales outstanding were 68, up 17 days from last quarter. Timing of shipments, combined with very favorable collections at the end of 2013 and strong revenue, gave us exceptionally low DSO in Q4 2013. Going forward, we expect our DSO to be between 55 and 65 days. Inventories were $31 million, roughly flat to last quarter. Our headcount was 1148, up by 14 since the end of 2013.

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. Our effective tax rate on GAAP earnings was 36% in Q1, but EPS estimates reflect our assumption of an annual tax rate of 38% on GAAP earnings by year end. We expect steady revenue and earnings growth through the year and 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.

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

	Three Months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Revenues:			
Product	$ 82,580	$ 86,864	$ 69,236
Services and other revenues	19,184	18,886	17,874
Total revenue	101,764	105,750	87,110
Cost of revenues:			
Cost of product revenues	38,900	41,187	33,547
Cost of services and other revenues	8,369	7,939	8,196
Total cost of revenues	47,269	49,126	41,743
Gross profit	54,495	56,624	45,367
Operating expenses:			
Research and development	6,121	7,440	7,954
Selling, general and administrative	38,420	38,129	33,244
Total operating expenses	44,541	45,569	41,198
Income from operations	9,954	11,055	4,169
Interest and other income (expense), net	(256)	(136)	(223)
Income before provision for income taxes	9,698	10,919	3,946
Provision for income taxes	3,504	4,096	561
Net income	$ 6,194	$ 6,823	$ 3,385
Net income per share:			
Basic	$ 0.18	$ 0.19	$ 0.10
Diluted	$ 0.17	$ 0.19	$ 0.10
Weighted average shares outstanding:			
Basic	35,225	35,495	33,900
Diluted	36,305	36,610	34,820

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107,558	$ 104,531
Accounts receivable, net	75,496	58,597
Inventories	30,975	31,457
Prepaid expenses	16,378	18,883
Deferred tax assets	12,636	12,635
Other current assets	7,799	7,675
Total current assets	250,842	233,778
Property and equipment, net	35,178	35,254
Non-current net investment in sales-type leases	11,644	11,485
Goodwill	111,343	111,343
Intangible assets, net	80,573	81,602
Non-current deferred tax assets	1,164	1,102
Other assets	19,661	17,937
Total assets	$ 510,405	$ 492,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	20,154	16,471
Accrued compensation	12,018	19,604
Accrued liabilities	13,494	13,746
Deferred service revenue	21,328	22,626
Deferred gross profit	25,106	19,957
Total current liabilities	92,100	92,404
Non-current deferred service revenue	19,773	17,763
Non-current deferred tax liabilities	27,926	28,162
Other long-term liabilities	5,430	5,175
Total liabilities	145,229	143,504
Stockholders' equity:		
Total stockholders' equity	365,176	348,997
Total liabilities and stockholders' equity	$ 510,405	$ 492,501

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

	Three Months Ended					
	March 31, 2014		December 31, 2013		March 31, 2013	
	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted
GAAP	$ 6,194	$ 0.17	$ 6,823	$ 0.19	$ 3,385	$ 0.10
Non-GAAP adjustments:						
Pre-acquisition, transaction and integration costs for acquisitions	—		605		—	
Reorganization costs (a)	—		—		732	
Amortization of intangible assets acquired by acquisition	1,048		1,049		1,060	
Subtotal pretax adjustments	1,048		1,654		1,792	
Income tax effect of non-GAAP adjustments (b)	(379)		(662)		(716)	
Subtotal after-tax adjustments	669		992		1,076	
ASC 718 share-based compensation adjustment(c):						
Gross profit	268		287		305	
Operating expenses	2,461		2,442		2,621	
Total	3,398	0.09	3,721	0.10	4,002	0.11
Non-GAAP	$ 9,592	$ 0.26	$ 10,544	$ 0.29	7,387	$ 0.21

(a) This adjustment is for reorganization costs related to our Medication Adherence segment for the three months ended March 31, 2013.

(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		
	March 31, 2014	December 31, 2013	March 31, 2013
GAAP net income	$ 6,194	$ 6,823	$ 3,385
Add back:			
ASC 718 stock compensation expense	2,729	2,729	2,926
Reorganization costs	—	—	732
Transaction and integration costs for acquisitions, pre-tax	—	605	—
Interest (expense) and income, net	(2)	7	106
Depreciation and amortization expense	4,612	4,633	4,471
Income tax expense	3,504	4,096	561
Non-GAAP adjusted EBITDA (1)	$ 17,037	$ 18,893	$ 12,181

(1) Defined as earnings before non-cash stock compensation expense per ASC 718, other non-GAAP adjustments, interest expense and income, net, depreciation and amortization, and taxes. Non-GAAP adjustments for the quarter ended December 31, 2013 exclude transaction and integration costs for MTS, acquired in May 2012.

Omnicell, Inc.
Segmented Information - As Recast
(Unaudited, in thousands, except for percentages)

	Three Months Ended March 31, 2013		
	Automation and Analytics	Medication Adherence	Total
Net revenues from external customers	$ 68,713	$ 18,397	$ 87,110
Cost of revenues	30,289	11,454	41,743
Gross profit	$ 38,424	$ 6,943	$ 45,367
Gross margin %	55.9 %	37.7 %	52.1 %
Operating expenses	32,564	8,635	41,199
Income from operations	$ 5,860	$ (1,692)	$ 4,168
Operating margin %	8.5 %	(9.2)%	4.8 %
Interest and other income (expense), net			(223)
Income before provision for income taxes			3,945
Provision for income taxes			561
Net income			$ 3,384

Omnicell, Inc.
Segmented Information - As Recast
(Unaudited, in thousands, except for percentages)

	Three Months Ended June 30, 2013		
	Automation and Analytics	Medication Adherence	Total
Net revenues from external customers	$ 73,866	$ 19,820	$ 93,686
Cost of revenues	31,936	12,382	44,318
Gross profit	$ 41,930	$ 7,438	$ 49,368
Gross margin %	56.8 %	37.5 %	52.7 %
Operating expenses	33,808	6,201	40,009
Income from operations	$ 8,122	$ 1,237	$ 9,359
Operating margin %	11.0 %	6.2 %	10.0 %
Interest and other income (expense), net			63
Income before provision for income taxes			9,422
Provision for income taxes			3,406
Net income			$ 6,016

Omnicell, Inc.
Segmented Information - As Recast
(Unaudited, in thousands, except for percentages)

	Three Months Ended September 30, 2013		
	Automation and Analytics	Medication Adherence	Total
Net revenues from external customers	$ 75,110	$ 18,929	$ 94,039
Cost of revenues	30,240	11,759	41,999
Gross profit	$ 44,870	$ 7,170	$ 52,040
Gross margin %	59.7 %	37.9 %	55.3 %
Operating expenses	35,052	6,271	41,323
Income from operations	$ 9,818	$ 899	$ 10,717
Operating margin %	13.1 %	4.7 %	11.4 %
Interest and other income (expense), net			25
Income before provision for income taxes			10,742
Provision for income taxes			2,987
Net income			$ 7,755

Omnicell, Inc.
Segmented Information - As Recast
(Unaudited, in thousands, except for percentages)

	Three Months Ended December 31, 2013		
	Automation and Analytics	Medication Adherence	Total
Net revenues from external customers	$ 85,228	$ 20,522	$ 105,750
Cost of revenues	36,862	12,264	49,126
Gross profit	$ 48,366	$ 8,258	$ 56,624
Gross margin %	56.7 %	40.2 %	53.5 %
Operating expenses	38,122	7,447	45,569
Income from operations	$ 10,244	$ 811	$ 11,055
Operating margin %	12.0 %	4.0 %	10.5 %
Interest and other income (expense), net			(136)
Income before provision for income taxes			10,919
Provision for income taxes			4,096
Net income			$ 6,823

Omnicell, Inc.
Segmented Information - As Recast
(Unaudited, in thousands, except for percentages)

	Twelve Months Ended December 31, 2013		
	Automation and Analytics	Medication Adherence	Total
Net revenues from external customers	$ 302,917	$ 77,668	$ 380,585
Cost of revenues	129,327	47,859	177,186
Gross profit	$ 173,590	$ 29,809	$ 203,399
Gross margin %	57.3 %	38.4 %	53.4 %
Operating expenses	139,546	28,554	168,100
Income from operations	$ 34,044	$ 1,255	$ 35,299
Operating margin %	11.2 %	1.6 %	9.3 %
Interest and other income (expense), net			(270)
Income before provision for income taxes			35,029
Provision for income taxes			11,050
Net income			$ 23,979

Omnicell, Inc.
Segmented Information
(Unaudited, in thousands, except for percentages)

	Three Months Ended March 31, 2014		
	Automation and Analytics	Medication Adherence	Total
Net revenues from external customers	$ 81,499	$ 20,265	$ 101,764
Cost of revenues	34,940	12,329	47,269
Gross profit	$ 46,559	$ 7,936	$ 54,495
Gross margin %	57.1 %	39.2 %	53.6 %
Operating expenses	37,402	7,139	44,541
Income from operations	$ 9,157	$ 797	$ 9,954
Operating margin %	11.2 %	3.9 %	9.8 %
Interest and other income (expense), net			(256)
Income before provision for income taxes			9,698
Provision for income taxes			3,504
Net income			$ 6,194