Complementary Summary of Omnicell Q3 2014 Results: October 30, 2014

This complementary summary of Omnicell's October 30, 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 October 30, 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 third quarter results conference call. Joining me today is Randall Lipps, Omnicell Chairman, President, and CEO. You can find our results in the Omnicell third 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 Q3 and our guidance for the remainder of 2014. Following our prepared remarks we will take questions.

Randy Lipps:

Q3 was another great quarter for Omnicell. We had record revenues while achieving operating margins in excess of our 15% goal. We completed the acquisition of Surgichem, expanding our medication adherence market presence in the UK. And we saw continued momentum with greenfield and competitive conversion customers. Our investments in our three-leg strategy of differentiated products, expansion into new markets, and acquisitions and partnerships continue to deliver results.

Our differentiated products strategy is driving exciting new customer wins. Year to date, 39% of our orders for Automation and Analytics products have come from new and competitive conversion customers, which is a wonderful testament to the competitive strength of our solutions in the market.

One of those customers is Wake Forest Baptist Medical Center in North Carolina. Wake Forest is a three-hospital medical system of over 1100 beds centered around the Wake Forest university hospital. After an extensive review of all available options, Wake Forest chose the Omnicell medication solution suite to replace a competitor's products. The installation will include the award winning G4 OmniRx medication system, Anesthesia Workstations for the Operating Room, Pandora analytics, and Central Pharmacy automation utilizing WorkflowRx software, medication carousels and unit dose packagers in the main pharmacy along with our new central pharmacy software product to manage their 45 satellite pharmacies .

As hospitals consolidate into larger systems, they face challenges managing multiple sites. Our new central pharmacy software system, running on the Unity platform, helps simplify their operations. Wake Forest highlighted the Unity platform, which allows the health system to run all of its dispensing systems from a single enterprise server, as one of the major reasons for choosing Omnicell. The hospital system was also drawn to Omnicell because of our longstanding practice of partnering with industry thought-leaders to bring new innovation to the market.

Other notable orders in the quarter included the upgrade of all the Dignity Health hospitals to G4. Dignity has more than 40 hospitals and care centers operating in California, Nevada, and Arizona that first started standardizing on Omnicell systems in 2005. We have now taken orders for 54% of our upgrade eligible installed base to move to G4. The product has been a great success.

In our international business, which is part of our strategy to expand into new markets, we took orders from the King Faisal Specialist Hospital and Research Center for a house-wide implementation of supply dispensing automation in the new King Abdullah Centre for Cancer and Liver Diseases. King Faisal is a 985-bed marquee hospital in Riyadh, Saudi Arabia that had earlier implemented Omnicell systems in their 37 operating rooms. We are happy to bring expanded value to the hospital with the addition of our supply systems to the new facility.

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. Omnicell's 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.

And our string of innovation continues with the announcement this quarter of Optiflex 12.0. Optiflex is a supply management software solution focused on the procedural areas of the hospital, such as operating rooms and cath labs. Optiflex 12.0 is one of the first products to meet the new FDA requirement for Unique Device Identification capabilities to label and track implantable devices through distribution and use. Optiflex 12.0 allows for a bar code scan of a device and communication of that information to the Electronic Healthcare Record for post procedure and recall management.

Another area where we are announcing new products is in our Medication Adherence segment. Medication adherence is a problem causing $105 billion of annual avoidable healthcare costs in the United States alone. Today, we are announcing the first fully automated multi-med packing solution to assist pharmacists with improving their patients' medication adherence. Over the past two years we have studied the needs of the pharmacists who could make a meaningful change in medication adherence.

After a rigorous development program, we are announcing the Omnicell M5000, which is designed to automatically pack, seal, verify, and label multi-med blister cards, enabling pharmacists to deliver medication adherence efficiently and cost effectively. This new concept supports pharmacists in expanding the number of patients utilizing multi-medication adherence packages and in the process, improving drug adherence. Beyond the primary focus of improving patient care, the Omnicell M5000 is intended to increase pharmacy profitability through improved practice workflow efficiencies. The M5000 is designed for institutional pharmacies serving long term care, retail pharmacies and hospital pharmacies serving ambulatory and discharge patients. We expect the product to enter customer validation this quarter and to be generally available in early 2015. Concurrent with the M5000 and following the acquisition of Surgichem, we will be consolidating all our medication adherence consumables products under the brand name *SureMed*.

Also in the Medication Adherence segment, and part of our strategy to expand through acquisition, we completed the acquisition of Surgichem, a leading provider of medication adherence packaging to retail pharmacies in the UK. The acquisition complements Omnicell's strong position among national pharmacy chains in the UK with Surgichem's reach to independent retail pharmacies. The combined business establishes us as a market leader in medication adherence in the UK. Including the Surgichem customer base, our count of patients using our medication adherence solutions worldwide is approaching 1 million.

To wrap up, we believe the continued investment in our three leg strategy of differentiated products, expansion into new markets, and acquisitions and partnerships is driving profitable growth. We are executing our growth strategy well, 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. As Randy said, 39% of our Automation and Analytics orders year to date were from New and Competitive Conversion customers. Coincidentally, 39% of the orders in the quarter were also from New and Competitive customers around the globe. Approximately three-fourths of those orders came from Competitive Conversions and one-fourth from Greenfield customers who had never purchased automation before. We go head to head with our competitors' products in most deals and we are clearly doing very well.

Our revenues of $112.5 million were up 7% from last quarter, and up 20% from the same quarter last year. GAAP earnings per share were $0.20, down $0.01 from both last quarter and Q3 2013. We had excellent year-to-year growth of 27% in our GAAP operating income that drove a $0.06 increase in Earnings Per Share year-to-year, but we had two unusual items that negatively affected earnings in the quarter and offset that earnings growth. First, we experienced a foreign exchange currency hit on the purchase price of Surgichem while the funds were in escrow, which gave us an approximately $350K charge to the P&L. Second, our tax rate in the quarter was 43.4%, much higher than expected due to the timing of non-deductible employee stock transactions.

The combination of the currency and tax impacts diluted our earnings approximately $0.04 per share in the third quarter of 2014. Last year we had some similar unusual tax effects associated with the disposition of employee stock that gave us a benefit of $0.03 in Q3 2013. The combination of the unusual tax effects in both years and the currency decreased year-to-year earnings growth by $0.07 per share, which more than offset the earnings generated from our growth in our operating income. These are somewhat unusual operating events that may happen from time to time, but we don’t expect them to be a regular occurrence. For the rest of 2014, we now expect our annual tax rate on GAAP earnings to be 41%.

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 third quarter earnings press release and is posted on our web site.

On a Non-GAAP basis, earnings per share were $0.30 in Q3, flat to last quarter and down $0.01 from Q3 2013. The explanation of the year-to-year decline is the same as I described earlier for GAAP results. Irrespective of the unusual tax and currency impacts in Q3, our non-GAAP operating margins were 15.9%, exceeding our longstanding goal of 15%.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization, which also excludes stock compensation amortization and the amortization of acquisition related costs, was $21.4 million for the third quarter of 2014, up 19% from $18.0 million a year ago, an increase consistent with the growth in revenue.

On a segment basis, our Automation and Analytics segment contributed $89.5 million in revenue, up from $75.1 million in Q3 2013. $12.5 million GAAP operating income this quarter compares to $9.8 million GAAP operating income last year, and $15.5 million of non-GAAP operating income in Q3 2014 compares to $12.7 million last year.

The Medication Adherence segment contributed $23.0 million of revenue to the quarter, compared to $18.9 million in Q3 2013. GAAP operating income of $1.1 million compares to $0.9 million a year ago, and $2.4 million of non-GAAP operating income compares to $1.9 million of Non-GAAP operating income in Q3 a year ago. These Q3 2014 results include a partial quarter contribution from Surgichem.

We're very happy with the performance of both of our segments. Automation and Analytics revenue is up 19% year-to-year and contributing non-GAAP operating margins over 17%. Medication Adherence revenue is up 22% year-to-year and contributing non-GAAP operating margins over 10%. We believe both businesses are growing substantially faster than the overall market.

In Q3 our cash decreased from $126 million to $104 million. During the quarter we repurchased $16 million of our stock, of which $13M was settled and reduced our cash balance. The total shares repurchased were approximately 575,000 and the average price was $27.06. We believe our stock is a good investment now, and we intend to complete the remaining $9 million of our current authorization during Q4. We also used $21 million of cash for the Surgichem acquisition during Q3. All other operations of the company generated $12 million of positive cash flows.

Rounding out the balance sheet, accounts receivable days sales outstanding were 78, up 6 days from last quarter. Increasing DSO can be a cause for concern, but in this case, the quality of our receivables has not changed. Neither our revenue recognition practices nor our exposure to bad debt have changed. Instead, we are now seeing a lower percentage of our business from leasing customers. Since leasing partners that we sell our leases to tend to pay us very promptly at the beginning of a lease and hospitals that purchase tend to pay later, a mix shift towards purchase customers causes a higher DSO. Inventories were flat at $32 million. Our headcount was 1229, including the addition of 21 Surgichem employees.

Looking forward, we believe we are heading towards the upper end of our growth guidance ranges for both revenue and profit. With the inclusion of Surgichem, we previously expected revenue to be between $420 and $430 million. We are increasing and narrowing that range to $430 to $435, which is 13-14% growth from 2013. We previously expected non-GAAP earnings including Surgichem to be $1.18 to $1.24 per share, and we are now narrowing that range to $1.21 to $1.24 per share, up 12-15% year to year. EPS estimates reflect an effective annual tax rate of 41% on GAAP earnings by year-end. We expect to finish with an average annual operating income of approximately 15%. Our 2014 product bookings guidance is between $345 and $355 million, which is consistent with our previous guidance.

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

	Three Months Ended			Nine Months Ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues:					
Product	$ 92,229	$ 85,244	$ 75,508	$ 260,053	$ 220,325
Services and other revenues	20,314	19,808	18,531	59,306	54,510
Total revenue	112,543	105,052	94,039	319,359	274,835
Cost of revenues:					
Cost of product revenues	44,510	41,003	33,977	124,413	103,810
Cost of services and other revenues	8,487	8,009	8,022	24,865	24,250
Total cost of revenues	52,997	49,012	41,999	149,278	128,060
Gross profit	59,546	56,040	52,040	170,081	146,775
Operating expenses:					
Research and development	7,078	6,471	6,561	19,670	21,665
Selling, general and administrative	38,871	37,011	34,762	114,302	100,866
Total operating expenses	45,949	43,482	41,323	133,972	122,531
Income from operations	13,597	12,558	10,717	36,109	24,244
Interest and other income (expense), net	(706)	(40)	25	(1,003)	(134)
Income before provision for income taxes	12,891	12,518	10,742	35,106	24,110
Provision for income taxes	5,591	4,729	2,987	13,824	6,954
Net income	$ 7,300	$ 7,789	$ 7,755	$ 21,282	$ 17,156
Net income per share:					
Basic	$ 0.20	$ 0.22	$ 0.22	$ 0.60	$ 0.50
Diluted	$ 0.20	$ 0.21	$ 0.21	$ 0.58	$ 0.48
Weighted average shares outstanding:					
Basic	35,994	35,661	35,133	35,634	34,499
Diluted	36,832	36,618	36,190	36,617	35,466

Omnicell, Inc.

Condensed Consolidated Balance Sheets

(Unaudited, in thousands)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 104,187	$ 104,531
Accounts receivable, net	95,167	58,597
Inventories	31,847	31,457
Prepaid expenses	18,221	18,883
Deferred tax assets	12,684	12,635
Other current assets	6,262	7,675
Total current assets	268,368	233,778
Property and equipment, net	37,688	35,254
Non-current net investment in sales-type leases	10,823	11,485
Goodwill	123,090	111,343
Intangible assets, net	84,075	81,602
Non-current deferred tax assets	975	1,102
Other assets	22,294	17,937
Total assets	$ 547,313	$ 492,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,202	$ 16,471
Accrued compensation	13,071	19,604
Accrued liabilities	17,073	13,746
Deferred service revenue	22,672	22,626
Deferred gross profit	35,542	19,957
Total current liabilities	111,560	92,404
Non-current deferred service revenue	20,368	17,763
Non-current deferred tax liabilities	30,471	28,162
Other long-term liabilities	6,013	5,175
Commitments and Contingencies (Note 10 and Note 11)		
Total liabilities	168,412	143,504
Stockholders' equity:		
Total stockholders' equity	378,901	348,997
Total liabilities and stockholders' equity	$ 547,313	$ 492,501

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

	Three Months Ended					
	September 30, 2014		June 30, 2014		September 30, 2013	
	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted
GAAP	$ 7,300	$ 0.20	$ 7,789	$ 0.21	$ 7,755	$ 0.21
Non-GAAP adjustments:						
Amortization of intangible assets acquired by acquisition	1,146		1,048		1,060	
Subtotal pretax adjustments	1,146		1,048		1,060	
Income tax effect of non-GAAP adjustments (a)	(497)		(395)		(295)	
Subtotal after-tax adjustments	649		653		765	
ASC 718 share-based compensation adjustment (b):						
Gross profit	441		264		325	
Operating expenses	2,720		2,456		2,485	
Subtotal ASC 718 share-based compensation adjustments	3,161		2,720		2,810	
Total non-GAAP adjustments	3,810	0.10	3,373	0.09	3,575	0.10
Non-GAAP	$ 11,110	$ 0.30	$ 11,162	$ 0.30	$ 11,330	$ 0.31

(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)

	Nine Months Ended			
	September 30, 2014		September 30, 2013	
	Net Income	Net Income per Share-Diluted	Net Income	Net Income per Share-Diluted
GAAP	$ 21,282	$ 0.58	$ 17,156	$ 0.48
Non-GAAP adjustments:				
Reorganization costs (a)	—		732	
Amortization of intangible assets acquired by acquisition	3,241		3,180	
Subtotal pretax adjustments	3,241		3,912	
Income tax effect of non-GAAP adjustments (b)	(1,270)		(1,395)	
Subtotal after-tax adjustments	1,971		2,517	
ASC 718 share-based compensation adjustment (c):				
Gross profit	973		954	
Operating expenses	7,637		7,469	
Subtotal 718 share-based compensation adjustment (c)	8,610		8,423	
Total non-GAAP adjustments	10,581	0.29	10,940	0.31
Non-GAAP	$ 31,863	$ 0.87	$ 28,096	$ 0.79

(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			Nine Months Ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
GAAP net income	$ 7,300	$ 7,789	$ 7,755	$ 21,282	$ 17,156
Add back:					
ASC 718 stock compensation expense	3,161	2,720	2,810	8,610	8,423
Reorganization costs	—	—	—	—	732
Interest (income) and expense, net	55	(32)	(14)	21	85
Depreciation and amortization expense	5,314	4,779	4,488	14,705	13,732
Income tax expense	5,591	4,729	2,987	13,824	6,954
Non-GAAP adjusted EBITDA (1)	$ 21,421	$ 19,985	$ 18,026	$ 58,442	$ 47,082

(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.