OMNICELL, INC.

Moderator: Peter Kuipers
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OPERATOR: This is Conference # 7580519

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Omnicell third quarter earnings call.

At this time, all participants are in a listen-only mode. After the presentation, there will be a question and answer session. To ask a question during the session, you will need to press "star" "1" on your telephone. Please be advised today's conference is being recorded. If you require any further assistance, please press "star" "0."

I would now like to hand the conference over to your speaker today, Peter Kuipers. Please go ahead.

Peter Kuipers: Thank you. Good afternoon, and welcome to the Omnicell Third Quarter 2020 Financial Results Call. On the call with me today are Randy Lipps, Omnicell Founder, Chairman, President and CEO; and Kathleen Nemeth who recently joined us as our new Vice President of Investor Relations. Kathleen brings over 20 years of Investor Relations experience and has been recognized by institutional investor magazine for her achievements in investor relations.

This 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 today, in the Omnicell annual report on Form 10-K filed with the SEC on February 26, 2020, and another more recent reports filed with the SEC.

Please be aware that you should not place undue reliance on any forward-looking statements made today. The date of this conference call is October 27, 2020. And all forward-looking statements made on this call are made on the beliefs of Omnicell as of this date only. Future events or simply the passage of time may cause these beliefs to change, and we undertake no obligation to update these forward-looking statements.

Finally, this conference call is the property of Omnicell, Inc. and any taping, other duplication or rebroadcast without the expressed written consent of Omnicell is prohibited.

Randall will provide an update on our business. After Randall's remarks, I will cover our results for the third quarter of 2020, our guidance for the fourth quarter 2020 and our preliminary revenue guidance for 2021.

Our 2020 third quarter results are included in our earnings announcement, which was released earlier today and is posted in the Investor Relations section of our website at omnicell.com. Our prepared remarks will also be posted in the same section.

Additionally, we'd like to remind you that during this call, we will discuss some non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most comparable GAAP financial measures are included in our earnings announcement.

Let me now turn the call over to Randall.

Randall Lipps: Good afternoon, and thank you for joining us today, and welcome, Kathleen. So glad to have you on the Omnicell team. Well, we delivered solid financial and operational performance in the third quarter, exceeding the high end of our guidance ranges, as our customers began to return to more normal business operations. This enabled us to resume those implementations that were delayed in the first half of the year. And maybe more importantly, in the third quarter, we drove significant increases in new customer wins and bookings, particularly with the top 300 U.S. health systems, as customers accelerate their focus on the critical pharmacy supply chain.

Now against that backdrop, 2 things are now clear. First, as our customers continue to navigate the impact of COVID-19, the need for our medication management automation solutions is more strategically relevant than ever. Based on the bookings and implementations we saw in the third quarter, our partners are investing in their pharmacy supply chain, which is being recognized as critical to their ability to effectively manage in a post-COVID world. There is widespread and growing acknowledgment that more sophisticated automation and digitization capabilities enable health care providers to focus more on patient care and reduce costly errors.

The second part of the backdrop. Our customers have resumed their pre-COVID purchasing patterns. In other words, not only has the pause we saw in the first half of the year ended but our health partners are buying at levels consistent with strategic investments for the long term. We believe this reflects their confidence in their financial position and forecast. And in turn, it supports our confidence in our outlook for the remainder of the year and for 2021. And as a result, I am pleased to announce that we are reinstating our pre-pandemic product bookings guidance of $865 million to $900 million for the full year 2020, which is unchanged from the initial guidance we provided in February. This includes bookings that were paused due of COVID in the first half, which they either have been booked already in the third quarter or expected to book in the fourth quarter.

Now let me provide some more insight and commentary on our long-term sole source partnership strategy. Our go-to-market strategy to increase our long-term sole source partnerships continues to gain momentum. We have been implementing and expanding this strategy successfully for the last 2 years. In 2018, we realigned our commercial structure to focus on the top 300 health systems in the U.S. with dedicated customer success executives, and we believe that the top 300 represent the vast majority of the available markets we target. That was a smart investment of resources for us as our recent announcements demonstrate.

As of the end of the third quarter, more than half of the top 300 health systems as defined by definitive health care are current Omnicell customers. During this quarter, we added 2 new long-term sole source contracts, and we're honored to have these 2 leading health systems join us on the journey to the Autonomous Pharmacy. This brings the total number to 143 long-term sole source partners within the top 300 U.S. health systems, most with a duration of 5 to 10 years. As discussed on our prior call, with the majority of these sole source arrangements, we have a co-developed multiyear medication management automation plan to deliver improved accuracy, patient and financial outcomes. In other words, a multiyear plan to move our platform in place, so that we can change – we can affect the changes to drive these outcomes.

Now turning to key customer engagements in this quarter. Congratulations, I might say, to the Omnicell team on these significant wins, especially in the time of COVID. First, Lehigh Valley Health network based in Allentown, PA, is our 142nd long-term sole source customer. They signed a 7-year agreement for XT systems and anesthesia workstations for their flagship hospital and network locations. Lehigh especially noted the value and opportunity of the Autonomous Pharmacy as a key driver of their purchasing decision. Our 143rd long-term sole source agreement is a new 10-year partnership with Allina Health network in Pittsburgh, PA.

They will be converting existing medication management systems across their health system network to Omnicell's platform, including central pharmacy, IV compounding, the XT series and technology-enabled services. Also, Georgia-based Coastal Community Health, a current IV customer, has signed a 10-year sole source agreement for our full portfolio of solutions, expanding Omnicell's footprint across the system. We won our first official central pharmacy dispensing service with Memorial at Gulfport in Mississippi. They are looking to leverage XR2 technology to expand their cart-fill distribution model to now support automated systems filling.

In our international market, we continue to expand our footprint in the Middle East with a new partnership with the Dubai Health Authority for our supply –

X software supply chain solution. We've also recently won our first robotic dispensing system deal with CHU Tangiers, a leading academic hospital within the government hospital system of Morocco.

In addition to the customer wins I just spoke to, we also are expanding technology enabled services, which are a key component of our strategy. To that end, we are building on in live and health. We have successfully launched Omnicell One, and we recently completed our acquisition of 340B Link on October 1. Now in live and health division, formerly known as population health solutions, provides patient engagement and communication SaaS solutions for retail pharmacies and health plans. We noted last quarter's conference call that we successfully launched our first location with Walmart as part of an enterprise-wide rollout of our medication synchronization platform to all Walmart locations nationwide.

Today, I'm particularly pleased to note that the Walgreens' popular Saba trip refill program is powered by in live and health medication synchronization technology. We're proud to support these 2 leading providers and this important work that they do to measurably improve medication adherence and health outcomes through EnlivenHealth's patient engagement and communication solutions. These systems are doing real work to impact health care by ensuring patients get the meds they need as easily as possible and note, when they're not picking up their meds that they get engaged in their pharmacy solutions.

Next, last quarter, we announced another key milestone on the journey to the fully Autonomous Pharmacy, Omnicell One, which becomes in – which became available in August, leveraging cloud-based data and predictive analytics. Omnicell One provides pharmacy-wide optimization through real-time visibility as well as actionable insights and workflows to help pharmacies operate more efficiently. As a result of COVID-19, many of our customers have prioritized investments in supply chain optimization in order to provide critical care to patients and are increasingly turning to Omnicell One to help them understand where and how to make improvements. Omnicell One helps pharmacists and technicians focus on what matters most, so they can work at the highest level of their license and spend more time on direct patient care.

Customer interest in Omnicell One is strong. We recently won Archival Health, and they are anticipated to go live in the coming weeks, along with other customers.

Now similar to EnlivenHealth and Omnicell One, Omnicell 340B is a true technology-enabled service that combines analytics, workflow and experts to drive significant value for our customers. Omnicell's 340B business accelerates the development of Omnicell's autonomous pharmacy and is a high-growth software-enabled reoccurring service revenue business. Omnicell's 340B capabilities are critical to health systems to enable them to manage their medications inventory for all their patients across all care settings. Omnicell 340B is a compelling strategic and synergistic addition to our tech-enabled services portfolio and is an attractive growing market with cross-selling opportunities for Omnicell. This acquisition is immediately accretive to non-GAAP EPS, and we are thrilled to partner with all of these great health care organizations as they seek to deliver safe, efficient and high-quality patient care.

Now given the strong recovery in bookings from the first half of the year and a return to more normal business operations, we are accelerating hiring in the areas of cloud engineering and professional services. We are also ramping up implementation and customer success teams aligned with our customers' installation time lines.

I'd say in summary, we are very pleased with our strong financial and operational performance this quarter. It is clear now more than ever that the customers recognize the criticality of Omnicell's medication management automation solutions and we're honored that they are joining us on the journey toward the Autonomous Pharmacy.

Now I'd like to turn it back over to Peter to give us an update on third quarter financials, fourth quarter guidance and a little prelim for 2021 revenue. Peter?

Peter Kuipers: Thank you, Randall. As Randall noted, our customers are returning to more normal business operations. And as a result, our visibility has improved and continues to improve. We have observed hospital admission rates increasing.

This is supported by a recent report by the Kaiser Family Foundation that noted that hospital admission rates are currently trending towards 90 percent. We understand from our customers and other industry participants and research firms that the elective surgery has increased as well from the second quarter to the third quarter and are expected to increase through the fourth quarter and into next year to more normalized levels.

Now moving to third quarter results. Our third quarter 2020 revenue of $214 million increased sequentially by 7 percent over the prior quarter. Year-over-year revenue decreased by $50 million or 7 percent from the third quarter of 2019, largely due to delays in bookings and implementations related to COVID-19. The third quarter earnings per share in accordance with GAAP were $0.20 per share. This compares to earnings per share of $0.46 per share in the third quarter of 2019. The decrease in earnings per share is largely due to lower profit as a result of a decrease in revenue, partially offset by lower income tax expense. A full reconciliation of our GAAP to non-GAAP results is included in our third quarter earnings press release and is posted on our website.

Third quarter non-GAAP gross margin increased by 210 basis points to 47.1 percent, mostly driven by volume leverage as our revenue increased sequentially as well as cost reduction programs. Total third quarter non-GAAP operating expenses of $72 million decreased $3 million from the second quarter as a result of the cost actions we discussed on the prior call. Third quarter 2020 non-GAAP EPS was $0.60 per share compared to $0.76 in the same period last year. The decrease in earnings per share is largely due to lower profit due to a decrease in revenue, which was partially offset by lower operating expenses and lower income tax expense. Third quarter 2020 non-GAAP EPS increased by $0.23 per share from the prior quarter, driven primarily by higher revenue and lower operating expenses.

Now I would like to discuss our cash flow and liquidity and capital structure, as we believe it is a strength of our business and positions us well as we grow to address future market demand. At September 30, 2020, our cash balance of $629 million, up from $130 million at June 30, 2020, largely due to the cash received from the issuance of our convertible debt offering. During the quarter, we completed issuance of a $575 million of 0.25 percent convertible notes due in 2025, which included a full exercise of the $75 million over allotment option. In conjunction with the note issuance, we entered into call spread transactions, and the effect of conversion price from the company's perspective was increased to $141.56 per share, reflecting a 100 percent conversion premium. As part of the execution of the convertible offering, we repurchased $53 million worth of common stock for purchase of notes and privately negotiated transactions. The aggregate net proceeds from the issuance of notes net of issuance costs were approximately $560 million or approximately $460 million net of the hedging transactions and stock repurchase.

During the third quarter, we also entered into an amendment under our revolving credit facility to permit the issuance of the convertible senior notes. The purchase of the transactions actions and issuance of the stock warrants as well as updates on confidence. The amendment of credit facility, along with the issues of the convertible notes, provides us with a tier capital structure which we believe positions us well for potential merger and acquisition opportunities as well as for general corporate purposes.

Subsequent to the third quarter on October 1, 2020, we closed the Omnicell 340B Link acquisition and used approximately $225 million of cash balance for this purchase.

Free cash flow of $27 million was strong during the quarter, driven by strong operating results and working capital efficiencies. Net cash provided by operating activities was $37 million in the third quarter, driven by net income and working capital efficiencies, mostly related to inventory reductions. Inventory levels decreased by $11 million from the prior quarter, mostly driven by supply chain efficiencies and timing of shipments. Accounts receivable days sales outstanding of 82 days for the third quarter declined by 5 days from the prior quarter and was flat from the third quarter in 2019.

As we mentioned earlier in the call, we are pleased to see that our hospital health system customers are investing in transformational strategic capability that Omnicell provides them. As we translate the momentum of the business and sales pipeline to bookings, to backlog and net to revenue, we are making investments to support future growth, improve customer experience, generate efficiencies and scale of the business, and we're making these investments in a number of areas. First, we're increasing the momentum of the shift to cloud-based products and services development. Second, we're continuing to invest in our professional services capability that we announced in December last year. Third, as Randall discussed, we're hiring implementation and customer facing teams. Fourth, we're speeding up the simplification, speed and efficiencies of quote-to-cash processes. And last, we are continuing to drive to virtualize and digitize commercial implementation and engineering processes.

During the first half of the year, we took actions to manage costs and streamline the business to ensure we were operating as efficiently as possible as we accelerate our transformation towards the Autonomous Pharmacy. I'm pleased with the efforts of employees across our company to prudently manage expenses, which we saw as in good operating expense management during the quarter. Last quarter, we shared with you our intention to manage full year non-GAAP operating expenses stood at $310 million to $350 million range. We are maintaining this range for 2020, which now includes the operating expenses for the Omnicell 340B acquisition which we closed on October 1 this year. As we look forward, based on our current visibility and healthy demand metrics, we intend to modestly increase operating expenses in the fourth quarter to support market-driven future growth.

Now moving to our guidance on revenue and non-GAAP EPS. Please note, going forward, our guidance for all periods will include results from Omnicel 340B. Also, please note that while we are aware of the recent increase in COVID cases in the United States, we believe, in speaking with our customers, that they are well prepared and believe they will continue to resume more normal business conditions. However, our bookings and revenue in future periods could be impacted if hospitals need to materially change their operations in order to address the continued increasing COVID-19 cases. We are providing the following guidance for the fourth quarter of 2020. We expect total revenue to be between $238 million and $244 million, we expect product revenue to be between $165 million and $170 million, we expect service revenue to be between $73 million to $74 million, we expect non-GAAP earnings per share to be between $0.72 per share and $0.77 per share.

We are providing the following guidance for the full year of 2020. A solid year-to-date company performance has enabled us to reinstate the product bookings guidance which we expect to range between $865 million and $900 million. The year-over-year growth in the second half is largely driven by timing of expected bookings that moved from the first half to the second half as well as healthy demand as customers return to more normal business operations. We expect total revenue to be between $881 million and $887 million, we expect product revenue to be between $626 million and $631 million, we expect service revenue to be between $255 million and $256 million, and we expect non-GAAP earnings per share to be between $2.35 and $2.40.

Please note that we are encouraged by the current strength in bookings and our ability to grow our backlog. And at this point, we are reconfirming our long-term objectives for the business, consisting off – a 10 percent to 12 percent organic revenue CAGR, an 18 percent non-GAAP operating margin goal and lastly, not – a free cash flow conversion of 90 percent to 110 percent as a percentage of GAAP net income.

Given the dynamics for 2020 and the commercial momentum that we have discussed earlier, we have decided to accelerate our planning process for 2021. And as a result, we're now able to provide a preliminary full year 2021 revenue guidance. This is earlier than we would have normally done in ordinary course of business and reflects our assumption for more normalized business conditions to continue. We expect 2021 preliminary revenue to range between $1.015 billion $1.045 billion, which is above our long-term guidance range of a revenue CAGR of 10 percent to 12 percent. This is primarily a result of the COVID-driven timing dynamics of bookings and revenue that we discussed earlier.

In summary, I'm very, very pleased with our strong financial and operational results this quarter. We exceeded the high end of our guidance ranges. We executed well on our cost control initiatives. We delivered strong cash flow and strengthened our capital structure.

With that, we would like to open the call for your questions.

Randall Lipps: Operator, before we get to the questions, I need to make a correction. Our 143rd long-term sole source contract is a 10-year partnership with Allegheny Health Network in Pittsburgh, Pennsylvania. So I think I said Allina, which is already a customer of ours in Minnesota. So we didn't need to reannounce that one. So thank you for letting me put that in. So operator, if we have questions, we can start the questions, please.

Operator: Certainly. Ladies and gentlemen, to ask a question, you will need to press "star" "1" on your telephone.

Our first question comes from Steve Halper with Cantor.

Steven Halper: So congrats on a great quarter and the guidance for – the revenue guidance for next year. So question on 340B Link acquisition. Obviously, it's in the guidance for Q4. Could you tell us what you're assuming in that number? And what the assumption is for next year?

Peter Kuipers: Yes. So for the fourth quarter, approximately both in bookings and revenue, 340B is approximately $10 million. And that's more a profitability perspective after the incurrence of integration cost, it's a couple of pennies to EPS. And then you should think about roughly a 20 percent, 25 percent growth rate for next year on a revenue base. And I think we gave the LTM of revenue for ($6.30) this year of $35 million, and they got $10 million in the fourth quarter, so the math – you probably can get to the math there for next year.

Steven Halper: Is there – will there be any deferred revenue adjustment off of – from that acquisition?

Peter Kuipers: No, they will not be, Steve. Probably pretty , maybe $100,000, $200,000. It's very small.

Steven Halper: And $10 million, is that in bookings also?

Peter Kuipers: Yes.

Steven Halper: OK. So it's $10 million in revenue in the fourth quarter and implied in that bookings guidance is $10 million from 340B?

Peter Kuipers: Yes.

Operator: Our next question comes from Bill Sutherland with Benchmark.

Bill Sutherland: Great quarter. The 340B, curious what the overlap is with your core sole source client base?

Peter Kuipers: Yes. So 340B, it's very strategic, we believe, what we understand from our customer base. There is some overlap, but there's meaningful growth to be had, specifically within the 143 long-term sole source contracts that either have not a 340B program with supporting software or do you have a competitor the 340B software today.

Bill Sutherland: And you've said – I think Randall did. The 340B capability was a must have. So you went out and you got one. What else would you guys put in that category at this point going forward?

Randall Lipps: Well, I think things connected and associated with supply chain in pharmacy is really key or key operational pieces of supply chain. And a lot of these solutions, if you will, are probably a bit more to a tech-enabled or a software-enabled service of some sort. So it can plug off the platform and yield either a reduction in work or do the work for these institutions of pharmacies and – or could be reporting of some sort that is to meet regulatory compliance. So most of these, not all, but most are heavily software-oriented that we're looking at.

Bill Sutherland: Great. The bookings number has traditionally just been product. Does that – is that changing a bit now with 340B, Peter?

Peter Kuipers: No. So this is the – product bookings are still product bookings, but – or for 340B, the revenue in the quarter is also bookings in the same quarter. It turns within the quarter, if you will.

Bill Sutherland: That's right. It is just a product bookings number. OK. OK. And then last one for me is on the Omnicell One. Can you kind of characterize what an implementation that kind of involves, perhaps some sense of the size range, particularly from a revenue perspective? And curious about the revenue rec for that software sale.

Randall Lipps: Well, I'll let Peter do the rev rec piece. For us, it's really connecting into many of our systems off the platform and aggregating the data and then constantly optimizing it, so that it's not like running a report at a single moment in time. It's constantly evaluating what are the best approaches to optimizing the inventory moving forward. And then it takes the further step of once it calculates a must-do action, it flows a workflow task down to a technician who's given that on a particular app to actually go do it. So there's minimal – there is some integration necessary. Of course, integrating into our own systems is pretty easy, but sometimes, there are some other additional steps necessary to integrate into the hospital systems. But I wouldn't call the major, but it does have to be set up right to start out.

Peter Kuipers: Yes. And then on the revenue model, Bill, the revenue model is essentially a fee per month per bed, if you will, that's covered by Omnicell One. And that revenue is recognized as period revenue.

Bill Sutherland: OK. And these are – I assume multiyear agreements that you're citing?

Peter Kuipers: Exactly. Yes. Yes. Very predictable recurring high visibility second (inaudible)

Operator: Our next question comes from the line Craig-Hallum – or pardon me, the next question comes from the line of Matt Hewitt with Craig-Hallum Capital.

Matt Hewitt: Congratulations on the strong quarter. A couple for me. First off, regarding the hospital budgets, obviously, the headlines are pretty mixed right now as far as some hospitals faring better than others. You clearly have found a sweet spot, if you will, within that top 300. What kind of visibility do they have, given that we're now seeing another spike in cases and hospitals are talking about getting back to being near capacity? Yet, we're also hearing that they're going to continue to do elective procedures. What kind of visibility do they have into their budgets going out 2 quarters, 4 quarters from now?

Randall Lipps: Well, I think that we're very tied into all of our customers on an almost daily basis, particularly the top 300 of just – if there's any kind of delays or concerns going forward. And I think the strong confidence coming back in Q3, you think that if people were a little bit skittish, they would have maybe not come back and maybe they come back at 80 percent of what they were looking at pre COVID. But they've all come back very strong and very quickly.

And while I'm sure there are hotspots where that may develop, I feel like after we've gone through the first and technically, the second wave is really after New York, and then this is really the third wave. People are really prepared on what they need and what to do and how to handle this. And so I think they are very confident in understanding what they have and at different levels of COVID in their air, what to expect. And so this morning, we did a doublecheck on all of our installations for the quarter, and there wasn't at 1 single wait a second or from any place across the country that we were involved in. So it just was a reconfirmation that we don't see the slowdown.

Peter Kuipers: Yes. What I would add maybe, Matt, as well is that it's important to remember that hospitals and health systems are set up to run their operations with a 90 percent plus occupation level. So they need to be in the 90 percent plus range, if you will, right? So there's some articles in the press on that as well. So that's good to note.

Matt Hewitt: Understood. Understood there. And then as far as looking at next year, how should we be thinking about the cadence? Are you expecting it to continue to lift from here? Or even from a bookings perspective, normally, Q2, Q4, your big quarters, should we expect a return to a more normal pattern from that perspective?

Peter Kuipers: Yes. So that's a great question, Matt. The – of course, Randall, and I both talk to the dynamic within the year, right, of the recovery of the first half bookings here and the second half, both in the third quarter and then expected in the fourth quarter, with really strong momentum. But it means that bookings are coming in later, if you will, right? So that's kind of a total year revenue impact. But also installation during the year were delayed. So what I would say is that not necessarily we would have the fourth quarter step down of reduction to the first quarter in revenue, that might be more flattish or maybe down a tiny bit instead of a big step-down. But that's very preliminary. We're going through the backlog and time lines, if you will, and the ramp-up. But the dynamics – to your question, the dynamics are different this year going into next year than the normal transition between calendar years, if you will.

Matt Hewitt: OK. And then 1 last 1 for me. I think, Randy – or no, actually, Peter, I think you mentioned that you are going to be bringing some expenses back as revenues are starting to come back as well. How should we be thinking about that through next year? I mean are you – is – have you found efficiencies because of what has happened here in the past couple of quarters, so that when we're looking at December of '21, maybe you haven't gotten back to the Q4 of '19 levels? Or with the 340B acquisition, you kind of get back, but you're back to that level versus being above it, if that makes sense?

Peter Kuipers: Yes. Well, what we said on the last call was that the cost reduction versus the original guidance that about half of that we expect to come back next year because a lot of that's travel and marketing and hiring delays, right? And so some of that's coming back. We don't want to, at this point in October, commit to highly maybe OpEx number at this point. But we are hiring, we are investing on a modest basis in the third quarter through the fourth quarter. And I think I laid out in the prepared remarks, the areas where we are investing. But the bookings pipeline, backlog, it's all very, very strong and market position as well. So we're being prudent, but we got to make sure that we scale as well to support our customers.

Operator: Our next question comes from Gene Mannheimer with Colliers Security.

Gene Mannheimer: Congrats on the great quarter, guys. I wanted to ask you about your Enliven offering which I think you formerly called Population Health. Can you just refresh us what is – what are the products that contribute to that? I know med synchronization is one of them. How does that contribute to bookings or revenue? And how should we think about Walgreens and Walmart contributing and ramping over time?

Randall Lipps: Good question. This is a SaaS business that is still emerging. So – but it is a totally a cloud-based system that drops in next to the pharmacy system of the retail pharmacy and evaluates patients in their database that would fit a med synchronization workflow. And there's a lot of pieces to it. It's just not a onetime thing. It's an ongoing feed that we have that manages these patients going forward because we want to keep them synchronize and keep make sure they're getting their meds. But that platform has been tested by our customers who are very concerned about security and how it works.

And we're expanding it to do more software activities that we're offering, particularly on the communications side, getting linked up with patient, what's the right time to call them, what's the right time to text them, what's their preferred mode of conversation. These are all additional services we want to build into that platform to build it into a much more substantial business.

And so we've done the first thing, which is get connected to very large customers who we can build a platform off of and build a really successful business going forward. So I would say we're still in the early days there. But it is making great progress. And we hope that there might be even some functionality in parts for the COVID vaccine that if you have an off-site where you need to do some quick vaccinations that that platform makes a better approach than trying to use legacy systems in that case.

So a lot of opportunity there still need to build out some more pieces of the platform to really make it into what I would call a significant business for Omnicell. But we love it because that's where pharmacy is going, it's going to the home, and it's where health care is going, and we need to be connected in there. And it's a product we believe that more than retail will eventually use, we think maybe even institutional and even big providers will eventually be engaged in this kind of product.

Gene Mannheimer: That's really interesting. And I just wanted to circle back on maybe some of the more tangible items around the XT product cycle and the XR2. Could you provide an update on where we stand in that evolution?

Peter Kuipers: Yes. So for the XT upgrade cycle, we posted the update there, cumulative program in the investor deck that we just posted. We are at 30 percent now, so 3-0 program today. And we're kind of going in kind of the end of the third inning, going into the fourth inning here for bookings, right? Revenue follows, right, backlog. So it's going well there. So we gained, I think, 4 points of upgrade bookings of the installed base. So that's XP.

And then we said on the prior call that from a central pharmacy perspective, that proportionately kind of the delays because of COVID. The central pharmacy was slightly heavier impacted than point-of-care and retail. And we see that coming back as well for us in bookings and then backlog and better revenue as well. So that's also trending up.

Operator: The next question comes from the line of Scott Schoenhaus from Stephens.

Scott Schoenhaus: Again, congrats on the results and progress. I guess I want to follow up. I know we've belabored 340B. But based on your guidance, you said 25 percent growth rate off the $35 million on the top line. This kind of is a follow-up question to the other analysts about the cadence. But as you grow those revenue streams, I'm assuming you get more and more momentum as you have these cross-selling opportunities on your installed base. So that would go with your comments about being more back half heavy. But also, we got to think about the margin accretion and EPS accretion, given the 805 – 75 percent or 80 percent gross margin profile and healthy EBITDA margins on this software service business. Do you expect your earnings – in the cadence of earnings to be significantly accelerated throughout the course of fiscal '21?

Peter Kuipers: Well, I would say, of course, it's a high gross margin business, high visibility, highly recurring, right? So from a – the first point on cross-selling. So we closed the transaction about 2 weeks ago now. So we are aggressively starting to landscape and prepare for cross-selling opportunities, right? And again, that will take a little bit of time to close cross-selling deals, right? And then you need to get them live and then there will be recurring SaaS revenue, right? And that probably the first instances probably will be directionally in the second half of next year from a cross-selling perspective. That's probably what you would expect.

The acquisition is immediately accretive from a non-GAAP EPS perspective for the fourth quarter. And we are aggressively, in a very constructive manner, integrating the acquisition as well, from the systems, people, the process perspective. So there's some cost there. So it will be accretive. We expect, of course, also to earnings in 2021. I think it's a little bit too early to tell – to kind of give a direction of what impact that will be on operating margin or EBITDA.

Scott Schoenhaus: I understand. I appreciate that color, Peter. And I guess, Randy, you mentioned, but I guess this is a question for both you, Peter and Randy, but you mentioned you're going to be focusing on the M&A front on more services or software or tech businesses. Can you give us more color there on the pipeline? I mean you have very strong cash conversion. And obviously, these net proceeds from the recent convertible debt offering gives you a lot of dry powder. So help us think about where your next near-term opportunities lie.

Peter Kuipers: So nothing really has changed to the comments we made on M&A strategy in the past, right? So we have a dedicated M&A strategy team that throughout the year, it looks at a number of deals, a number of deals we take close to look at, a number of deals we do due diligence at and some we make a bid on and some we close, right, if it fits in the strategy, if it fits in the growth profile, it fits into the platform. And we also like it to be accretive from a non-GAAP EPS perspective. So nothing really has changed there. I think the new – the tiered capital structure gives us more ability. That is true from an M&A perspective, and nothing has changed. And of course, there's nothing to announce at this point. We're always looking at M&A. So – but we look at it through the lens that I just discussed, right? So pretty rigorously.

Operator: Our next question comes from the line of Sean Wieland with Piper Sandler.

Sean Wieland: Let me add my congrats on an impressive quarter. To be clear, I think what you're saying is that the revenue acceleration that we are guiding for in '21 is primarily related to the timing of the 2020 bookings. And so my question is we're back – we're like kind of back in business at the bookings level with your original guide, but still about $100 million short on revenue for the year. How much of that $100 million rolls forward to '21? And how much of that is lost because of the passage of time?

Peter Kuipers: Well, to answer that, as we said on the prior call, Sean, is that nothing is lost. So by and large, we haven't lost any significant expected deals from that perspective. So there are – the revenues coming is just going to be at a later point, if you will, right?

Randall Lipps: I'll just – I think what Sean is saying is not this year is lost this year.

Peter Kuipers: So yes, yes.

Randall Lipps: So – and I think that, yes, obviously, in our 10 percent to 12 percent long-term growth, next year's be above that. And so I think it's kind of like we were delayed 6 months this year and it takes another 6 months to get that in. So I think it will flow. And one of the reasons we are hiring people is, we don't have enough people in place to do all the implementations and get them trained up for next year without hiring. So that's part of the program.

Sean Wieland: OK. So it sounds like '21 is going to be a bit of a pig in the pipeline here, if you will. And I'm sorry to ask you this, but for – are you saying that the 10 percent to 12 percent, you think you can grow off of that '21 number into '22?

Peter Kuipers: So we talk about the 10 percent to 12 percent as an organic revenue CAGR, right? So by and large, in the vast majority of the next number of years.

Sean Wieland: OK. And then a separate topic, the top 143 top clients that you have, what percent on average penetrated are you within each of those?

Peter Kuipers: As far as that covered or...

Sean Wieland: Like what's the – of those 143 clients? Like what's the white space remaining to sell into in those – in that segment?

Randall Lipps: Well, it's probably less than 50 percent because most of them still have XT ahead. And XT is just for not – only just replacing what they have but for expansions. And so – and then you have the XR2 and our other product lines, the IV workflow systems and of course, the other products on top of that. So I think we feel like there's quite a bit left to go just because we're probably on the early cycles with IV station and IV workflow and XR2, and XR2 is gaining momentum. We've had some good uptick in those product lines. And as the technology moves forward, they become more plug-and-play on the platform, very easier to install, easier to put up and as well one feeds into the other.

Peter Kuipers: So – and in many of these, we had the vast majority of these, we have multiyear medication management automation plans that were driving together and to go to the next levels of the Autonomous Pharmacy. There's quite a bit of growth to be had.

Operator: Our next question comes from the line of Mitra Ramgopal with Sidoti.

Mitra Ramgopal: I just wanted to get a sense as to, as we look at the guidance and the commentary on the U.S. market, things are starting to normalize here. And I was just curious from the international side, what you're seeing there? And as we look out to the guidance of 2021, is it pretty much all going to be domestic?

Peter Kuipers: Yes. I think on the last call, we also had a question on international growth. So faster momentum in international from a platform perspective, we see demand for multi-product platform type of deals as well, multi-location, right? So there's more to come there, but it looks like the adoption of the technology, medication management automation, it started to pick up there as well. And international, by and large, is growing at a higher rate than domestic business for that the longer term, right?

Mitra Ramgopal: OK. Yes. And on the long term, I think in the past, you've said you expect between point of care, central pharmacy and retail, they should all be growing north these double digits. Should we expect any acceleration potentially coming out of COVID on that?

Peter Kuipers: Not necessarily. I mean COVID is mostly timing if you look at it from a year perspective. What is different though is that what Randall said earlier in his script is that automation and also specifically medication management automation is absolutely critical. And that is what health systems have realized now. And that is where they're investing in strategically. And that is why we're able to provide guidance for the full year. And that is also why I recall preliminary revenue guidance for next year. But that is a change because of COVID.

Operator: Thank you. And I'm not showing any further questions at this time. I would now like to turn the conference back to Mr. Randall Lipps for any further remarks.

Randall Lipps: Well, thanks for joining us today, and it's very satisfying to get through the last 6 months with a lot of change and get back to focusing on the long-term strategies that our customers need. And I want to thank, again, the Omnicell employees for just doing an outstanding job and moving forward and hanging in there on all those Zoom calls and doing work in a different way, but still achieving great results. So thanks for joining us. We'll see you next time.

Peter Kuipers: Cheers.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

END

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Product revenues	$ 151,337	$ 168,488	$ 460,352	$ 472,477
Services and other revenues	62,362	60,317	182,654	176,258
Total revenues	213,699	228,805	643,006	648,735
Cost of revenues:				
Cost of product revenues	86,689	86,695	262,740	250,089
Cost of services and other revenues	30,219	29,963	90,628	85,337
Total cost of revenues	116,908	116,658	353,368	335,426
Gross profit	96,791	112,147	289,638	313,309
Operating expenses:				
Research and development	15,197	16,625	54,679	49,551
Selling, general, and administrative	71,442	70,876	219,647	207,588
Total operating expenses	86,639	87,501	274,326	257,139
Income from operations	10,152	24,646	15,312	56,170
Interest and other income (expense), net	809	(1,168)	161	(4,207)
Income before provision for income taxes	10,961	23,478	15,473	51,963
Provision for (benefit from) income taxes	2,156	3,495	(344)	12,720
Net income	$ 8,805	$ 19,983	$ 15,817	$ 39,243
Net income per share:				
Basic	$ 0.21	$ 0.48	$ 0.37	$ 0.95
Diluted	$ 0.20	$ 0.46	$ 0.36	$ 0.92
Weighted-average shares outstanding:				
Basic	42,802	41,771	42,606	41,283
Diluted	43,691	43,052	43,651	42,796

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

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 629,171	$ 127,210
Accounts receivable and unbilled receivables, net	188,102	218,362
Inventories	103,101	108,011
Prepaid expenses	20,399	14,478
Other current assets	22,631	15,177
Total current assets	963,404	483,238
Property and equipment, net	57,559	54,246
Long-term investment in sales-type leases, net	22,510	19,750
Operating lease right-of-use assets	50,415	56,130
Goodwill	336,456	336,539
Intangible assets, net	111,587	124,867
Long-term deferred tax assets	14,985	14,142
Prepaid commissions	46,649	48,862
Other long-term assets	115,712	103,036
Total assets	$ 1,719,277	$ 1,240,810
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 37,203	$ 46,380
Accrued compensation	35,778	44,155
Accrued liabilities	59,254	55,567
Deferred revenues, net	101,641	90,894
Total current liabilities	233,876	236,996
Long-term deferred revenues	5,163	7,083
Long-term deferred tax liabilities	35,584	39,090
Long-term operating lease liabilities	44,365	50,669
Other long-term liabilities	19,775	11,718
Revolving credit facility	—	50,000
Convertible senior notes, net	462,115	—
Total liabilities	800,878	395,556
Total stockholders' equity	918,399	845,254
Total liabilities and stockholders' equity	$ 1,719,277	$ 1,240,810

Omnicell, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2020	**2019**
Operating Activities		
Net income	$ 15,817	$ 39,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,903	39,525
Loss on disposal of property and equipment	—	436
Share-based compensation expense	33,034	25,175
Deferred income taxes	(3,643)	4,023
Amortization of operating lease right-of-use assets	7,692	7,917
Amortization of debt issuance costs	754	1,718
Amortization of discount on convertible senior notes	249	—
Changes in operating assets and liabilities:		
Accounts receivable and unbilled receivables	29,653	(7,716)
Inventories	4,570	(7,015)
Prepaid expenses	(6,272)	(1,341)
Other current assets	(6,617)	974
Investment in sales-type leases	(3,273)	(5,120)
Prepaid commissions	2,213	909
Other long-term assets	(4,023)	3,944
Accounts payable	(8,659)	10,316
Accrued compensation	(8,377)	(8,161)
Accrued liabilities	3,281	5,262
Deferred revenues	8,827	3,900
Operating lease liabilities	(7,764)	(7,887)
Other long-term liabilities	8,057	4,086
Net cash provided by operating activities	109,422	110,188
Investing Activities		
Software development for external use	(25,909)	(34,129)
Purchases of property and equipment	(17,265)	(12,632)
Net cash used in investing activities	(43,174)	(46,761)
Financing Activities		
Proceeds from revolving credit facility	150,000	—
Repayment of debt and revolving credit facility	(200,000)	(60,000)
Payments for debt issuance costs for revolving credit facility	(550)	—
Proceeds from issuance of convertible senior notes, net of issuance costs	559,665	—
Purchase of convertible note hedge	(100,625)	—
Proceeds from sale of warrants	51,290	—
At the market equity offering, net of offering costs	—	37,806
Proceeds from issuances under stock-based compensation plans	33,226	35,029
Employees’ taxes paid related to restricted stock units	(4,101)	(5,790)
Stock repurchases	(53,035)	—
Net cash provided by financing activities	435,870	7,045
Effect of exchange rate changes on cash and cash equivalents	(157)	(387)
Net increase in cash and cash equivalents	501,961	70,085
Cash and cash equivalents at beginning of period	127,210	67,192
Cash and cash equivalents at end of period	$ 629,171	$ 137,277

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Reconciliation of GAAP revenues to non-GAAP revenues:				
GAAP revenues	$ 213,699	$ 228,805	$ 643,006	$ 648,735
Non-GAAP revenues	$ 213,699	$ 228,805	$ 643,006	$ 648,735
Reconciliation of GAAP gross profit to non-GAAP gross profit:				
GAAP gross profit	$ 96,791	$ 112,147	$ 289,638	$ 313,309
GAAP gross margin	*45.3%*	*49.0%*	*45.0%*	*48.3%*
Share-based compensation expense	1,758	1,316	5,658	4,194
Amortization of acquired intangibles	2,032	2,037	6,100	6,147
Severance and other expenses	—	—	2,564	—
Non-GAAP gross profit	$ 100,581	$ 115,500	$ 303,960	$ 323,650
Non-GAAP gross margin	*47.1%*	*50.5%*	*47.3%*	*49.9%*
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:				
GAAP operating expenses	$ 86,639	$ 87,501	$ 274,326	$ 257,139
GAAP operating expenses % to total revenues	*40.5%*	*38.2%*	*42.7%*	*39.6%*
Share-based compensation expense	(9,266)	(7,189)	(27,376)	(20,981)
Amortization of acquired intangibles	(2,336)	(2,545)	(7,056)	(7,891)
Acquisition-related expenses	(3,121)	—	(3,121)	—
Severance and other expenses	(84)	(194)	(8,272)	(920)
Non-GAAP operating expenses	$ 71,832	$ 77,573	$ 228,501	$ 227,347
Non-GAAP operating expenses % to total non-GAAP revenues	*33.6%*	*33.9%*	*35.5%*	*35.0%*
Reconciliation of GAAP income from operations to non-GAAP income from operations:				
GAAP income from operations	$ 10,152	$ 24,646	$ 15,312	$ 56,170
GAAP operating income % to total revenues	*4.8%*	*10.8%*	*2.4%*	*8.7%*
Share-based compensation expense	11,024	8,505	33,034	25,175
Amortization of acquired intangibles	4,368	4,582	13,156	14,038
Acquisition-related expenses	3,121	—	3,121	—
Severance and other expenses	84	194	10,836	920
Non-GAAP income from operations	$ 28,749	$ 37,927	$ 75,459	$ 96,303
Non-GAAP operating income % to total non-GAAP revenues	*13.5%*	*16.6%*	*11.7%*	*14.8%*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Reconciliation of GAAP net income to non-GAAP net income:				
GAAP net income	$ 8,805	$ 19,983	$ 15,817	$ 39,243
Tax impact of IP restructuring	—	—	—	9,624
Share-based compensation expense	11,024	8,505	33,034	25,175
Amortization of acquired intangibles	4,368	4,582	13,156	14,038
Acquisition-related expenses	3,121	—	3,121	—
Severance and other expenses [(a)]	84	194	10,836	921
Amortization of debt issuance costs	272	573	754	1,718
Amortization of discount on convertible senior notes	249	—	249	—
Tax effect of the adjustments above [(b)]	(1,700)	(1,123)	(5,905)	(3,501)
Non-GAAP net income	$ 26,223	$ 32,714	$ 71,062	$ 87,218
Reconciliation of GAAP net income per share - diluted to non-GAAP net income per share - diluted:				
Shares - diluted GAAP	43,691	43,052	43,651	42,796
Shares - diluted Non-GAAP	43,691	43,052	43,651	42,796
GAAP net income per share - diluted	$ 0.20	$ 0.46	$ 0.36	$ 0.92
Tax impact of IP restructuring	—	—	—	0.22
Share-based compensation expense	0.25	0.20	0.76	0.59
Amortization of acquired intangibles	0.10	0.11	0.30	0.33
Acquisition-related expenses	0.07	—	0.07	—
Severance and other expenses	0.00	0.01	0.25	0.02
Amortization of debt issuance costs	0.01	0.01	0.02	0.04
Amortization of discount on convertible senior notes	0.01	—	0.01	—
Tax effect of the adjustments above [(b)]	(0.04)	(0.03)	(0.14)	(0.08)
Non-GAAP net income per share - diluted	$ 0.60	$ 0.76	$ 1.63	$ 2.04
Reconciliation of GAAP net income to non-GAAP Adjusted EBITDA[(c)]:				
GAAP net income	$ 8,805	$ 19,983	$ 15,817	$ 39,243
Share-based compensation expense	11,024	8,505	33,034	25,175
Interest (income) and expense, net	380	572	442	1,965
Depreciation and amortization expense	15,124	13,651	43,903	39,525
Acquisition-related expenses	3,121	—	3,121	—
Severance and other expenses	84	194	10,836	921
Amortization of debt issuance costs	272	573	754	1,718
Amortization of discount on convertible senior notes	249	—	249	—
Income tax expense (benefit)	2,156	3,495	(344)	12,720
Non-GAAP adjusted EBITDA	$ 41,215	$ 46,973	$ 107,812	$ 121,267

(a) For the three months ended September 30, 2020 and 2019, other expenses include $0.1 million and $0.2 million of IP and legal entities restructuring costs, respectively. For both the nine months ended September 30, 2020 and 2019, other expenses include $0.9 million of IP and legal entities restructuring costs.

(b) Tax effects calculated for all adjustments except tax benefits and expenses, and share-based compensation expense, using an estimated annual effective tax rate of 21% for both fiscal years 2020 and 2019.

(c) Defined as earnings before interest income and expense, taxes, depreciation and amortization, share-based compensation, as well as excluding certain non-GAAP adjustments.

Omnicell, Inc.
Reconciliation of GAAP to Non-GAAP
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Reconciliation of GAAP net cash provided by operating activities to non-GAAP free cash flow:				
GAAP net cash provided by operating activities	$ 36,687	$ 56,428	$ 109,422	$ 110,188
Software development for external use	(5,907)	(11,548)	(25,909)	(34,129)
Purchases of property and equipment	(4,054)	(3,263)	(17,265)	(12,632)
Non-GAAP free cash flow	$ 26,726	$ 41,617	$ 66,248	$ 63,427