**1Q20 Earnings Call**

**Peter Kuipers:**

Good afternoon and welcome to the Omnicell first quarter 2020 earnings call. Joining me today is Randall Lipps, Omnicell Founder, Chairman, President, and CEO.

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 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.

The date of this conference call is May 7th, 2020, and all forward-looking statements made on this call are 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 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 express 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 first quarter of 2020 and our guidance for 2020. Our 2020 first 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 this 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 over the call to Randall.

**Randall Lipps:**
Good afternoon and thank you for joining us today. I'd like to begin today by expressing our extreme gratitude to the healthcare professionals on the front lines of the COVID-19 pandemic. Your response to this crisis is nothing short of heroic, and on behalf of the entire Omnicell team, we thank you for your courage, your bravery, and your resilience.

Our mission is to be the care providers' most trusted partner, and that mission has never been more critical. As our partners navigate this challenging time, we continue to stay focused on our long-term strategy which we believe is unchanged. We are committed to executing on the vision of the autonomous pharmacy by delivering automation, intelligence, and services designed to transform the pharmacy care delivery model, helping to dramatically improve outcomes and lower costs for our healthcare partners.

We believe COVID-19 has made the industry more aware of the significant challenges in pharmacy that could make our solutions more relevant going forward. As a case in point, we believe our Point of Care solutions are important infrastructure at health systems to dispense medications safely during a pandemic. Our analytics and intelligence solutions can be key decision support tools for our customers to manage inventory more efficiently during patient volume surges. Our central pharmacy automation solutions are designed to help reduce the administrative burden on the pharmacy and to allow clinicians to operate at the top of their license and focus on patient care in fast-changing clinical environments.

Now, I'd like to briefly outline our response to COVID-19 and discuss the actions we have taken to ensure the safety and wellbeing of our customers, employees, suppliers, and communities.

In order to operate in a safe manner, we are following the health and safety guidelines of the U.S. Centers for Disease Control and local and state public health departments in each of the regions where we operate. All our manufacturing, distribution, and other facilities are operating under these guidelines. As we are an essential business, our manufacturing facilities have remained open and we continue to manufacture our products with limited disruption. In our facilities, we have implemented a variety of protocols to ensure the safety of our workforce. This includes scheduling staggered shifts to enhance social distancing, extensive cleaning of surfaces and the use of personal protective equipment. In addition, the vast majority of our non-manufacturing and non-customer facing personnel have transitioned to a work from home environment. During 2019 we implemented a variety of virtual technology tools. We are now accelerating the use of these virtual tools to develop and implement virtual service, training, consultations, product demonstrations and sales processes and as a result, the shift to a remote work environment has been essentially seamless. We're now engaging with customers virtually which enables us to work with customers in new ways during difficult times like these. I'm grateful to the Omnicell team for their ability to transition quickly and safely so that we can continue to focus on servicing our customers during this challenging time.

To assist our customers on the frontline of the pandemic, we quickly mobilized to develop programs and solutions to support critical care needs. Our Rapid Response to COVID-19 has been focused in three key areas – supporting infrastructure for new emergency care areas; providing tools and intelligence for medication supply chain management; and ensuring quick access and continuous support for health system training and service needs.

As our partners began to expand bed capacity for potential patient surge, our teams worked quickly to launch the Rapid Response XT cabinet program. We successfully expedited production of pre-configured medication and supply cabinets, designed with clinical input, and fast-tracked ordering, shipping, and installation so that health systems could rapidly deploy these critical resources. We've received a lot of positive feedback from our customers in response to this program.

Another critical need identified by our partners in pandemic epicenters like New York City is the ability to quickly and efficiently track medication inventory. There are currently more than 75 drugs being used to treat COVID-19. Leveraging our analytics platform, we have partnered with pharmacy leaders and industry associations including ASHP and the Society of Critical Care Medicine to offer daily reports on medication inventory levels and forecasted use rate. This intelligence can help pharmacies make faster decisions about deploying medication to areas with the greatest needs, actively plan to safeguard medications and project potential shortages, and increase emergency care levels as appropriate. We're continuing to leverage this data to predict usage trends across regions to help health systems with preparation and planning for future surge needs.

And we're working to ensure our customers have the infrastructure to support patient influx. We were able to provide quick support with new training programs to rapidly onboard staff and provide remote service options in order to minimize the need for onsite visits, respecting social distancing requirements.

From a supply chain perspective, we have continued to work closely with our partners to ensure we are able to source key components and maintain appropriate inventory levels to meet customer demand. To date, we have experienced very little disruption in our supply chain and have not experienced any shortages of key materials at this time. This has enabled us to continue operating our factories at full capacity and positions us well to continue to serve our customer base.

We're also supporting the local communities in which we operate by providing monetary support to charitable organizations. To date, we made monetary donations to the American Nursing Fund and we are implementing a company match to all donations made for employees to support healthcare organizations on the front lines.

Turning to our results for the first quarter and our business outlook. The first quarter was very strong as the impact of COVID-19 had minimal impact to our revenue and profit. Since most of our revenue comes from the implementation of automation systems which are often scheduled months in advance, most implementations proceeded as scheduled through the end of March. However, with respect to bookings for new sales, beginning in the second half of March, we have seen hospitals begin to slow purchasing decisions. Additionally, as our customers are dealing with COVID-19 our ability to access hospitals and their staff in order to perform implementations of equipment will likely be delayed.

Health systems are facing increased costs due to large surge expenditures to cover COVID-19 caseload and increasing prices for needed equipment, decreased revenue due to cancellation or postponed elective procedures and other reduced demand, as well as cash flow challenges. As a result of the slowdown in purchasing decisions and our reduced interactions with our customers due to social distancing protocols, our bookings are behind our internal estimates as of this time. Although there are some encouraging signs for our business medium-term as the country begins a gradual process to re-open a portion of the economy and elective surgeries resume, we believe hospital spending will be materially disrupted in the near- to medium-term and it is not possible to predict how long this pattern will continue. We anticipate COVID-19 demand disruptions to negatively impact 2020 results versus prior guidance and we do not believe we can provide meaningful near- to medium-term direction at this time.

While this uncertainty is difficult, we remain confident in our ability to execute on our long-term strategy. There are several favorable tailwinds for our business for the long term. First, we have a healthy backlog and a strong customer base many of which are under long-term sole source agreements to purchase our products and services. At this time, we have not lost any multi-million dollar agreements and we are not aware of any cancellations. Second, the mix of recurring revenue compared to prior economic recessions Omnicell has weathered is much higher. Today approximately 40% of our business is recurring and at this time we don't expect this portion of our revenue to be materially affected by the pandemic. Lastly, our liquidity is strong. We have cash on our balance sheet, no debt and access to $500 million of committed capital on our revolving loan facility. As we progress through the phased recovery of COVID-19, we will continue to look for innovative ways to provide solutions to help our customers navigate the current situation.

Now I'd like to turn the call back over to Peter to discuss our first quarter results and our guidance.

**Peter Kuipers:**

Thank you, Randall.

We had a very strong start to 2020. Our first quarter 2020 revenue of $230 million was up 13% over the first quarter of 2019. The increase in revenue from last year was largely due to an increase in XT series implementations, as well as annual service and maintenance revenue from a larger installed base of equipment.

As of March 31, 2020, approximately 24% of our existing installed base of previous generation automated dispensing cabinets have booked orders to upgrade to our new XT Series. At this time last year approximately 13% of our installed base had booked orders to upgrade to XT. As we have mentioned in the past, we began shipping XT in 2017 and at that time we estimated that the existing installed base of prior generation systems would be upgraded over a nine-year period. While we expect some near-term delays, like we saw towards the end of the first quarter, we continue to believe the upgrade cycle will take place over our original nine-year estimate. We will continue to monitor this and provide updates at a later time.

As Randall said and as I will discuss in more detail later, COVID-19 has had a negative impact on new bookings and has delayed implementations as our ability to access hospital systems and their staff has become restricted in many locations. We believe this trend will continue in the near- to medium-term. We believe that many hospital systems are in the process of evaluating their capacity, staffing, revenue, profitability and cash flow and as a result visibility into their hospital systems capital equipment buying behavior is limited at this time.

Moving to the earnings per share:

The first quarter earnings per share in accordance with GAAP was $0.26, up from $0.08 per share in the first quarter of 2019. The increase in earnings per share is largely due to lower income tax expense. During the first quarter of 2019 we incurred approximately $9.6 million of income tax expense related to one-time restructuring of intellectual property. This income tax cost negatively impacted EPS by $0.23 during the period ended March 31, 2019 and did not occur again in 2020.

In addition to GAAP financial results, we report our results on a Non-GAAP basis which excludes stock compensation expense, amortization of intangible assets associated with acquisitions, acquisition and restructuring related expenses, and restructuring income tax benefits and expenses, and amortization of debt issuance costs. We use Non-GAAP financial statements in addition to GAAP financial statements because we believe it is useful for investors to understand the effects of amortization of acquisition-related costs and non-cash stock compensation expenses that are a component of our reported results, as well as events and acquisition and restructuring-related expenses which are unrelated to our ongoing operations. A full reconciliation of our GAAP to Non-GAAP results is included in our first quarter earnings press release and is posted on our website.

First quarter 2020 Non-GAAP EPS was $0.66 per share, compared to $0.61 in the same period last year, representing an 8% increase. The increase in earnings per share on a Non-GAAP basis is largely due to increased revenue. This was partially offset due to tax benefits realized from the exercise of employee stock options which was lower in the first quarter of 2020 compared to the same quarter last year.

Now, I'd like to quickly cover our cash flow and liquidity as we believe it is a strength of our business during these uncertain times.

At March 31, 2020 our cash balance was $104 million, down from $127 million at December 31, 2019. During the 1st quarter of 2020 we repaid $50 million on our outstanding debt. As a result, the business is now debt free and has access to the full $500 million available under our revolving credit facility.

Net cash provided by operating activities during the first quarter of 2020 was $25 million down from $26 million during the same period last year. The decrease is primarily due to an $8 million decrease in net working capital, primarily attributable to increases in accounts receivable. Accounts receivable increased during the first quarter due to some COVID-19 related delays in expected collections that were received in the first week of April as well as additional invoicing for products shipped that were not installed by the end of the quarter. As a result, our accounts receivable days sales outstanding for the first quarter were 93 days, unchanged from the same period last year and up 12 days sequentially. The decrease in net working capital was mostly offset by cash flow attributable to higher net income in the first quarter of 2020 compared to the same quarter last year.

Free cash flow generated in the first quarter was $11 million up $1 million from the same period last year. The increase was primarily driven by lower capital expenditures in the current year, partially offset by lower cash flows generated by operating expenses. Free cash flow in the first quarter of 2020 was approximately 100% of GAAP net income for the quarter, which is in line with the long-term framework we provided in December 2019.

As Randall mentioned earlier, we believe our liquidity is strong. With our existing cash on the balance sheet, no debt, and access to $500 million of committed capital through the revolving credit facility we put in place in November 2019, we believe the business is very healthy and capable of absorbing short-term disruptions to our revenue and cash flows caused by the pandemic.

In order to preserve our liquidity, we have started and will continue to take certain actions to defer costs as necessary. These cost savings actions include, but are not limited to:

1. Elimination of all non-essential travel
2. Hiring delays
3. Reduction of consulting costs
4. Elimination of tradeshow and other marketing related expenses
5. Delays in certain capital expenditures

We continue to monitor this situation closely and will take further actions as we feel are necessary at the appropriate time.

Moving to our guidance, as Randall mentioned earlier, we cannot predict how long the pandemic and measures intended to contain the spread of COVID-19 will continue and what effect COVID-19 and the associated containment measures will have on our customers. As a result, we are withdrawing our full year 2020 guidance. We have spent the past two months working to gain insight from our customers to help us determine how to plan for future implementations and new product bookings, but there is uncertainty and a range of possible outcomes. As a result, we do not believe we can provide meaningful direction at this time.

Looking ahead, we will continue to stay in close contact with our customers and take into account relevant facts and circumstances as we move forward. This includes closely monitoring the ramp up of elective surgeries, ambulatory care and other factors which impact the financial health of hospital systems.

With that, we would like to open the call for your questions, but we would like to remind everyone that we are unable to comment on any specific financial framework for the near- to medium-term at this time. We believe we will have more visibility next quarter and look forward to providing more direction at that time.

**Randall Lipps**

Thank you everybody for joining the call today. The immense impact that the coronavirus has had on our personal and professional lives has been staggering. Through these challenging times, we are honored to be a part of our customers fight against this pandemic - mobilizing to support their critical needs, ensuring business continuity for our customers, and protecting the health and safety of our employees. The adrenaline has been flowing at a very high level over the last 60 days. I want to thank the Omnicell team for making it possible to impact so many lives.

Thank you everyone!

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Reconciliation of GAAP net income to non-GAAP net income:** | | |
| GAAP net income | $ 11,311 | $ 3,284 |
| Tax impact of IP restructuring | — | 9,624 |
| Share-based compensation expense | 10,659 | 8,410 |
| Amortization of acquired intangibles | 4,430 | 4,782 |
| Severance and other expenses [(a)] | 4,342 | 859 |
| Tax effect of the adjustments above [(b)] | (1,842) | (1,184) |
| Non-GAAP net income | $ 28,900 | $ 25,775 |
| | | |
| **Reconciliation of GAAP net income per share - diluted to non-GAAP net income per share - diluted:** | | |
| Shares - diluted GAAP | 43,621 | 42,281 |
| Shares - diluted Non-GAAP | 43,621 | 42,281 |
| | | |
| GAAP net income per share - diluted | $ 0.26 | $ 0.08 |
| Tax impact of IP restructuring | — | 0.23 |
| Share-based compensation expense | 0.24 | 0.20 |
| Amortization of acquired intangibles | 0.10 | 0.11 |
| Severance and other expenses | 0.10 | 0.02 |
| Tax effect of the adjustments above [(b)] | (0.04) | (0.03) |
| Non-GAAP net income per share - diluted | $ 0.66 | $ 0.61 |
| | | |
| **Reconciliation of GAAP net income to non-GAAP Adjusted EBITDA[(c)]:** | | |
| GAAP net income | $ 11,311 | $ 3,284 |
| Share-based compensation expense | 10,659 | 8,410 |
| Interest (income) and expense, net | (14) | 706 |
| Depreciation and amortization expense | 14,043 | 12,637 |
| Severance and other expenses | 4,342 | 859 |
| Income tax expense | 18 | 8,067 |
| Non-GAAP adjusted EBITDA | $ 40,359 | $ 33,963 |
| | | |
| **Reconciliation of GAAP net cash provided by operating activities to non-GAAP free cash flow:** | | |
| GAAP net cash provided by operating activities | $ 25,231 | $ 26,497 |
| Software development for external use | (10,602) | (11,717) |
| Purchases of property and equipment | (3,173) | (4,980) |
| Non-GAAP free cash flow | $ 11,456 | $ 9,800 |

(a) For the three months ended March 31, 2020 and 2019, other expenses include $0.2 million and $0.6 million of amortization of debt issuance costs, respectively, and $0.5 million and $0.3 million of IP and legal entities restructuring costs, respectively.

(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, except per share data and percentage)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Reconciliation of GAAP revenues to non-GAAP revenues:** | | |
| GAAP revenues | $ 229,686 | $ 202,517 |
| Non-GAAP revenues | $ 229,686 | $ 202,517 |
| | | |
| **Reconciliation of GAAP gross profit to non-GAAP gross profit:** | | |
| GAAP gross profit | $ 109,622 | $ 97,117 |
| GAAP gross margin | *47.7%* | *48.0%* |
| Share-based compensation expense | 1,770 | 1,462 |
| Amortization of acquired intangibles | 2,035 | 2,066 |
| Severance and other expenses | 75 | — |
| Non-GAAP gross profit | $ 113,502 | $ 100,645 |
| Non-GAAP gross margin | *49.4%* | *49.7%* |
| | | |
| **Reconciliation of GAAP operating expenses to non-GAAP operating expenses:** | | |
| GAAP operating expenses | $ 97,471 | $ 84,356 |
| GAAP operating expenses % to total revenues | *42.4%* | *41.7%* |
| Share-based compensation expense | (8,889) | (6,948) |
| Amortization of acquired intangibles | (2,395) | (2,716) |
| Severance and other expenses | (4,026) | (286) |
| Non-GAAP operating expenses | $ 82,161 | $ 74,406 |
| Non-GAAP operating expenses % to total non-GAAP revenues | *35.8%* | *36.7%* |
| | | |
| **Reconciliation of GAAP income from operations to non-GAAP income from operations:** | | |
| GAAP income from operations | $ 12,151 | $ 12,761 |
| GAAP operating income % to total revenues | *5.3%* | *6.3%* |
| Share-based compensation expense | 10,659 | 8,410 |
| Amortization of acquired intangibles | 4,430 | 4,782 |
| Severance and other expenses | 4,101 | 286 |
| Non-GAAP income from operations | $ 31,341 | $ 26,239 |
| Non-GAAP operating income % to total non-GAAP revenues | *13.6%* | *13.0%* |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Operating Activities** | | |
| Net income | $ 11,311 | $ 3,284 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,043 | 12,637 |
| Loss on disposal of property and equipment | — | 355 |
| Share-based compensation expense | 10,659 | 8,410 |
| Deferred income taxes | (1,149) | 3,075 |
| Amortization of operating lease right-of-use assets | 2,682 | 2,602 |
| Amortization of debt issuance costs | 241 | 573 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and unbilled receivables | (16,052) | (7,251) |
| Inventories | (5,734) | (2,936) |
| Prepaid expenses | 323 | 3,652 |
| Other current assets | 968 | 373 |
| Investment in sales-type leases | (268) | (2,641) |
| Prepaid commissions | 2,881 | 2,474 |
| Other long-term assets | (2,844) | 5,206 |
| Accounts payable | 208 | (233) |
| Accrued compensation | (9,165) | (12,604) |
| Accrued liabilities | 2,734 | 127 |
| Deferred revenues | 16,868 | 7,989 |
| Operating lease liabilities | (2,784) | (2,669) |
| Other long-term liabilities | 309 | 4,074 |
| Net cash provided by operating activities | 25,231 | 26,497 |
| **Investing Activities** | | |
| Software development for external use | (10,602) | (11,717) |
| Purchases of property and equipment | (3,173) | (4,980) |
| Net cash used in investing activities | (13,775) | (16,697) |
| **Financing Activities** | | |
| Repayment of debt and revolving credit facility | (50,000) | (39,000) |
| At the market equity offering, net of offering costs | — | 20,216 |
| Proceeds from issuances under stock-based compensation plans | 17,659 | 20,526 |
| Employees' taxes paid related to restricted stock units | (1,425) | (1,920) |
| Net cash used in financing activities | (33,766) | (178) |
| Effect of exchange rate changes on cash and cash equivalents | (820) | 430 |
| Net increase (decrease) in cash and cash equivalents | (23,130) | 10,052 |
| Cash and cash equivalents at beginning of period | 127,210 | 67,192 |
| Cash and cash equivalents at end of period | $ 104,080 | $ 77,244 |

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

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 104,080 | $ 127,210 |
| Accounts receivable and unbilled receivables, net | 233,068 | 218,362 |
| Inventories | 112,785 | 108,011 |
| Prepaid expenses | 14,155 | 14,478 |
| Other current assets | 14,235 | 15,177 |
| Total current assets | 478,323 | 483,238 |
| Property and equipment, net | 52,997 | 54,246 |
| Long-term investment in sales-type leases, net | 19,992 | 19,750 |
| Operating lease right-of-use assets | 54,376 | 56,130 |
| Goodwill | 334,842 | 336,539 |
| Intangible assets, net | 120,063 | 124,867 |
| Long-term deferred tax assets | 14,142 | 14,142 |
| Prepaid commissions | 45,981 | 48,862 |
| Other long-term assets | 110,931 | 103,036 |
| **Total assets** | $ 1,231,647 | $ 1,240,810 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 46,788 | $ 46,380 |
| Accrued compensation | 34,990 | 44,155 |
| Accrued liabilities | 58,060 | 55,567 |
| Deferred revenues, net | 108,602 | 90,894 |
| Total current liabilities | 248,440 | 236,996 |
| Long-term deferred revenues | 6,019 | 7,083 |
| Long-term deferred tax liabilities | 37,810 | 39,090 |
| Long-term operating lease liabilities | 48,851 | 50,669 |
| Other long-term liabilities | 12,027 | 11,718 |
| Long-term debt | — | 50,000 |
| **Total liabilities** | 353,147 | 395,556 |
| Total stockholders' equity | 878,500 | 845,254 |
| **Total liabilities and stockholders' equity** | $ 1,231,647 | $ 1,240,810 |

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

| | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| **Revenues:** | | |
| Product revenues | $ 170,073 | $ 145,610 |
| Services and other revenues | 59,613 | 56,907 |
| Total revenues | 229,686 | 202,517 |
| **Cost of revenues:** | | |
| Cost of product revenues | 90,272 | 78,811 |
| Cost of services and other revenues | 29,792 | 26,589 |
| Total cost of revenues | 120,064 | 105,400 |
| **Gross profit** | 109,622 | 97,117 |
| **Operating expenses:** | | |
| Research and development | 18,652 | 16,078 |
| Selling, general, and administrative | 78,819 | 68,278 |
| Total operating expenses | 97,471 | 84,356 |
| Income from operations | 12,151 | 12,761 |
| Interest and other income (expense), net | (822) | (1,410) |
| Income before provision for income taxes | 11,329 | 11,351 |
| Provision for income taxes | 18 | 8,067 |
| **Net income** | $ 11,311 | $ 3,284 |
| **Net income per share:** | | |
| Basic | $ 0.27 | $ 0.08 |
| Diluted | $ 0.26 | $ 0.08 |
| **Weighted-average shares outstanding:** | | |
| Basic | 42,357 | 40,692 |
| Diluted | 43,621 | 42,281 |