

Omniceil, Inc. (OMCL)

\$74.48 (As of 03/13/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Omniceil's top line registered strong year-over-year growth and it continued to see solid segmental contributions. Gross margin expansion in the quarter was encouraging as well. The company is currently working on product innovation through R&D. Omniceil is expected to gain traction from product launches and digital transformation. Its efforts to better manage medications across all care settings via the autonomous pharmacy vision and partnerships with various healthcare services buoy optimism. It put up a robust show in the fourth quarter with better-than-expected revenue results. Over the past six months, its shares have outperformed the industry it belongs to. However, Omniceil's earnings lagging the consensus mark is disappointing. Contraction in adjusted operating margin and a stiff competitive landscape are concerning as well.

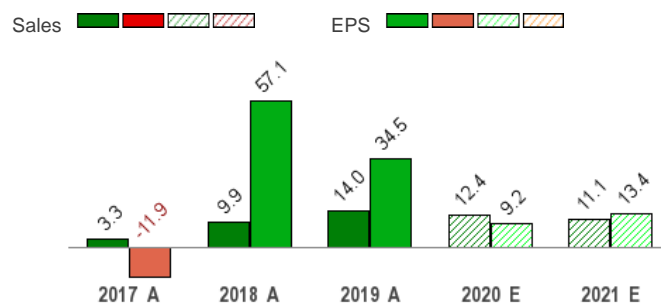
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$94.85 - \$59.68
20 Day Average Volume (sh)	250,148
Market Cap	\$3.2 B
YTD Price Change	-8.9%
Beta	0.99
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.3%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	26.5
P/E F1	24.3
PEG F1	1.6
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	251 E	272 E	287 E	311 E	1,120 E
2020	226 E	244 E	258 E	280 E	1,008 E
2019	203 A	217 A	229 A	248 A	897 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.78 E	\$0.96 E	\$1.18 E	\$3.48 E
2020	\$0.56 E	\$0.73 E	\$0.83 E	\$0.94 E	\$3.07 E
2019	\$0.61 A	\$0.67 A	\$0.76 A	\$0.77 A	\$2.81 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

Overview

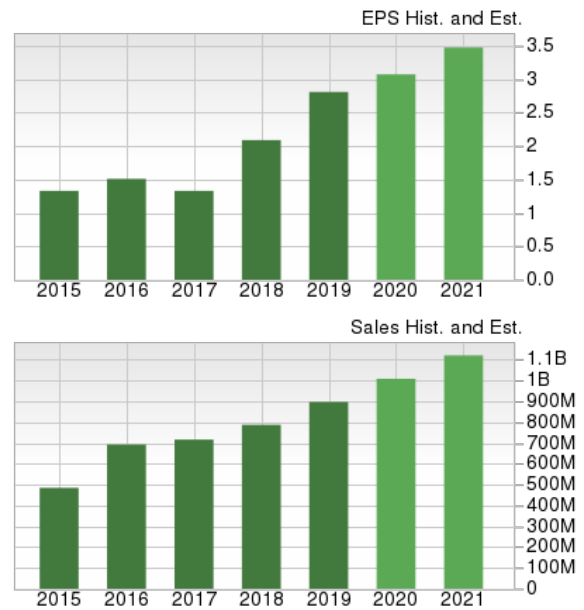
Headquartered in Mountain View, CA, Omnicell Inc., develops and markets end-to-end automation solutions for the medication-use process. These automation solutions contain medication and supply dispensing systems, central pharmacy storage, retrieval and packaging solutions, a bedside automation solution, a physician order management solution, a decision support application, and a Web-based procurement application.

The products offered by the company enable care providers to improve patient safety and increase efficiency by lowering costs. The company also adheres to regulatory compliances and addresses issues related to population health.

Omnicell previously had two reporting segments, namely Automation and Analytics, and Medication Adherence. In an effort to deliver on the vision of the autonomous pharmacy and address industry changes (including the ongoing consolidation of healthcare systems, rising pharmaceutical costs and increased scrutiny on controlled substances), Omnicell initiated a company-wide organizational realignment in the fourth quarter of 2018. It was done to centrally manage business operations, including the development and marketing of all of its products, sales and distribution, supply chain and inventory management, and regulatory and quality functions. As a result of the organizational realignment, all significant operating decisions are based upon an analysis of Omnicell as one operating segment. Thus, effective Jan 1, 2019, Omnicell reports as only one operating segment, which is the same as the reporting segment.

In 2016, Omnicell acquired Aesynt Holding, a leading player in enterprise medication management with specific products in IV compounding, Central Pharmacy automation, point of care solutions and enterprise software products.

In April 2017, Omnicell acquired InPharmics, which is an advanced pharmacy informatics solutions provider to hospital pharmacies. The buyout added clinical and compliance analytics to Omnicell's Performance Center offering.



Reasons To Buy:

- ▲ **Share Price Movement:** Over the past six months, Omnicell's shares have outperformed the industry it belongs to. The stock has gained 0.2% against the industry's 10.3% fall. We note that Omnicell is executing its Autonomous Pharmacy vision well, banking on solid growth with its core XR2 Automated Central Pharmacy system and the IVX Workflow products. The company is upbeat about the expanding base of the Autonomous Pharmacy vision due to increasing customer adoptions.

The company continued to see solid segmental contributions through the fourth quarter. Moreover, Omnicell partnered with Huron and Kit Check (both in December 2019), which instills optimism. Also, it remains upbeat about its renewed and expanded agreement with Vizient. We are encouraged to note that the company is working on product innovation through R&D. Moving ahead, Omnicell is expected to gain from product launches, partnerships and digital transformation.

Omnicell's strategic acquisitions and partnerships support each of the three legs of the company's strategy.

- ▲ **Product Innovation Driving Growth:** Omnicell is progressing well with its 3-legged strategy that covers market expansion through delivery of differentiated, innovative solutions; expansion into new markets, primarily outside the United States; and expansion through strategic partnerships and acquisition of new technologies.

The first leg of differentiated products continues to track new customers who adopt G4 platform, Omnicell's analytics tools and medication adherence solutions. There has been strong adoption of the company's G4 platform. In recent times, Omnicell has strengthened its footprint in the marketplace through its differentiated platform and innovative products including the latest XT series. The company is witnessing strong new conversion wins for this new XT series.

The company is making concerted efforts to consolidate medication management, with support from the autonomous pharmacy vision. Since 2018, it is working toward overcoming shortcomings like mounting healthcare costs by combining automation, intelligence and services, powered by its cloud data platform. This, in turn, is leading to the enhancement of operational, financial and clinical outcomes. With this, the company is progressing toward the advancement of its vision of autonomous pharmacy.

Omnicell's XT Automated Dispensing Cabinets, showcased in April 2019, are expected to enhance workflow efficiency, medication accountability and patient safety through the latest hardware technology and software features. The company's Patient Engagement platform helps guide and track patient interactions. It also enables pharmacists to deliver interventions more effectively to help improve medication use.

- ▲ **Autonomous Pharmacy Model Holds Potential:** Omnicell had recently elaborated about its vision for the Autonomous Pharmacy. Per management, the Autonomous Pharmacy vision integrates a comprehensive set of solutions across three key segments — automation solutions (designed to digitize and streamline workflows), intelligence (provides actionable insights to better understand medication usage and improve pharmacy supply chain management) and automation of medication dispensing workflows (includes expert services as an extension of pharmacy operations). These solutions will be powered by the Omnicell cloud data platform. The company believes that these solutions will address the industry-wide problem of escalating medical costs.

Omnicell is upbeat after being selected to provide a central pharmacy Robotic Dispensing System in the Bordeaux' Central Hospital University or CHU in France. Further, under a seven-year agreement, its automation and intelligence solutions have been chosen by Minnesota-based Fairview Health Services to streamline nurse pharmacy workflow. Another highlight of the quarter is the signing of a six-year sole source agreement with Geisinger (an innovative health services organization). Through the agreement, Geisinger will implement Omnicell's XT Automated Dispensing Systems across its health system.

- ▲ **Planned Geographic Expansion another Upside:** Outside the United States, the healthcare providers are becoming increasingly aware of the benefits of automation. Additionally, there is a substantial demand for adherence packaging equipment outside the domestic market. Many government and private entities are aware of the progress made over the last several years in the United States and are investing significantly in information technology and automation. Given the fact that the international market is less than 1% penetrated with very few hospitals adopting medication control systems, Omnicell has specified its second leg of strategies of expanding into new markets.

This strategy so far, is driving significant growth in the Non-Acute Care segment of Omnicell. While the company continues to focus on the Middle East, and South Africa, it sees greater adoption of technologies in other parts of the world, like Australia, United Kingdom, parts of Asia, Germany and France.

In the reported quarter, Omnicell made impressive progress with its central pharmacy robotic dispensing system in France.

- ▲ **Strategic Acquisitions and Partnerships Add Value:** The third leg of acquisition and partnerships is also progressing successfully. Partnerships with Fairview Health Services and Geisinger, to name a few, are expected to boost the company's portfolio. Other health care centers to have adopted Omnicell's technology include Duke University Hospital and Atrium Health in North Carolina; Cooper University Health Care in New Jersey; Benefis Health System in Montana; Renown Health in Nevada; and Allegheny General Hospital in Pittsburgh, PA (part of the Allegheny Health Network). Omnicell's partnership with Kit Check to offer Bluesight for Controlled Substances diversion prevention software is aimed at helping customers gain better visibility of controlled substances across the pharmacy supply chain. Another notable collaboration that Omnicell signed was with Huron (a global professional services firm) to provide project implementation and change management services for customers adopting Omnicell's technology.
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Reasons To Sell:

▼ **Escalating Costs and Expenses:** Omnicell has adopted several strategies to drive its top line including portfolio expansion, acquisitions and further penetration in the medication adherence market. Thus, the company continues to battle escalating costs. Also, the company continues to expect higher costs in the upcoming quarters stemming from integration of new acquisitions and the expenses related to the XT series and IV workflow.

▼ **Competitive Landscape:** Omnicell faces intense competition in the medication management and supply chain solutions market. Even though the company continues to gain market share from other traditional providers of medication management and supply chain solutions, major players such as Becton Dickinson/CareFusion Corporation, ARxIUM, Cerner Corporation, Talyst, Inc., Emerson Electronic Co., WaveMark Inc. Major direct competitors in the medication packaging solutions market include Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of ARxIUM), Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. still pose threats as they spearhead several expansion programs. This increased competition could result in pricing pressure and a reduced margin, which would have an adverse impact on the company's performance.

▼ **Tough Hospital Spending Trends:** Hospital purchases continue to remain a challenge for the small community hospitals compared with the bigger ones owing to financial constraints. This is reflected in the data provided by the company, which suggests that 70% of small hospitals in the United States deploy automated dispensing cabinets versus 96% and 99% for medium and large hospitals, respectively. The hospitals continue to remain cautious with respect to capital spending in the current economic environment. Thus, a resilient hospital capital expenditure environment might adversely affect the adoption of Omnicell's solutions. Moreover, the reimbursement mix has also affected the endowments income, further affecting hospital spending capabilities. While the company has won some new deals in larger hospitals, the market is still susceptible to the economy and credit conditions.

Increasing cost of production continues to hamper the company's margin performance. Weak Hospital Spending Trends and tough competition also pose threats.

Last Earnings Report

Omniceil Q4 Earnings Lag Estimates, Revenues Beat

Omniceil announced fourth-quarter fiscal 2019 results, wherein adjusted earnings per share were 77 cents, up 10% year over year. However, the metric missed the Zacks Consensus Estimate by a penny.

On a GAAP (reported) basis, earnings per share were 51 cents for the quarter under review, reflecting an increase of 41.7% from the year-ago period.

Full-year adjusted earnings per share were \$2.81, reflecting a 34.4% increase from the year-ago period. Further, the metric lagged the Zacks Consensus Estimate of \$2.82.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	2.20%
EPS Surprise	-1.28%
Quarterly EPS	0.77
Annual EPS (TTM)	2.81

Revenues in Detail

Fourth-quarter revenues increased 17.3% year over year to \$248.3 million. The figure surpassed the Zacks Consensus Estimate by 2.2%.

Yearly revenues were \$897 million, reflecting a 13.9% increase from the year-ago period. Revenues beat the Zacks Consensus Estimate by 0.6%.

Segmental Details

On a segmental basis, **Product** revenues improved 21% year over year to \$187.1 million in the reported quarter.

Service and other revenues rose 7% year over year to \$61.2 million.

Operational Update

In the quarter under review, Omnicell's adjusted gross profit rose 19.1% to \$127.1 million. Further, adjusted gross margin expanded 80 basis points (bps) to 51.2%.

However, adjusted operating expenses were \$90.5 million in the fourth quarter, up 24.9% year over year. Adjusted operating profit totaled \$36.6 million, reflecting a 6.5% increase from the prior-year quarter. However, adjusted operating margin in the fourth quarter dipped 9 bps to 14.7%.

Financial Update

Omniceil exited the year with cash and cash equivalents of \$127.2 million compared with \$67.2 million at the end of 2018.

At the end of 2019, cash flow from operating activities was \$145 million compared with \$103.9 million at the end of 2018.

Guidance

For the first quarter of 2020, Omnicell expects adjusted revenues between \$221 million and \$227 million. The Zacks Consensus Estimate for the metric is pegged at \$224 million.

On an adjusted basis, product revenues are expected between \$163 million and \$168 million, while service revenues are projected to be \$58-\$59 million for the quarter.

Fourth-quarter adjusted earnings per share are envisioned to be 52-57 cents. The Zacks Consensus Estimate for the same is pegged at 56 cents.

For the year, the company expects adjusted revenues between \$1 billion and \$1.02 billion. The Zacks Consensus Estimate for the metric is pegged at \$986.1 million.

For 2020, the anticipated ranges for product and service revenues are \$752-\$768 million and \$248-\$252 million, respectively.

Adjusted earnings per share are expected between \$2.96 and \$3.16 for fiscal 2020. The Zacks Consensus Estimate for the metric stands at \$3.04.

Recent News

On **Feb 10, 2020**, Omnicell inked a six-year sole source agreement with Geisinger (a key health system, serving Pennsylvania and New Jersey) to improve clinical and operational efficiency, increase medication safety, and reduce costs. Per the agreement, Omnicell will allow Geisinger to utilize its XT Automated Dispensing Systems to enhance nurse-pharmacy workflows, and medication safety and security.

On **Feb 3, 2020**, Omnicell announced significant clinical enhancements and expansion of the Company's unique IV compounding service, which combines advanced technology, clinical expertise, operational support, and workflow/analytics to address challenges in sterile compounding.

On **Jan 28, 2020**, Omnicell announced that a number of leading-edge health systems across North America, like Duke University Hospital, are adopting the Company's point-of-care automated workflow technology — XT Automated Dispensing Systems.

On **Jan 21, 2020**, Omnicell inked a partnership with Allegheny General Hospital, PA (part of Allegheny Health Network) incorporated Omnicell's Central Pharmacy IV Compounding Service — a comprehensive, turnkey approach for insourcing some sterile compounding operations.

Valuation

Omnicell shares are down 8.9% in the year to date period and down 10.6% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 15.3% while the Zacks Medical sector fell 12.8% in the year to date period. Over the past year, the Zacks sub-industry is down 9.4% and sector is down 13.8%.

The S&P 500 index is down 15.8% in the year to date period and down 5.2% in the past year.

The stock is currently trading at 3.1X Forward 12-months sales, which compares to 1.8X for the Zacks sub-industry, 2.4X for the Zacks sector and 2.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.1X and as low as 1.3X, with a 5-year median 2.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 3.2X forward 12-months sales.

The table below shows summary valuation data for OMCL.

Valuation Multiples - OMCL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.07	1.76	2.44	2.90
	5-Year High	4.10	3.15	3.84	3.44
	5-Year Low	1.26	1.61	2.44	2.54
	5-Year Median	2.37	2.30	2.96	3.00
P/B TTM	Current	3.70	2.44	4.00	3.65
	5-Year High	5.20	4.47	5.05	4.56
	5-Year Low	2.24	2.13	3.45	2.85
	5-Year Median	3.46	3.06	4.32	3.63
EV/EBITDA TTM	Current	17.30	8.45	9.45	10.05
	5-Year High	52.93	14.49	14.18	12.87
	5-Year Low	10.42	7.72	8.43	8.31
	5-Year Median	19.33	9.99	10.27	10.78

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

Cardinal Health, Inc. (CAH)	Outperform
Baxter International Inc. (BAX)	Neutral
Cerner Corporation (CERN)	Neutral
International Business Machines Corporation (IBM)	Neutral
McKesson Corporation (MCK)	Neutral
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral
Oracle Corporation (ORCL)	Neutral
Becton, Dickinson and Company (BDX)	Underperform

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	OMCL Neutral	X Industry	S&P 500	BDX Underperform	IBM Neutral	MDRX Neutral
VGM Score	B	-	-	D	C	C
Market Cap	3.16 B	176.99 M	19.05 B	64.13 B	95.90 B	992.48 M
# of Analysts	3	4	13	12	7	12
Dividend Yield	0.00%	0.00%	2.31%	1.34%	6.00%	0.00%
Value Score	D	-	-	D	B	B
Cash/Price	0.04	0.07	0.05	0.01	0.08	0.11
EV/EBITDA	21.33	-0.78	11.57	19.78	8.03	16.32
PEG Ratio	1.41	1.51	1.68	2.00	1.48	0.86
Price/Book (P/B)	3.70	2.18	2.56	3.03	4.56	0.77
Price/Cash Flow (P/CF)	19.50	9.97	10.18	11.38	5.46	2.97
P/E (F1)	21.09	15.63	14.94	19.77	8.08	8.41
Price/Sales (P/S)	3.53	2.82	2.02	3.70	1.24	0.56
Earnings Yield	4.12%	-2.33%	6.67%	5.06%	12.38%	11.97%
Debt/Equity	0.06	0.11	0.70	0.80	2.58	0.50
Cash Flow (\$/share)	3.82	-0.06	7.01	20.77	19.75	2.06
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	15.50%	14.79%	10.85%	12.78%	-3.50%	17.51%
Proj. EPS Growth (F1/F0)	9.37%	7.67%	5.99%	2.41%	4.27%	8.21%
Curr. Cash Flow Growth	38.80%	21.88%	6.15%	14.64%	2.09%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	22.49%	12.19%	8.52%	24.86%	-3.76%	10.24%
Current Ratio	2.04	1.97	1.24	0.96	1.02	0.69
Debt/Capital	5.59%	15.47%	42.57%	44.43%	72.05%	33.46%
Net Margin	6.84%	-21.15%	11.64%	4.96%	12.23%	-10.28%
Return on Equity	11.76%	-42.42%	16.74%	15.50%	62.27%	5.71%
Sales/Assets	0.74	0.60	0.54	0.33	0.53	0.55
Proj. Sales Growth (F1/F0)	12.39%	22.61%	3.54%	2.05%	1.66%	0.95%
Momentum Score	A	-	-	F	C	D
Daily Price Chg	13.71%	0.00%	8.21%	7.22%	5.00%	10.71%
1 Week Price Chg	1.83%	-0.84%	-0.67%	0.55%	-1.86%	1.33%
4 Week Price Chg	-17.42%	-22.48%	-22.67%	-7.02%	-30.04%	-32.67%
12 Week Price Chg	-9.28%	-10.46%	-20.46%	-11.71%	-19.78%	-37.44%
52 Week Price Chg	-11.96%	-29.38%	-10.79%	-6.25%	-22.22%	-41.63%
20 Day Average Volume	250,148	445,705	3,061,271	2,220,719	6,764,485	2,758,890
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.03%	-1.64%
(F1) EPS Est 4 week change	1.88%	-0.68%	-0.32%	-0.06%	-0.03%	-5.68%
(F1) EPS Est 12 week change	1.55%	-4.77%	-0.65%	-4.81%	1.31%	-7.41%
(Q1) EPS Est Mthly Chg	3.21%	-7.74%	-0.62%	-3.32%	0.12%	-15.88%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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