

Omniceil, Inc. (OMCL)

\$87.52 (As of 01/16/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

Over the past three months, Omnicell's shares have outperformed the industry it belongs to. The top line registered strong year-over-year growth and solid segmental contributions in the third quarter. Currently, the company is working on product innovation through R&D. It is progressing well with its 3-legged strategy. Moving ahead, it is expected to gain from product launches and digital transformation. Omnicell renewed and expanded its agreement with Vizient for the progress of its products. The expansion of gross and operating margins in the reported quarter is encouraging as well. An upbeat 2019 guidance indicates that the robust trend will continue for the rest of the year. It put up a solid show in the third quarter, with better-than-expected adjusted earnings. However, tough competitive landscape and escalating costs are concerning.

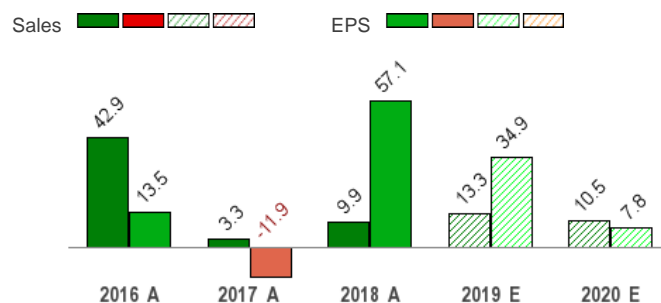
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.59 - \$62.40
20 Day Average Volume (sh)	181,367
Market Cap	\$3.7 B
YTD Price Change	7.1%
Beta	1.12
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Top 36% (92 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.6%
Last Sales Surprise	-1.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	31.9
P/E F1	28.8
PEG F1	1.9
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	224 E	240 E	253 E	269 E	986 E
2019	203 A	217 A	229 A	243 E	892 E
2018	183 A	189 A	204 A	212 A	787 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.56 E	\$0.71 E	\$0.83 E	\$0.90 E	\$3.04 E
2019	\$0.61 A	\$0.67 A	\$0.76 A	\$0.78 E	\$2.82 E
2018	\$0.29 A	\$0.46 A	\$0.63 A	\$0.70 A	\$2.09 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 01/16/2020. The reports text is as of 01/17/2020.

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.

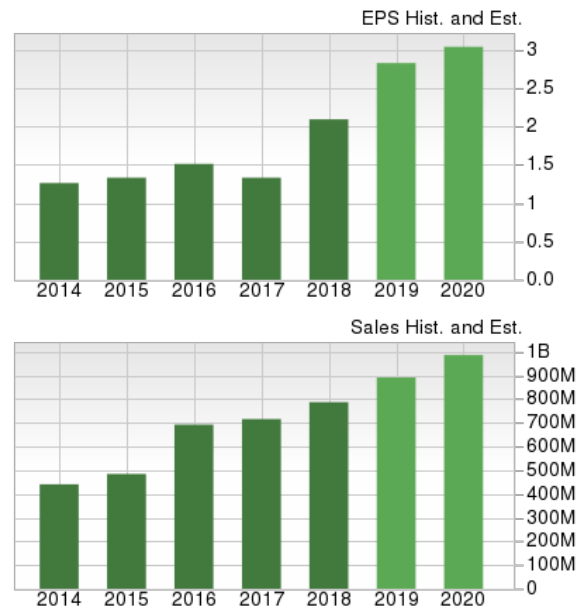
The products offered by the company enable care providers to improve patient safety and increase efficiency by lowering costs. The company also adheres to regulatory compliances and addresses issues related to population health.

Omnicell currently has two reporting segments, namely Automation and Analytics and Medication Adherence.

The **Automation & Analytics** (83.3% of total revenues in fiscal 2018, underlying growth rate of 9.6% from fiscal 2017) segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. The segment includes XT and OmniRx Automated Dispensing Cabinets, Anesthesia Workstations, Central Pharmacy, Omnicell Supply, Omnicell Analytics, Performance Center and MACH4 robotic dispensing systems. Also, the acquisitions of Avantech, MACH4, Aesynt and InPharmics are included in this segment.

The **Medication Adherence** (16.7%; up 2.6%) segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services. The acquisitions of MTS, Medication Technologies, SurgiChem Limited and Ateb are included in the Medication Adherence 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.



Reasons To Buy:

▲ **Share Price Movement:** Over the past three months, Omnicell's shares have been outperforming the industry it belongs to. The stock has gained 14.9% compared to the industry's 13.2% growth. We note that, Omnicell is executing its Autonomous Pharmacy vision well, banking on solid growth with its core XR2 Central Pharmacy robotic dispensing 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 third quarter. Moreover, Omnicell renewed and expanded the initial five-year agreement with Vizient to work toward the advancement of XR2 and IVX Workflow products. 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.

▲ **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.

In 2018, the company announced the IVX Workflow powered by IVX Cloud and the XR2 Automated Central Pharmacy System. The company is upbeat about the launch of the XR2 Central Pharmacy Robot and the IVX Workflow. These products expand Omnicell's core capabilities in automating the flow of medications through the hospital. The company has also widened its population health product portfolio with the introduction of capabilities in its patient engagement platform. Omnicell has also started to develop contacts with payers to use these solutions to deliver enhanced patient care.

Throughout 2019 and beyond, Omnicell expects to witness continuous growth in the pipeline, bookings, and live XT frames.

▲ **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.

In the third quarter, Omnicell's XT automated dispensing systems were implemented by Salem Health's (a key health care provider in OR's Mid-Willamette Valley) hospitals and clinics. Additionally, Salem Health will integrate XT automated dispensing systems to the hospital's electronic health record system to streamline workflows, improve efficiencies of nursing pharmacy and increase patient safety.

In the government sector, the selection of Omnicell XR2 Automated Central Pharmacy System in the VA Health Care System in North Carolina and Teague Veterans' Medical Center in Central Texas is a significant progress toward building a fully Autonomous Pharmacy. The IV automation is also progressing well, which is clear from its inclusion in facilities like Cincinnati VA Medical Center and VA of Los Angeles.

▲ **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.

Internationally, the company announced its first IV robotics deal and forayed into the South Korean market with several hospital locations.

▲ **Strategic Acquisitions and Partnerships Add Value:** The third leg of acquisition and partnerships is also progressing successfully. Some of the partnerships inked by the company in the third quarter — including Spartanburg Regional Healthcare System (an integrated healthcare delivery network in South and North Carolina) — have selected Omnicell Solutions for flagship research.

Additionally, the company has secured several long-term partnership commitments with leading healthcare systems including St. Luke's University Health Network in Eastern Pennsylvania and Western New Jersey, Northern Arizona Healthcare and in Charlotte, North Carolina's based Atrium Health. These three health systems alone represent approximately 1% of the U.S. hospital market, based on total bed count. In the second quarter, more than 80% of these deals are anchored by long-term commitments and above 90% of these customers are expected to purchase multiple products from the Omnicell platform.

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

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 recently launched 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 Beats on Q3 Earnings, Raises '19 Earnings View

Omniceil's third-quarter 2019 adjusted earnings per share of 76 cents outpaced the Zacks Consensus Estimate by 5.6%.

Also, adjusted earnings per share increased 20.6% from the year-ago figure and surpassed the company's guidance of 67-72 cents.

Revenues in Detail

Revenues in the third quarter increased 11.9% year over year to \$228.8 million. However, the top line missed the Zacks Consensus Estimate of \$232.5 million.

Quarterly Details

On a segmental basis, **Product revenues** improved 12.6% year over year to \$168.5 million in the reported quarter.

Moreover, **Service and other revenues** grew 10.4% year over year to \$60.3 million.

Operational Update

In the quarter under review, Omniceil's adjusted gross profit rose 12.4% to \$115.5 million. Further, adjusted gross margin expanded 20 basis points (bps) to 50.5%.

However, adjusted operating expenses were \$77.6 million in the third quarter, up 7% year over year. Meanwhile, adjusted operating profit totaled \$37.9 million, reflecting 25.1% rise from the prior-year quarter. Adjusted operating margin in the third quarter grew 180 bps to 16.6%.

Financial Update

Omniceil exited the third quarter with cash and cash equivalents of \$137.2 million compared with \$87.5 million at the end of the second quarter.

Guidance

For the fourth quarter of 2019, Omniceil expects adjusted revenues between \$240 million and \$246 million. The Zacks Consensus Estimate for the metric stands at \$244.3 million, within the company's guided range.

On an adjusted basis, it expects product revenues between \$181 million and \$186 million, while service revenues are projected to be \$59-\$60 million.

The company anticipates fourth-quarter adjusted earnings per share of 75-80 cents. The Zacks Consensus Estimate for the same is pegged at 81 cents, above the upper end of the guided range.

For 2019, the company expects adjusted revenues of \$889-\$895 million, narrowed from \$886-\$900 million mentioned earlier. The Zacks Consensus Estimate for the same is pegged at \$896.7 million, ahead of the guided range.

The company tightened Product revenues for the year to \$653-\$658 million (compared with \$653-\$663 million mentioned earlier) while narrowed service revenues to \$236-\$237 million (compared with \$233-\$237 million stated previously).

The company anticipates adjusted earnings per share between \$2.79 and \$2.84 for 2019, raised from \$2.65-\$2.82 mentioned earlier. The Zacks Consensus Estimate for the metric stands at \$2.79, in line with the lower end of the company's guided range.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.60%
EPS Surprise	5.56%
Quarterly EPS	0.76
Annual EPS (TTM)	2.74

Recent News

On **Dec 9, 2019**, Omnicell entered into a collaboration with Kit Check to offer Bluesight for Controlled Substances diversion prevention software. This is expected to help customers gain better visibility of controlled substances across the pharmacy supply chain.

On **Dec 9, 2019**, Omnicell entered into partnership with Huron (a global professional services firm) to provide project implementation and change management services for customers adopting Omnicell's technology.

On **Dec 5, 2019**, Omnicell announced its participation in American Society of Health-System Pharmacists 2019 Midyear Meeting to be held in Las Vegas from December 7-11, 2019. The company will be showcasing its latest progresses to its medication management solution portfolio, thus advancing the company's vision for the autonomous pharmacy.

On **Oct 21, 2019**, Omnicell signed a sole source agreement with Med Center Health to streamline and secure Omnicell's medication management process. The health system will upgrade to Omnicell XT Automated Dispensing Cabinets to help improve security and nurse-pharmacy workflows.

On **Oct 17, 2019**, Omnicell announced that Mercy will support medication management across its service network through Omnicell automation and intelligence solutions. Mercy is among the top five U.S. health systems that currently serves Arkansas, Kansas, Missouri and Oklahoma.

On **Oct 8, 2019**, Omnicell entered into a collaboration with Salem Health Hospitals & Clinics to improve safety and efficiency in the medication management processes of the hospital through Omnicell's automation and intelligence solutions at their Salem Hospital, in Salem, OR.

On **Oct 8, 2019**, Omnicell announced receiving support in medication management from Mercy, one of the top five health systems in the United States. The agreement has been signed for a period of ten year. Per the terms, Mercy will automate medication dispensing and storage in Central Pharmacy and streamline workflows in patient care.

Valuation

Omnicell shares are up 25.7% in the past-six-month period and up 29.4% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 6.3% while the Zacks Medical sector rose 7.2% in the past-six-month period. Over the past year, the Zacks sub-industry is up 20.1% and sector is up 4.3%.

The S&P 500 index is up 10.5% in the past-six month period and up 35.7% in the past year.

The stock is currently trading at 3.71X Forward 12-months sales, which compares to 2.2X for the Zacks sub-industry, 2.9X for the Zacks sector and 3.5X 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 \$92 price target reflects 3.9X 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	3.71	2.23	2.87	3.53
	5Year High	4.10	3.15	3.81	3.53
	5-Year Low	1.26	1.61	2.42	2.54
	5-Year Median	2.35	2.31	2.93	3.00
P/B TTM	Current	4.55	3.07	4.58	4.50
	5-Year High	5.20	4.47	5.02	4.50
	5-Year Low	2.24	2.13	3.42	2.85
	5-Year Median	3.41	3.08	4.28	3.61
EV/EBITDA TTM	Current	19.35	9.99	10.54	12.12
	5-Year High	52.94	14.49	14.06	12.86
	5-Year Low	10.42	7.75	8.43	8.48
	5-Year Median	18.86	10.01	10.18	10.67

As of 1/16/2020

Industry Analysis Zacks Industry Rank: Top 36% (92 out of 254)



Top Peers

Baxter International Inc. (BAX)	Neutral
Becton, Dickinson and Company (BDX)	Neutral
Cardinal Health, Inc. (CAH)	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

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	OMCL Neutral	X Industry	S&P 500	BDX Neutral	IBM Neutral	MDRX Neutral
VGM Score	B	-	-	A	B	B
Market Cap	3.67 B	249.46 M	24.61 B	74.88 B	122.20 B	1.60 B
# of Analysts	4	4	13	12	8	14
Dividend Yield	0.00%	0.00%	1.74%	1.14%	4.70%	0.00%
Value Score	C	-	-	C	A	A
Cash/Price	0.04	0.09	0.04	0.01	0.09	0.09
EV/EBITDA	40.45	-1.66	14.24	22.70	10.45	7.84
PEG Ratio	1.92	1.92	2.07	1.98	2.09	1.25
Price/Book (P/B)	4.55	2.92	3.38	3.55	6.75	1.28
Price/Cash Flow (P/CF)	30.05	14.00	13.75	13.33	7.32	5.67
P/E (F1)	28.79	22.61	19.09	22.03	10.45	12.88
Price/Sales (P/S)	4.27	4.24	2.68	4.33	1.58	0.91
Earnings Yield	3.47%	-1.25%	5.24%	4.54%	9.57%	7.72%
Debt/Equity	0.10	0.10	0.72	0.86	3.40	0.51
Cash Flow (\$/share)	2.91	-0.04	6.94	20.77	18.86	1.74
Growth Score	A	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	7.43%	13.24%	10.56%	13.51%	-3.75%	21.95%
Proj. EPS Growth (F1/F0)	7.53%	17.60%	7.57%	7.58%	3.21%	11.86%
Curr. Cash Flow Growth	91.32%	33.26%	14.73%	14.64%	-1.93%	24.91%
Hist. Cash Flow Growth (3-5 yrs)	20.27%	13.08%	9.00%	24.86%	-5.41%	8.69%
Current Ratio	2.09	1.75	1.24	1.18	1.09	0.66
Debt/Capital	8.72%	16.57%	42.99%	46.17%	77.29%	33.83%
Net Margin	6.28%	-21.53%	11.14%	6.84%	10.00%	12.00%
Return on Equity	11.90%	-19.61%	17.16%	15.52%	67.12%	5.98%
Sales/Assets	0.73	0.61	0.55	0.33	0.55	0.55
Proj. Sales Growth (F1/F0)	10.60%	22.09%	4.16%	4.27%	2.94%	4.02%
Momentum Score	F	-	-	A	A	A
Daily Price Chg	2.42%	1.18%	0.89%	-0.16%	1.00%	2.13%
1 Week Price Chg	-0.77%	4.12%	0.39%	1.81%	1.75%	-0.83%
4 Week Price Chg	6.60%	10.47%	2.65%	3.36%	2.54%	1.03%
12 Week Price Chg	15.68%	13.84%	7.55%	12.60%	2.92%	-10.46%
52 Week Price Chg	31.57%	-20.00%	22.12%	17.26%	12.92%	-15.60%
20 Day Average Volume	181,367	227,405	1,536,375	994,686	3,101,905	2,062,800
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.18%	-0.92%
(F1) EPS Est 12 week change	0.94%	-0.44%	-0.40%	-2.74%	0.13%	1.44%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.21%	0.00%	4.96%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	A
Momentum Score	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.