

## Omniceil, Inc. (OMCL)

**\$68.45** (As of 06/25/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 06/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:B

Value: C

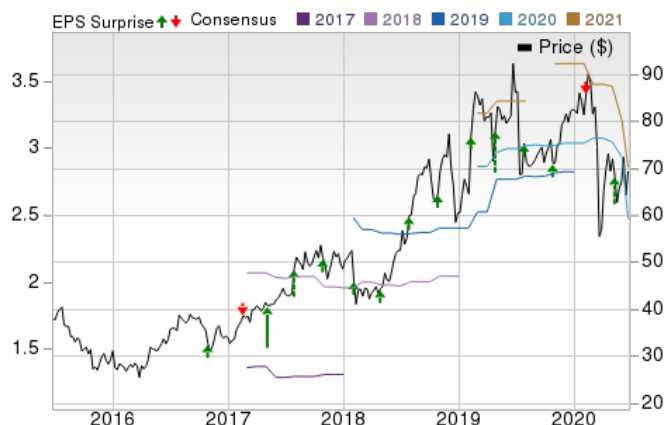
Growth: A

Momentum: D

### Summary

Over the past six months, Omnicell's shares have underperformed the industry it belongs to. The ongoing pandemic-led business disruptions are worrying. Contraction of adjusted gross margin and rising expenses are deterring. Guidance withdrawal also does not bode well. Other headwinds like stiff competitive landscape and tough hospital spending trends persist. Omnicell exited the first quarter of 2020 with better-than-expected results. The top line saw strong year-over-year growth as the company continued to see solid segmental contributions. Its efforts to better manage medications across all care settings via the autonomous pharmacy vision and partnerships with various healthcare services buoy optimism. A strong liquidity, solvency and capital structure is an added plus.

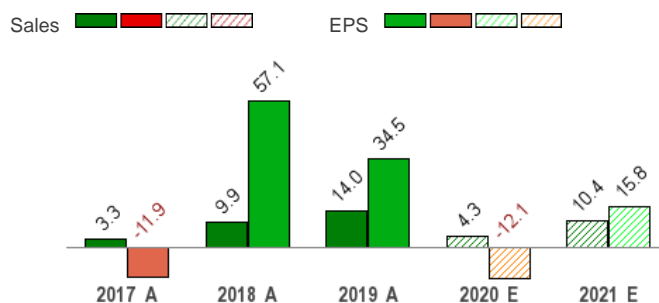
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$94.85 - \$54.24
20 Day Average Volume (sh)	307,217
Market Cap	\$2.9 B
YTD Price Change	-16.2%
Beta	1.02
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical Info Systems</a>
Zacks Industry Rank	Top 41% (104 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-18.9%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	23.9
P/E F1	27.7
PEG F1	1.9
P/S TTM	3.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	244 E	234 E	259 E	296 E	1,033 E
2020	230 A	199 E	237 E	270 E	936 E
2019	203 A	217 A	229 A	248 A	897 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.62 E	\$0.80 E	\$1.02 E	\$2.86 E
2020	\$0.66 A	\$0.46 E	\$0.73 E	\$0.85 E	\$2.47 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 06/25/2020. The reports text is as of 06/26/2020.

## Overview

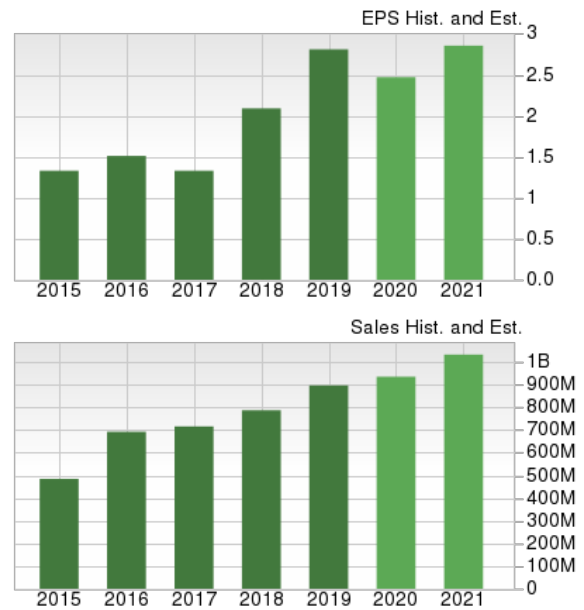
Headquartered in Mountain View, CA, Omnicell Inc., develops and markets end-to-end automation solutions for the medication-use process. These automation solutions contain medication and supply dispensing systems, central pharmacy storage, retrieval and packaging solutions, a bedside automation solution, 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 Sell:

▼ **Share Price Movement:** Over the past six months, Omnicell's shares have underperformed the industry it belongs to. The stock has lost 17% against the industry's 3.9% fall. The pandemic has impacted the company's first-quarter 2020 results with slowdown in product bookings during the second half of March 2020. With respect to bookings for new sales, beginning the second half of March, the company started witnessing slowdown in hospital purchasing decisions. Contraction of adjusted gross margin, and escalating costs and expenses are also discouraging. Withdrawal of previously issued 2020 guidance is concerning too. Other headwinds in the form of a stiff competitive landscape and tough hospital spending trends continue to bother the company.

▼ **Coronavirus Impact Pronounced:** The coronavirus pandemic has been wreaking havoc on the economy and the impact on Omnicell has been damaging as well. The company noted that since the second half of March till the time of the earnings call, it witnessed significantly lower product bookings as well as slowdown in purchasing decisions by hospitals. Additionally, through the second quarter, the company's scope to access hospitals in order to implement capital equipment will likely be delayed in many cases, as many hospitals are used for treating coronavirus patients. Overall, the company noted that its bookings are behind the internal estimates as of now.

Further, since Omnicell is currently unable to gauge the scope, duration and impact of the pandemic and is also uncertain about the timing of global recovery and economic normalization, it had to withdraw its previously issued 2020 guidance.

▼ **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.

In the first quarter of 2020, selling, general, and administrative expenses escalated 15.4% whereas R&D expenses surged 16%, thus pushing up adjusted operating expenses by 15.5%.

▼ **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 like 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.

---

## Risks

- **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. In recent times, the company is witnessing strong new conversion wins for its new XT series. As of Mar 31, approximately 24% of the company's existing installed base of previous generations for automated dispensing cabinets have placed orders to upgrade to the new XT Series.

The company is making concerted efforts to consolidate medication management, with support from the autonomous pharmacy vision. The company is currently progressing toward the advancement of its vision of autonomous pharmacy.

Omniceil's XT Automated Dispensing Cabinets, showcased in April 2019, are enhancing 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 has an elaborate 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).

In this regard, Omnicell being selected to provide a central pharmacy Robotic Dispensing System in the Bordeaux' Central Hospital University or CHU in France buoys optimism. 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. Also, the six-year sole source agreement with Geisinger (an innovative health services organization) for implementing Omnicell's XT Automated Dispensing Systems across its health system boosts investors' confidence.

- **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, U.K., parts of Asia, Germany and 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).

Omniceil'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.

- **Strong Liquidity, Solvency and Capital Structure:** Omnicell exited the first quarter of 2020 with cash and cash equivalents of \$104 million compared with \$127 million at the end of 2019. Meanwhile, the company finished the quarter with no debt on its balance sheet, which was \$50 million in the sequentially last reported quarter.

The company's cash flow trend also remains robust. Net cash provided by operating activities at the end of the first quarter was \$25.2 million and free cash flow was \$11.5 million (after deducting software development charges and net capital expenditures of approximately \$10.6 million and \$3.2 million, respectively). This compares with the year-ago operating cash flow of \$26.5 million and free cash flow of \$9.8 million (software development charges and net capital expenditures were \$11.7 million and \$4.9 million, respectively, in the year-ago quarter).

---

## Last Earnings Report

### Omniceil Q1 Earnings Top, Operating Margin Rises

Omniceil's first-quarter 2020 adjusted earnings per share were 66 cents, up 8.2% year over year. The metric exceeded the Zacks Consensus Estimate by 22.2%.

On a GAAP basis, earnings per share was 26 cents for the quarter under review, reflecting a stupendous rise from 8 cents in the year-ago quarter.

### Revenues in Detail

First-quarter revenues of \$229.7 million increased 13.4% year over year on a reported basis (same on an adjusted basis). The figure beat the Zacks Consensus Estimate by 1.6%.

### Segmental Details

On a segmental basis, **Product** revenues improved 16.8% year over year to \$170.1 million in the reported quarter.

**Service and other** revenues climbed 4.8% year over year to \$59.6 million.

With regard to COVID-19 impact on the company's business, Omnicell noted that during the second half of March 2020, it started to see a slowdown in product bookings. With respect to bookings for new sales, beginning the second half of March, the company started witnessing slowdown in hospital purchasing decisions.

### Operational Update

In the quarter under review, Omnicell's adjusted gross profit rose 12.8% to \$113.5 million. However, adjusted gross margin contracted 30 basis points (bps) to 49.4%.

Adjusted operating expenses were \$82.2 million in the first quarter, up 10.5% year over year. Adjusted operating profit totaled \$31.3 million, reflecting a 19.5% increase from the prior-year quarter. Adjusted operating margin in the first quarter expanded 60 bps to 13.6%.

### Financial Update

Omniceil exited the first quarter with cash and cash equivalents of \$337.1 million compared with \$345.6 million at the end of 2019.

At the end of the first quarter, cash flow from operating activities was \$25.2 million compared with \$26.5 million a year ago.

### Guidance

Omniceil is currently unable to gauge the scope, duration, and impact of the pandemic and is also uncertain about the timing of global recovery and economic normalization. This has compelled the company to withdraw its previously issued 2020 guidance.

Quarter Ending **03/2020**

Report Date	<b>May 07, 2020</b>
Sales Surprise	<b>1.60%</b>
EPS Surprise	<b>22.22%</b>
Quarterly EPS	<b>0.66</b>
Annual EPS (TTM)	<b>2.86</b>

## Valuation

OmniceLL shares are down 16.2% in the year to date period and down 20.6% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 4.5% while the Zacks Medical sector fell 2% in the year to date period. Over the past year, the Zacks sub-industry is up 0.4% and sector is down 0.1%.

The S&P 500 index is down 4.2% in the year to date period and up 5.6% in the past year.

The stock is currently trading at 2.9X Forward 12-months sales, which compares to 2.8X for the Zacks sub-industry, 2.8X 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 Underperform recommendation indicates that the stock will perform below the market. Our \$64 price target reflects 2.8X 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	2.97	2.8	2.76	3.45
	5-Year High	4.1	3.14	3.74	3.45
	5-Year Low	1.26	1.61	2.21	2.53
	5-Year Median	2.38	2.3	2.91	3.02
P/B TTM	Current	3.32	3.43	4.25	4.22
	5-Year High	5.2	4.17	5.06	4.56
	5-Year Low	2.24	2.13	2.93	2.83
	5-Year Median	3.48	3.05	4.27	3.68
EV/EBITDA F12M	Current	15.03	13.03	9.38	13.65
	5-Year High	22.19	13.03	11.4	14.17
	5-Year Low	7.36	6.08	7.9	9.01
	5-Year Median	15.12	8.18	9.96	10.96

As of 06/25/2020

## Industry Analysis Zacks Industry Rank: Top 41% (104 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Baxter International Inc. (BAX)	Neutral	4
Becton, Dickinson and Company (BDX)	Neutral	3
Cardinal Health, Inc. (CAH)	Neutral	3
Cerner Corporation (CERN)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
McKesson Corporation (MCK)	Neutral	4
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	OMCL	X Industry	S&P 500	BDX	IBM	MDRX
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	B	-	-	C	A	C
Market Cap	2.92 B	272.92 M	21.24 B	62.08 B	105.69 B	1.07 B
# of Analysts	2	5	14	12	6	13
Dividend Yield	0.00%	0.00%	1.97%	1.38%	5.48%	0.00%
Value Score	C	-	-	B	A	B
Cash/Price	0.04	0.08	0.07	0.04	0.11	0.18
EV/EBITDA	19.44	-1.32	12.51	18.79	8.33	17.87
PEG Ratio	1.85	2.16	2.87	3.03	3.09	1.67
Price/Book (P/B)	3.32	3.05	2.90	2.96	5.25	0.86
Price/Cash Flow (P/CF)	17.92	16.24	11.34	11.02	6.03	3.20
P/E (F1)	27.71	17.64	20.76	21.98	10.55	10.52
Price/Sales (P/S)	3.16	4.25	2.18	3.57	1.38	0.61
Earnings Yield	3.61%	-1.77%	4.55%	4.55%	9.49%	9.44%
Debt/Equity	0.00	0.19	0.77	0.80	2.62	0.63
Cash Flow (\$/share)	3.82	-0.04	7.01	20.77	19.75	2.06
Growth Score	A	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	23.59%	11.37%	10.84%	11.71%	-3.16%	11.77%
Proj. EPS Growth (F1/F0)	-12.10%	-12.19%	-10.73%	-10.80%	-11.89%	-6.77%
Curr. Cash Flow Growth	38.80%	11.83%	5.46%	14.64%	2.09%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	22.49%	10.83%	8.55%	24.86%	-3.76%	10.24%
Current Ratio	1.93	1.82	1.29	0.98	0.96	0.78
Debt/Capital	0.00%	19.63%	45.14%	44.51%	72.36%	38.84%
Net Margin	7.51%	-18.53%	10.53%	6.10%	11.78%	-11.10%
Return on Equity	11.37%	-12.09%	16.06%	15.75%	57.55%	4.98%
Sales/Assets	0.75	0.60	0.55	0.33	0.50	0.54
Proj. Sales Growth (F1/F0)	4.30%	0.00%	-2.70%	-2.15%	-5.40%	-3.01%
Momentum Score	D	-	-	D	B	B
Daily Price Chg	-0.04%	0.00%	0.93%	-1.66%	2.24%	-0.30%
1 Week Price Chg	7.90%	5.88%	0.92%	2.91%	0.46%	17.11%
4 Week Price Chg	0.72%	2.95%	-1.04%	-5.20%	-4.42%	-1.79%
12 Week Price Chg	1.69%	46.89%	22.12%	-1.86%	8.21%	1.86%
52 Week Price Chg	-20.62%	-12.23%	-8.70%	-8.11%	-14.07%	-42.62%
20 Day Average Volume	307,217	475,174	2,782,477	2,002,946	5,505,079	3,893,537
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.18%	0.00%	0.00%
(F1) EPS Est 4 week change	-18.92%	0.00%	0.00%	-0.53%	0.00%	0.00%
(F1) EPS Est 12 week change	-23.19%	-8.84%	-12.23%	-11.97%	-13.59%	-14.45%
(Q1) EPS Est Mthly Chg	-10.94%	0.00%	0.00%	-1.17%	0.00%	0.00%

---

## 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	D
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.