

## Omnicell Inc.

## Survey is directionally encouraging, but inflection may occur after 2024

Reiterate Rating: BUY | PO: 42.00 USD | Price: 34.33 USD

## Pharmacy IT spend could see slight increase into CY24

In conjunction with the Facilities and Managed Care Team's quarterly capex survey (see note: [Cost/Capital Survey: Q4 shows improved outlook for capex and access to financing](#)), we are releasing select graphs relevant for Omnicell (OMCL). Overall, our survey suggests that pharmacy IT budgets are expected to grow ~4% in CY24, up slightly from the low-single digit range expected for CY23, but down from the ~5% increase expected per our prior survey. We continue to expect CY24 CapEx spend to show marginal improvement from last year, but view overall CapEx spend to continue to be challenged by easing but still present health system challenges around labor shortages and P&L pressure.

## Wider capex outlook more encouraging to CY24 view

Notably, 66% of respondents expect CapEx spend to be up y/y into CY24, up from 46% in our last survey, which we view to be directionally encouraging for the wider CapEx outlook. While concerns around cash flow and competing priorities (labor) continue to be voiced by respondents in our survey, we expect some improvement in CY24.

## Adjusting FY24 outlook as growth may be pushed out

We are encouraged by the improvement of the wider CapEx outlook for 2024, but acknowledge pharmacy IT growth is a bit weaker than expected. We continue to view OMCL as well positioned to benefit when CapEx/OpEx budgets improve, though we now expect the timing around improvement related to new and legacy products may be pushed out versus our prior expectations. As such, we taper down our forward growth outlook. See body of note for estimate changes.

## Omnicell still well positioned within the market

We continue to view OMCL as well positioned in the duopoly market for pharmacy automation. As hospital P&L pressures alleviate, OMCL should be able to execute on market growth. However, we'd like to gain more visibility into product revenues and bookings into FY24 as the company looks to navigate a maturing XT product cycle. We maintain our Buy rating, but reduce our PO to \$42 (from \$49) on 14x CY24 EV/EBITDA multiple (15x prior), with the multiple reduction reflecting incrementally lower confidence on the growth outlook.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.81	3.00	1.70	1.80	2.35
GAAP EPS	1.61	0.12	(0.51)	(0.26)	0.28
EPS Change (YoY)	49.4%	-21.3%	-43.3%	5.9%	30.6%
Consensus EPS (Bloomberg)			1.73	1.68	1.64
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	9.0x	11.4x	20.2x	19.1x	14.6x
GAAP P/E	21.3x	286.1x	NM	NM	122.6x
EV / EBITDA*	7.5x	8.9x	13.2x	12.2x	10.0x
Free Cash Flow Yield*	13.4%	2.0%	6.2%	6.9%	7.4%

\* For full definitions of IQmethod<sup>SM</sup> measures, see page 7.

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Timestamp: 12 January 2024 05:11AM EST

12 January 2024

Equity

BofA

Data Analytics



## Key Changes

(US\$)	Previous	Current
Price Obj.	49.00	42.00
2024E EPS	1.99	1.80
2025E EPS	2.55	2.35
2024E EBITDA (m)	152.3	141.9
2025E EBITDA (m)	188.3	173.1

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## Stock Data

Price	34.33 USD
Price Objective	42.00 USD
Date Established	12-Jan-2024
Investment Opinion	C-1-9
52-Week Range	28.72 USD - 77.14 USD
Mkt Val (mn) / Shares Out (mn)	1,511 USD / 44.0
Free Float	98.0%
Average Daily Value (mn)	21.76 USD
BofA Ticker / Exchange	OMCL / NAS
Bloomberg / Reuters	OMCL US / OMCL.OQ
ROE (2023E)	6.6%
Net Dbt to Eqty (Dec-2022A)	20.9%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> Omnicell Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	9.7%	4.0%	4.2%	4.2%	5.8%
Return on Equity	16.6%	12.0%	6.6%	6.6%	8.0%
Operating Margin	15.7%	10.9%	6.5%	7.3%	9.1%
Free Cash Flow	203	30	94	104	111

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	0.6x	1.8x	1.8x	1.4x
Asset Replacement Ratio	0.4x	0.5x	0.8x	0.8x	0.8x
Tax Rate	NM	330.2%	NM	5.0%	5.0%
Net Debt-to-Equity Ratio	12.1%	20.9%	11.0%	3.3%	-4.0%
Interest Cover	7.6x	NM	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,132	1,296	1,146	1,078	1,146
% Change	26.9%	14.5%	-11.6%	-5.9%	6.3%
Gross Profit	575	620	518	489	536
% Change	32.8%	7.9%	-16.4%	-5.6%	9.6%
EBITDA	230	193	131	142	173
% Change	44.1%	-16.0%	-32.3%	8.6%	22.0%
Net Interest & Other Income	(24)	0	10	10	10
<b>Net Income (Adjusted)</b>	<b>175</b>	<b>136</b>	<b>77</b>	<b>82</b>	<b>107</b>
<b>% Change</b>	<b>57.4%</b>	<b>-22.2%</b>	<b>-43.4%</b>	<b>5.9%</b>	<b>30.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	78	6	(23)	(12)	13
Depreciation & Amortization	73	87	55	49	55
Change in Working Capital	(3)	(98)	21	13	(4)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	84	83	84	93	90
Capital Expenditure	(29)	(48)	(42)	(40)	(42)
<b>Free Cash Flow</b>	<b>203</b>	<b>30</b>	<b>94</b>	<b>104</b>	<b>111</b>
<b>% Change</b>	<b>24.4%</b>	<b>-85.1%</b>	<b>211.0%</b>	<b>10.2%</b>	<b>7.6%</b>
Share / Issue Repurchase	0	(26)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	1	0	(417)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	349	330	434	525	206
Trade Receivables	241	299	265	249	265
Other Current Assets	191	252	213	190	199
Property, Plant & Equipment	71	94	119	145	170
Other Non-Current Assets	1,291	1,235	1,195	1,163	1,149
<b>Total Assets</b>	<b>2,142</b>	<b>2,211</b>	<b>2,227</b>	<b>2,272</b>	<b>1,988</b>
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	388	428	376	350	371
Long-Term Debt	488	567	567	567	150
Other Non-Current Liabilities	120	86	80	78	80
<b>Total Liabilities</b>	<b>996</b>	<b>1,081</b>	<b>1,023</b>	<b>995</b>	<b>601</b>
<b>Total Equity</b>	<b>1,147</b>	<b>1,130</b>	<b>1,203</b>	<b>1,276</b>	<b>1,387</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,142</b>	<b>2,211</b>	<b>2,227</b>	<b>2,272</b>	<b>1,988</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Healthcare Technology & Distribution

## Company Description

Omnicell provides pharmacy and medication management solutions for healthcare professionals and healthcare systems pursuing the autonomous pharmacy. As of 2022, Omnicell's customers include 150 of the top 300 health systems in the country. Its primary products include hardware and software to support efficient inventory management of prescriptions, dosage compliance, and patient engagement.

## Investment Rationale

Our Buy rating is driven by OMCL's leadership position in the autonomous pharmacy market and the opportunity for both double digit revenue growth and operating leverage over the intermediate term. We believe OMCL has a long runway for growth given the ongoing industry shift to autonomous pharmacy.

## Stock Data

Average Daily Volume 633,876

## Quarterly Earnings Estimates

	2022	2023
Q1	0.83A	0.39A
Q2	0.84A	0.57A
Q3	1.00A	0.62A
Q4	0.33A	0.12E

## Pharma IT budgets expected to see slight increase in 2024

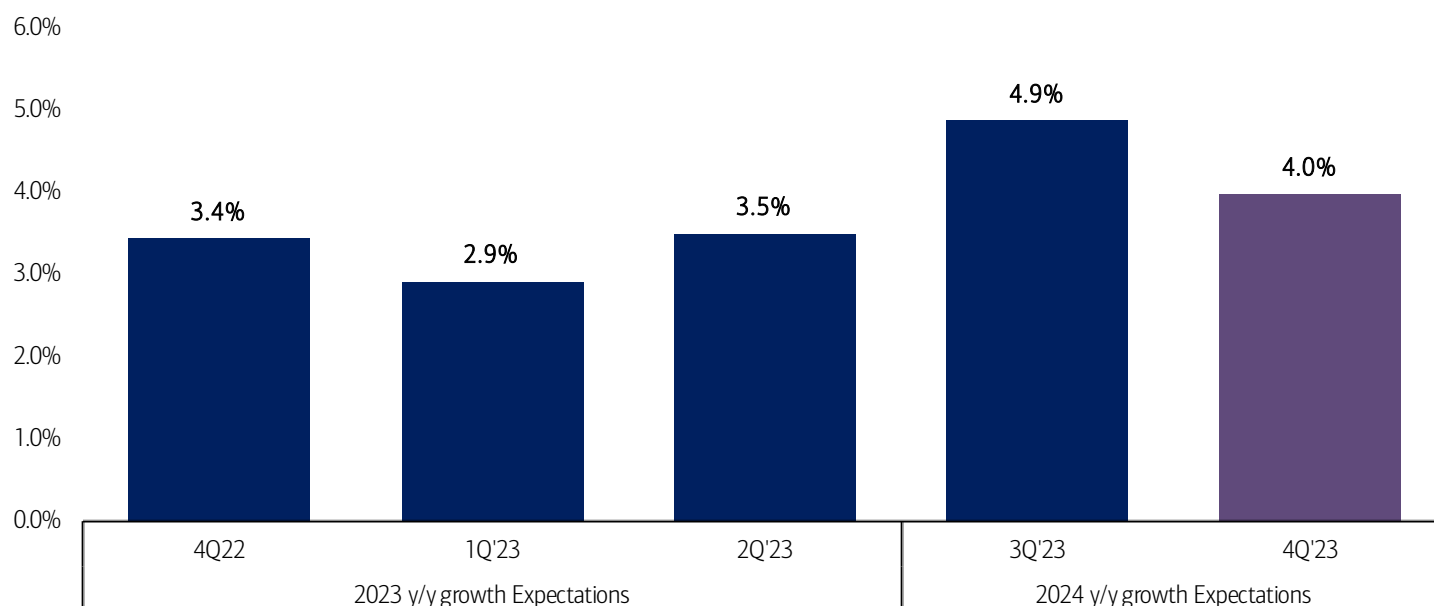
Based on our survey results, we continue to view the outlook for pharmacy IT spend in 2024 to be directionally encouraging relative to 2023. The broader capex outlook improved meaningfully with the number of respondents expecting y/y growth in capex budgets increasing from 46% in our last survey to 66% (Exhibit 2). Meanwhile, while the number of respondents expecting a y/y increase in pharmacy IT spend in 2024 was largely unchanged, the expectations for the magnitude of y/y increase in pharmacy IT budgets was down from 4.9% in our last survey to 4.0% (Exhibit 1). While our prior survey suggested that pharmacy IT spend would modestly accelerate in 2024, we take some caution to that view given our latest survey suggests a more tamed uptick. We look forward to monitoring changes to the 2024 outlook in our upcoming surveys.

Overall pharmacy IT budgets are expected to increase by 4.0% in 2024 vs. low single-digit y/y growth in 2023. We note that the 4.0% increase is down from our 3Q survey suggesting a 4.9% increase. Meanwhile, 61% of the respondents are expecting a y/y increase in pharmacy IT spend, up a 100bps from our prior survey, while 24% anticipate budgets to remain flat y/y vs. 38% in our prior survey (Exhibit 2). Together, our last two surveys indicate that expectations for y/y growth in pharmacy IT spend is up a touch from the growth expectations for 2023.

More broadly, we saw a marked improvement in overall CapEx spend expectations, with 66% of respondents expecting CapEx spend to increase y/y in into CY24 vs. 46% in our prior survey (Exhibit 4). Meanwhile, in line with our prior surveys, we note that hospital financial performance, cash flow constraints, and competing priorities (labor) remain headwinds for capital equipment spending patterns, although these headwinds look to be slowly alleviating on a sequential basis.

### Exhibit 1: Expectations for pharmacy IT budget growth into 2024 is down from our 3Q survey, but up modestly from last years growth expectations

Overall pharmacy IT budgets expected to grow 4.0% in 2024 vs 4.9% per our last survey and LSDs in 2023



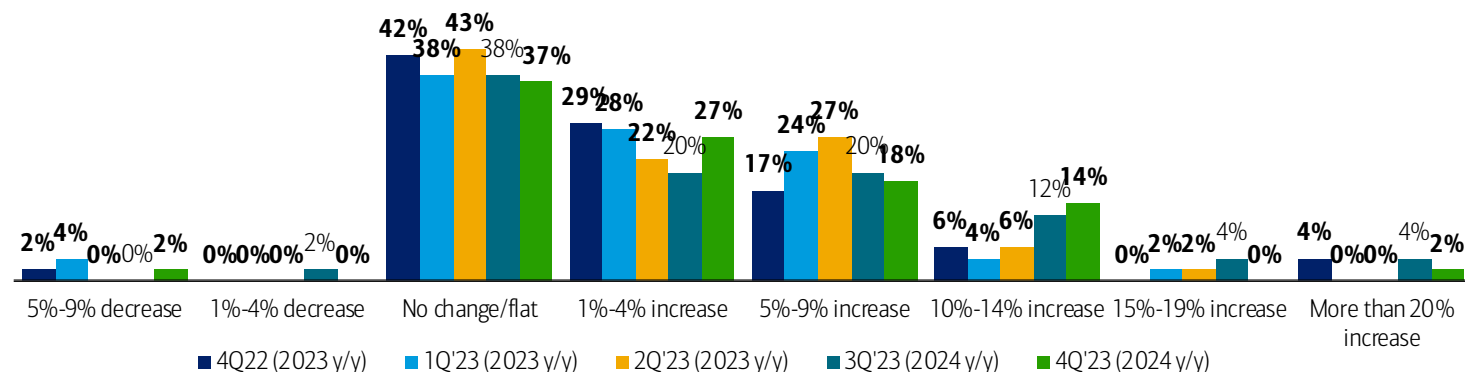
Source: BofA Global Research

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**Exhibit 2: What year-over-year percent change, if any, in pharmacy technology solutions expenses are you expecting?**

~61% of respondents expect pharmacy technology solution expenses to increase y/y into 2024 while 37% expect it to remain flat

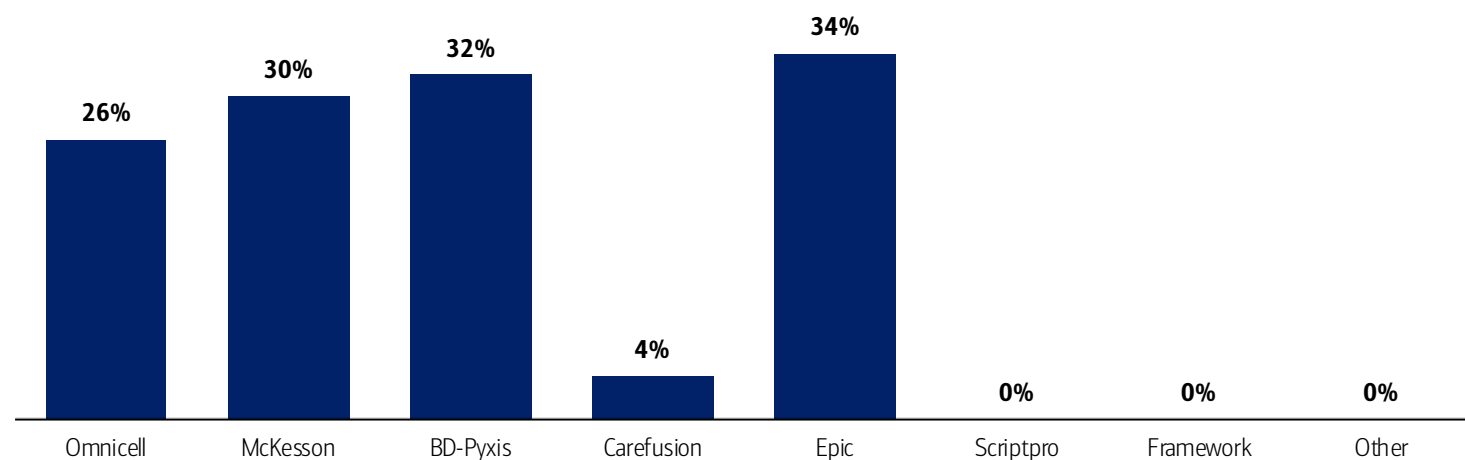


Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 3: Which technology vendor do you use in your pharmacy? (Please select multiple if your organization uses more than one vendor solution)**

26% of respondents reported using Omnicell in their pharmacies. 28% and 24% in our 3Q'23 and 2Q'23 surveys

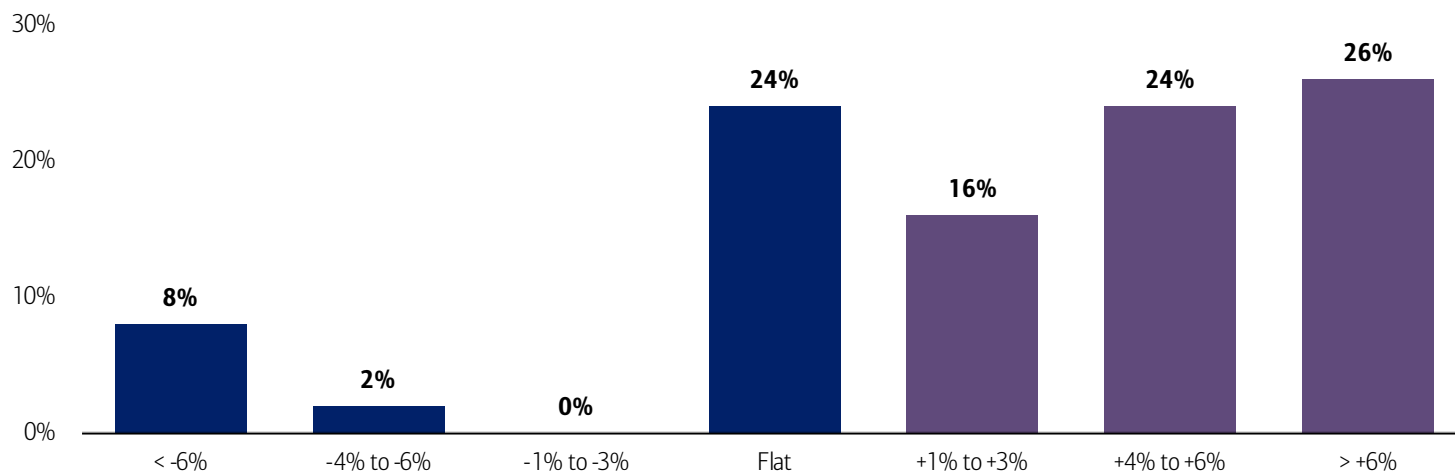


Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 4: How would you describe your hospital/hospital system's plans for capital spending in 2024 relative to 2023?**

66% of respondents expect CapEx to be up y/y vs. 46% in our prior survey, while 24% expect CapEx spend to be flat y/y in 2024 vs. 38% in our prior survey



Source: BofA Global Research

BofA GLOBAL RESEARCH

**We lower our revenue and EBITDA outlook**

We are reducing our 2024 revenue estimates from \$1,095.7MM to \$1,078.3MM and reducing our 2025 revenue estimates from \$1,220.3MM to \$1,146.5MM, with the reduction driven by lower growth across both segments. We are also reducing the 2024 adjusted EBITDA estimates from \$152.3MM to \$141.9MM and reducing our 2025 adjusted EBITDA from \$188.3MM to \$173.1MM, with the reduction to both driven largely by decremental margin from lower revenue.



## Price objective basis & risk

### Omniceil Inc. (OMCL)

Our \$42 price objective for Omnicell Holdings (OMCL) is based on 14x CY24E EV/EBITDA (a slight discount to OMCL's historical average). We believe OMCL has a long runway for growth given the ongoing industry shift to autonomous pharmacy, somewhat offset by a weak macro environment that is temporarily impacting pharmacy IT spending.

Downside risks are a greater-than-expected or longer-than-expected slowdown in capital spending from health systems due to macro conditions, weaker upsell of its new subscription/software solutions, a more limited replacement market for cabinets, and greater competitive pressure from peers.

## Analyst Certification

I, Allen Lutz, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omniceil Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
<b>NEUTRAL</b>				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
<b>UNDERPERFORM</b>				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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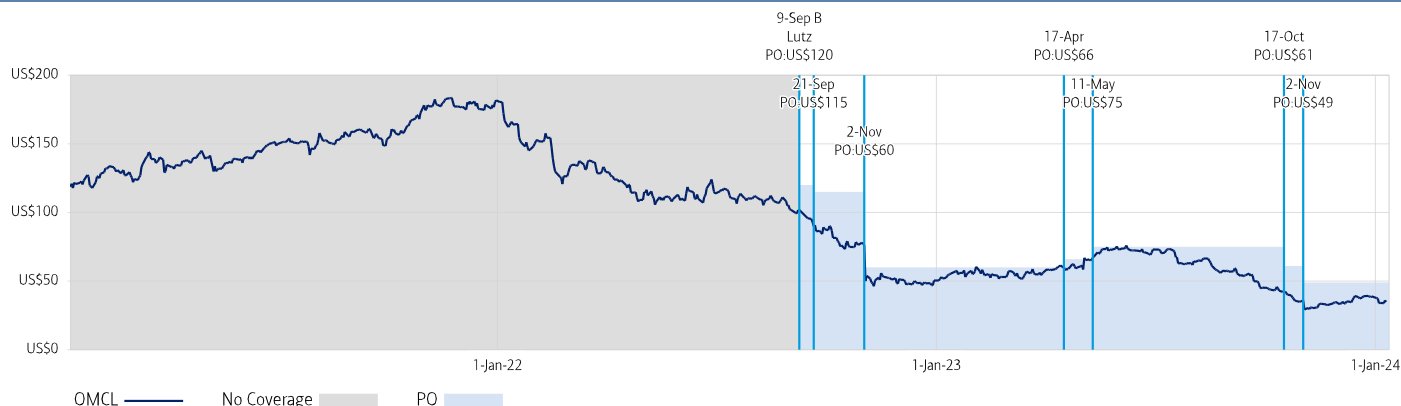
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# Disclosures

## Important Disclosures

### Omnicell Inc. (OMCL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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