

Healthcare Technology & Distribution

Overall CapEx outlook is encouraging for CY24, HCIT spend trends more modest

Industry Overview

Survey: Backdrop improves, HCIT maybe a lower priority

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 participated in a 50-hospital survey (hospital CFOs) with specific interest on current capital expenditure and HCIT spend expectations. Relative to health IT specifically, spend outlook for CY24 as a percent of total hospital CapEx of 18.0% is down from 22.4% per our last survey and compares to CY23 expectations of 21.4%.

Overall CapEx outlook improves, HCIT outlook modest

Notably, 66% of respondents expect CapEx spending to be up in CY24, increasing from 46% in our prior survey, while 24% expect it to be flat y/y. While the inflection suggests that a broader group of respondents anticipate y/y CapEx growth, we note there has been some historical volatility in this data. As such, we find it important to track the trend into the next quarter to better inform our view. Within total health IT spend, electronic health records (EHRs) represent the biggest priority in CY24 at 35%, and revenue cycle management (RCM) second at 21%, with EHR down slightly y/y and RCM flat y/y. We also tried to capture feedback related to the current macroeconomic environment, with 18% of respondents noting they have decided to cancel or delay some type of capital equipment purchase, down from the 23%-30% range in our prior four surveys. Lastly, CY24 outlook for pharmacy IT spend growth of 4.0% y/y is down from 4.9% in our prior survey, but up modestly from the ~2-3% range for CY23.

Macro concerns alleviating, but still a factor in CY24

In line with our recent surveys, respondents continued to cite concerns around cash flow, competing priorities (labor), debt loads, and budgetary pressures, suggesting that macro remains a key focus in 2024. However, health system headwinds on patient volumes and labor look to be alleviating (refer to [Health Care Facilities YA note here](#)) and access to financing looks to be improving as well (Exhibit 3).

Key themes from here: Bookings and prioritization

We look forward to 4Q'23 earnings for further commentary on prioritization within budgets and y/y changes in bookings exiting December. Importantly, we continue to look for signs of improvement on macro (utilization, patient volumes) that alleviate P&L pressure for health systems which in turn could support the wider HCIT names with both CapEx/OpEx exposure. For now, we continue to believe that R1 RCM (RCM) should be a major beneficiary of hospitals prioritizing solutions that drive profitable revenue amidst macro and reimbursement challenges, as well as an uptick in utilization through CY24. We also continue to view Omnicell (OMCL) as well-positioned within the market to capture on improvements in CapEx budgets. However, we temper our expectations for growth given a lack of visibility into product revenue with limited momentum in IVX and XR2 and a lack of near-term product catalysts to support a maturing XT cycle.

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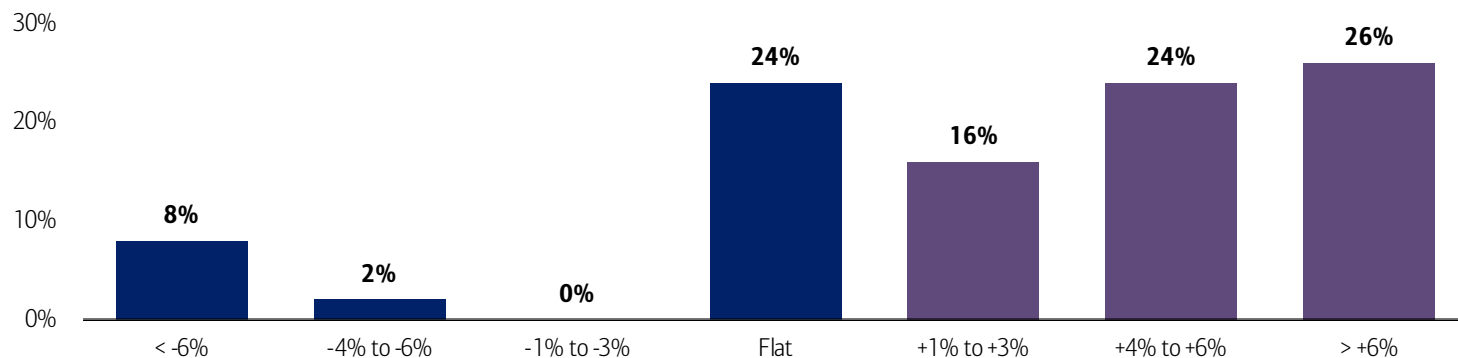
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4Q'23 Hospital Cost/CapEx Survey

Exhibit 1: 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

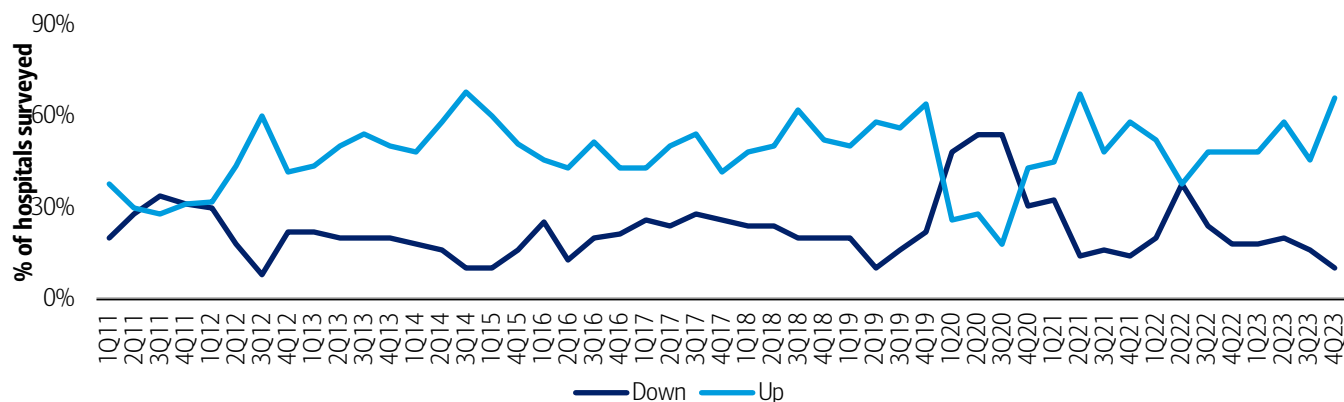


Source: BofA Global Research

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Exhibit 2: CapEx spending expectations

66% of respondents expect CapEx to be up while 10% expect CapEx to be down over the next 12 months

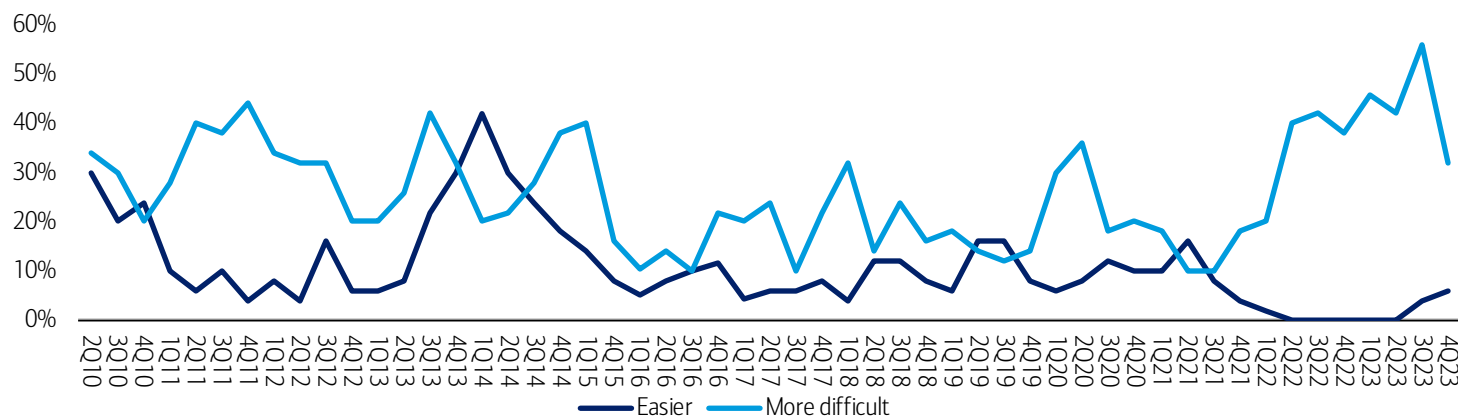


Source: BofA Global Research

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Exhibit 3: Access to financing over time

Access to financing looks to be improving. The % of respondents noting tighter access to financing is down 24% q/q, and is the lowest since 1Q'22

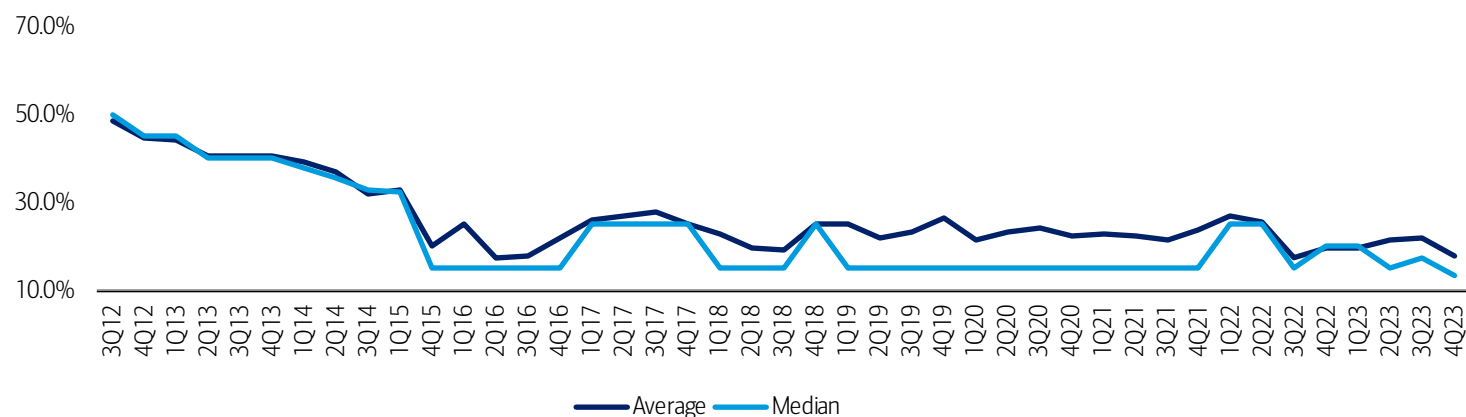


Source: BofA Global Research

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Exhibit 4: Healthcare IT spend as a % of CapEx

Average healthcare IT spend as a % of total CapEx spend sees a tick down q/q in 4Q'23

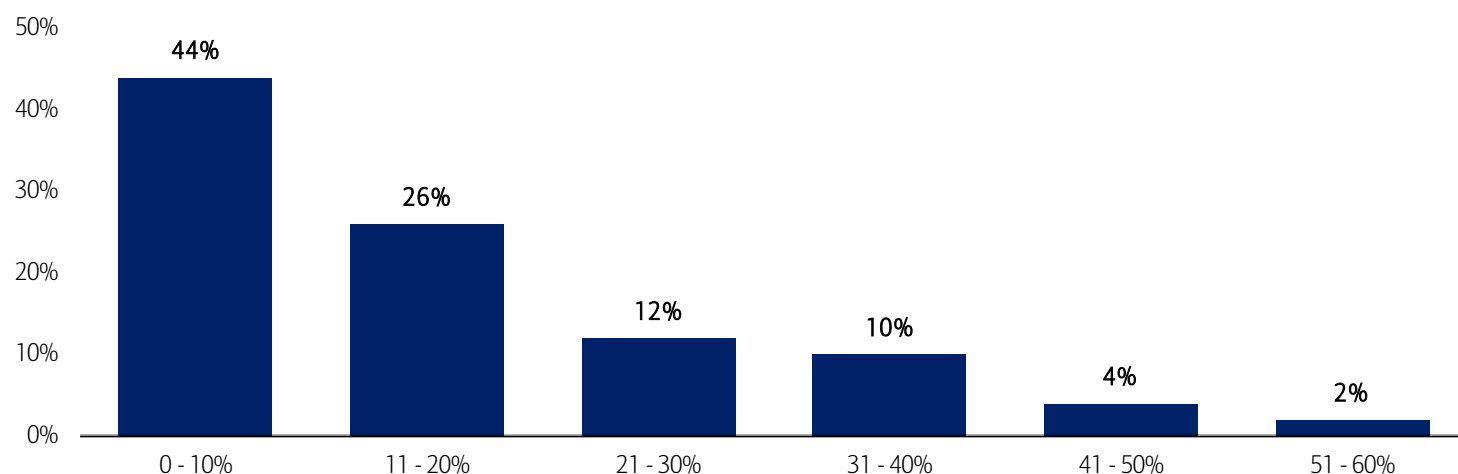


Source: BofA Global Research

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Exhibit 5: What percent of your hospital's/hospital system's capital expenditure do you expect to spend on HCIT in 2024?

82% of respondents expect to spend 30% or less of total CapEx budget on health IT up from 76% in our last survey.

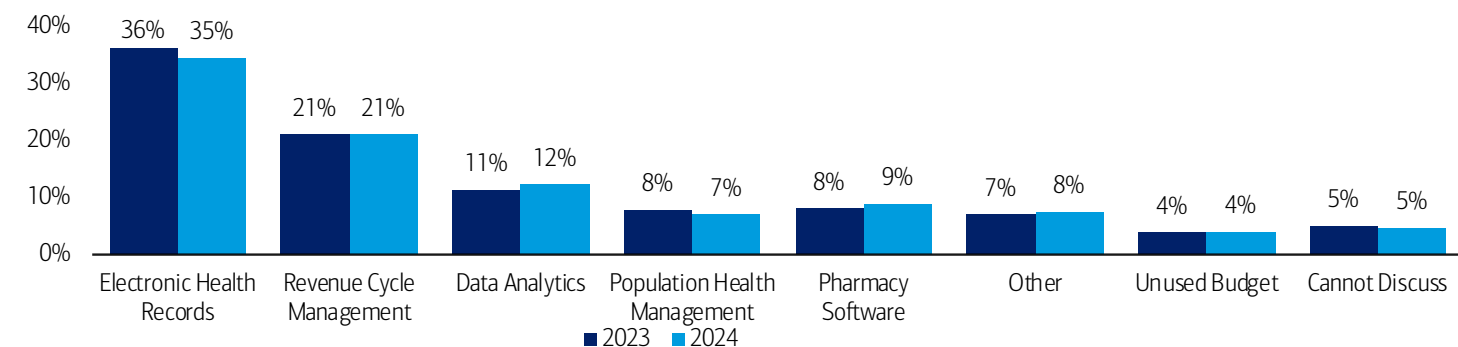


Source: BofA Global Research

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Exhibit 6: Hospital healthcare IT budget spend expectations by category 2024 vs. 2023

EHRs remain the biggest source of health IT spend; share of spend expectations for revenue cycle management (RCM) is flat y/y.

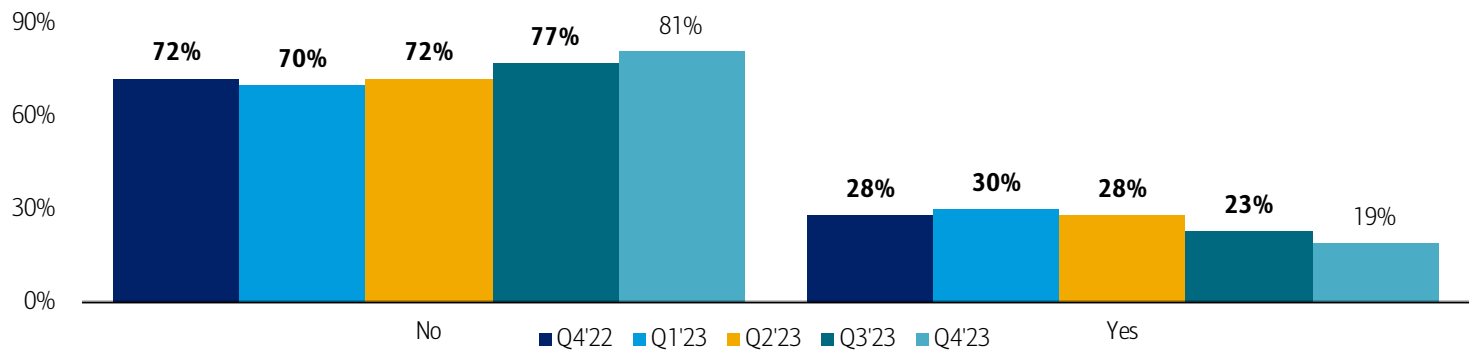


Source: BofA Global Research

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Exhibit 7: Has your hospital/health system recently decided to cancel any capital equipment purchases

19% of respondents have recently decided to cancel capital equipment purchases, a decrease from our prior four quarterly surveys

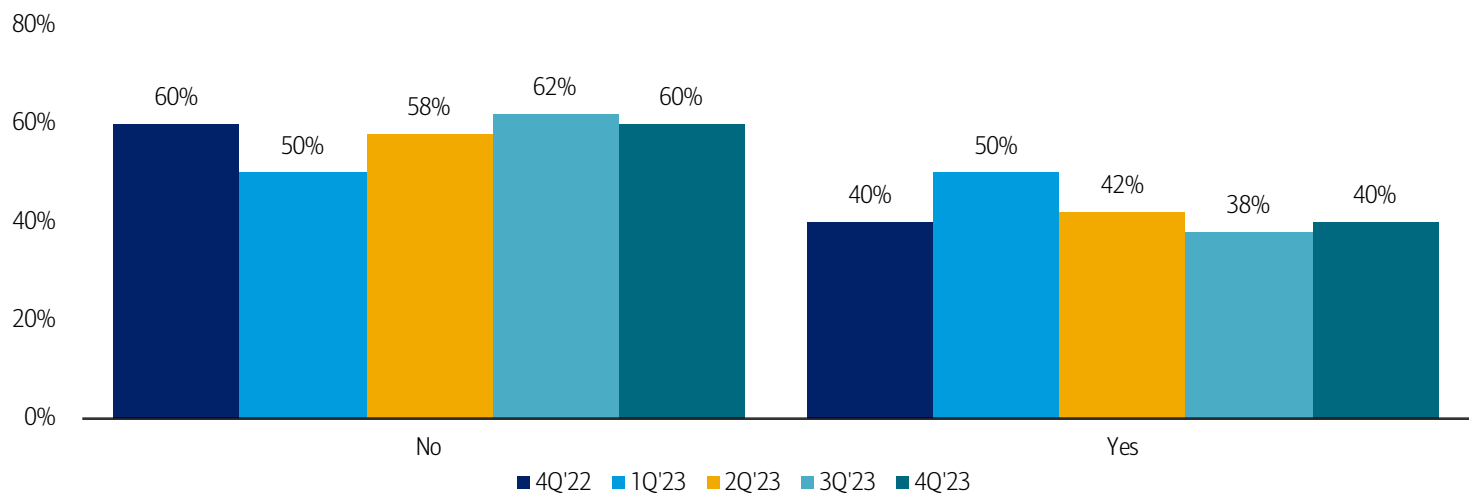


Source: BofA Global Research

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Exhibit 8: Do you currently use an outsourced Revenue Cycle Management (RCM) vendor?

60% of respondents surveyed noted that they do not currently use an outsourced RCM vendor

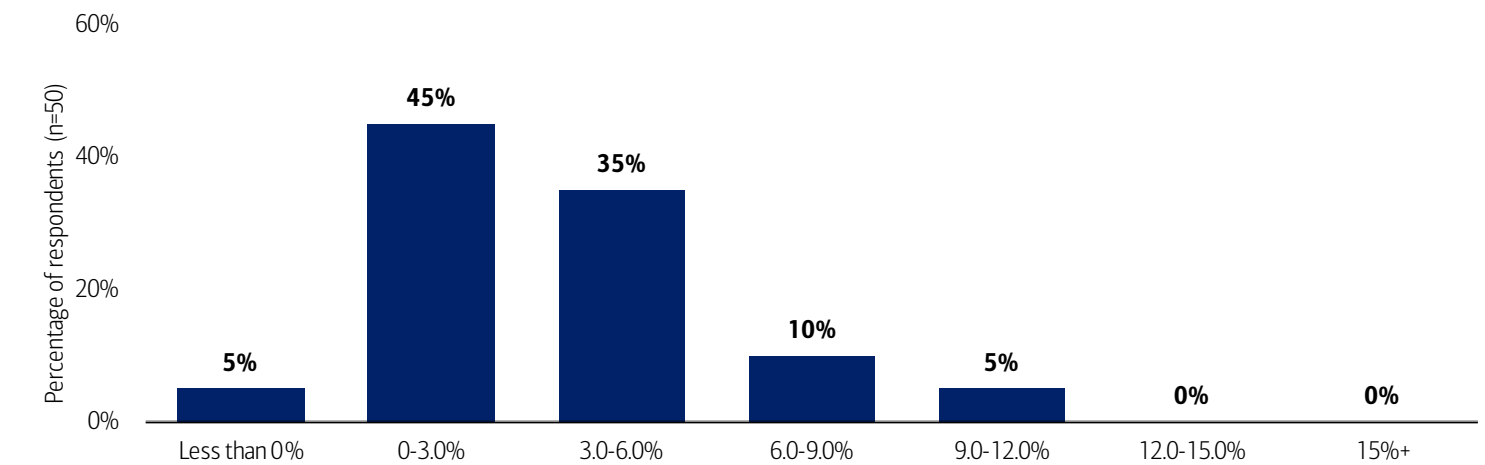


Source: BofA Global Research

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Exhibit 9: How would you quantify your organizations revenue lift from using an outsourced RCM vendor?

80% of respondents saw low to mid-single digit % of revenue uplift



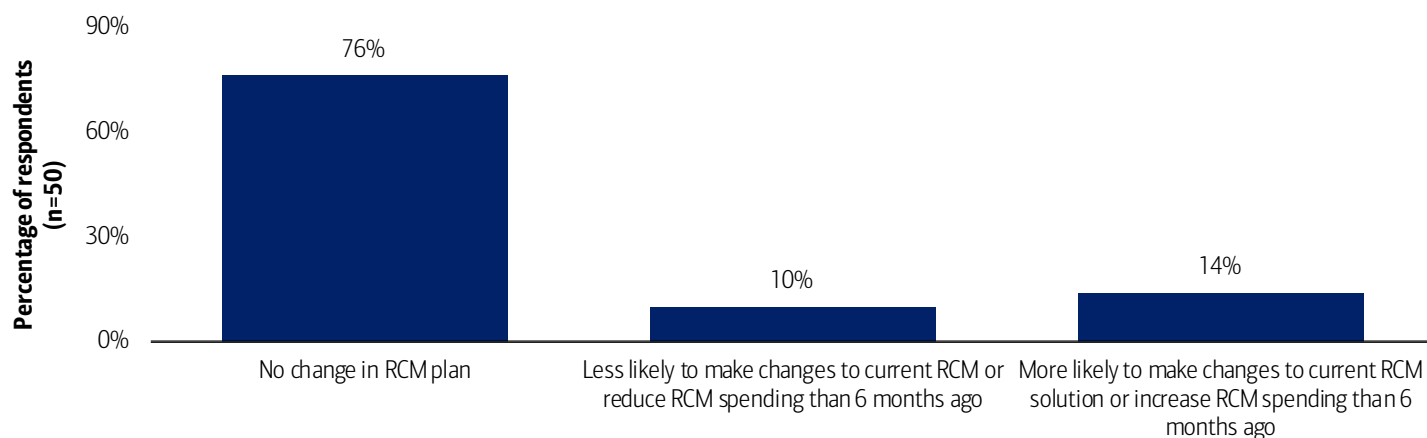
Source: BofA Global Research

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Exhibit 10: Have your plans to replace your RCM, add an external RCM vendor, or spend more on RCM changed from 6 months ago?

76% of respondents have not changed their stance on changing RCM spending from 6 months ago, while 14% are more likely to make changes to RCM spending/solutions

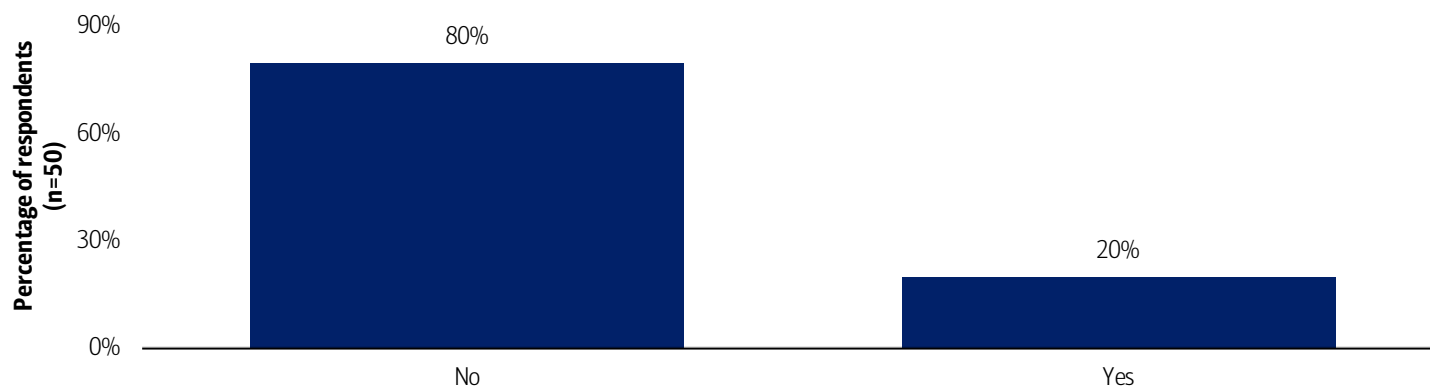


Source: BofA Global Research

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Exhibit 11: Do you have plans to consolidate to one RCM vendor?

Most respondents do not have current plans to consolidate to one RCM vendor



Source: BofA Global Research

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Please describe the reason(s) why you decided to cancel or delay capital equipment purchases:

- Budget trends continue to be down, reducing capital to save cash to meet general operational requirements
- Financial performance caused a change in capital deployment plan
- [Capital used for] for beds, computers, parking lots upgrades, patient furniture
- Waiting until later in Q1'24 to determine where things are holding
- Availability of the specific equipment impacted delivery
- Lack of cash and funds at this time. Need those funds to cover other areas
- Due to capital needs for a hospital tower construction

- Lack sufficient capital to do all the things needed
- Cost escalation
- Staff shortages
- Cash flow
- Got a deferment if EBIDTA or Investment Earnings decrease to a level that causes cash flow concerns; we remove the restrictions once things stabilize
- Losing money from operations and days cash are also declining
- Attempting to preserve a capital for the rest of the fiscal year
- Just treasury management delays to comply with bond covenants

Pharma IT budgets expected to see slight increase in 2024

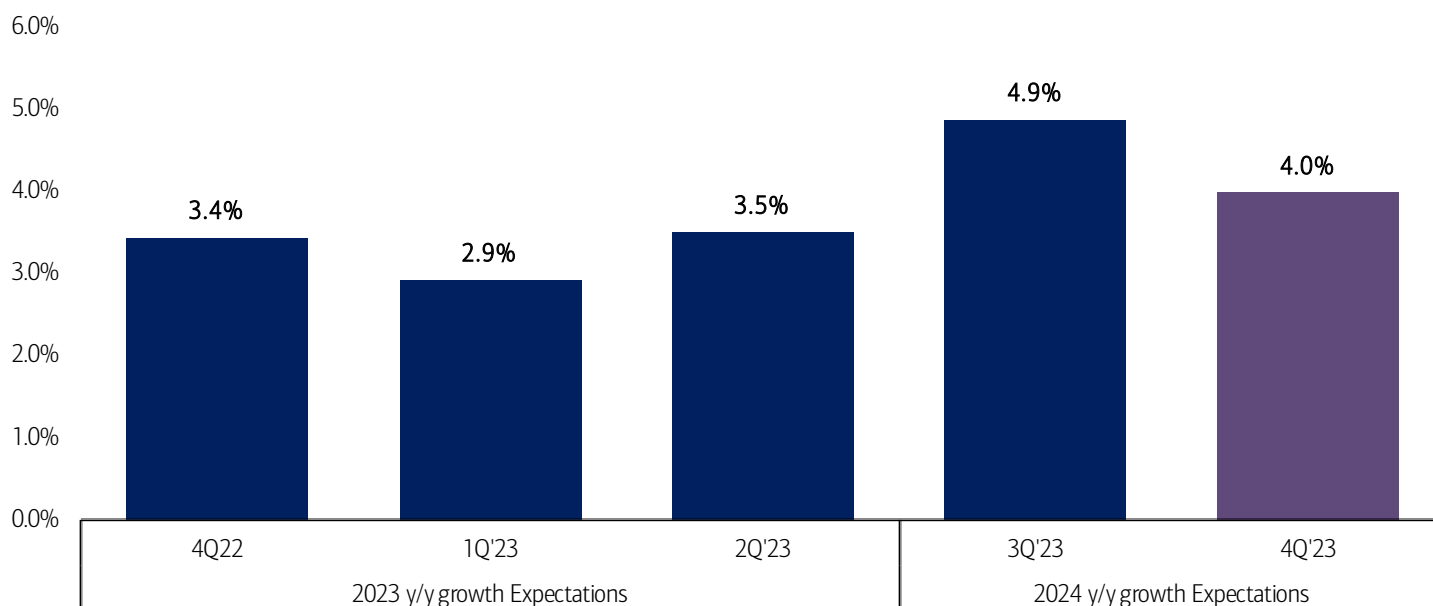
Based on our survey results, we continue to view the outlook for pharmacy IT spend in 2024 to be directionally encouraging relative to 2023. The broader capex outlook improved meaningfully with the number of respondents expecting y/y growth in capex budgets increasing from 46% in our last survey to 66% (Exhibit 15). 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 12). 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 13). 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 15). 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 12: 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

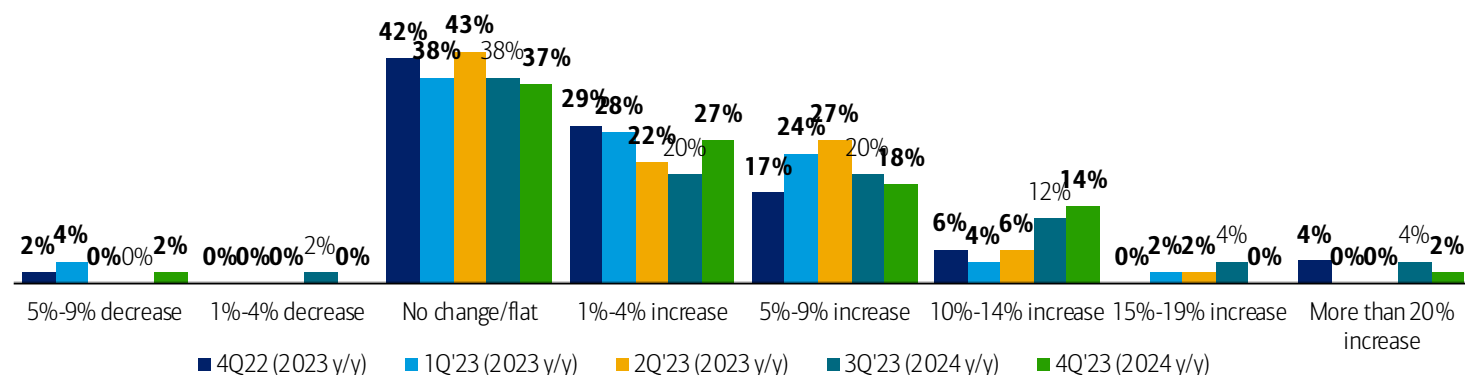


Source: BofA Global Research

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Exhibit 13: 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

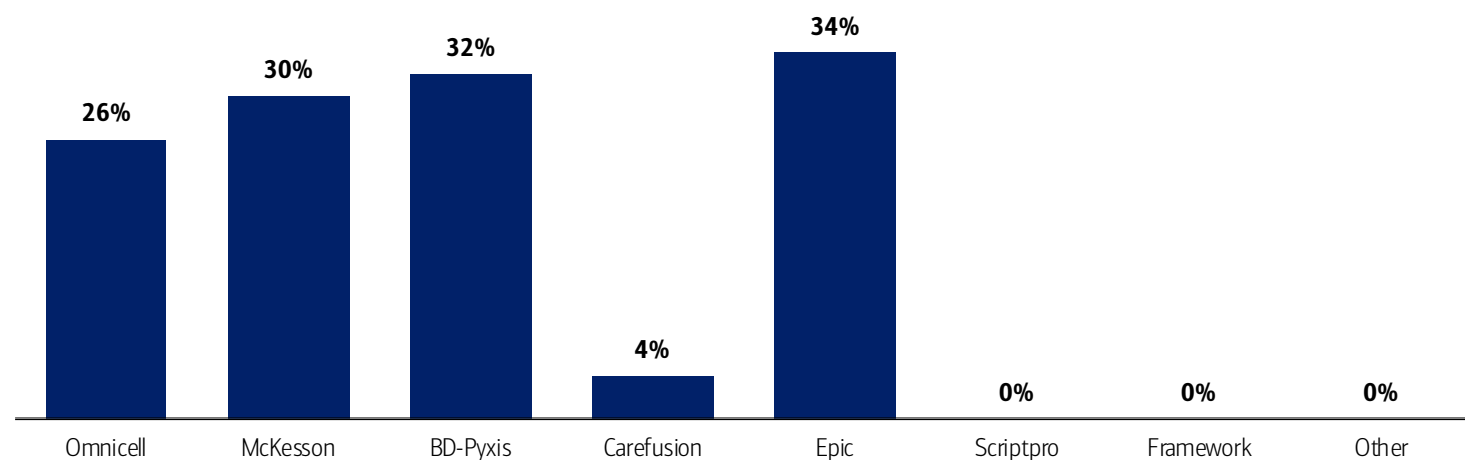


Source: BofA Global Research

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Exhibit 14: 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

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Exhibit 15: 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

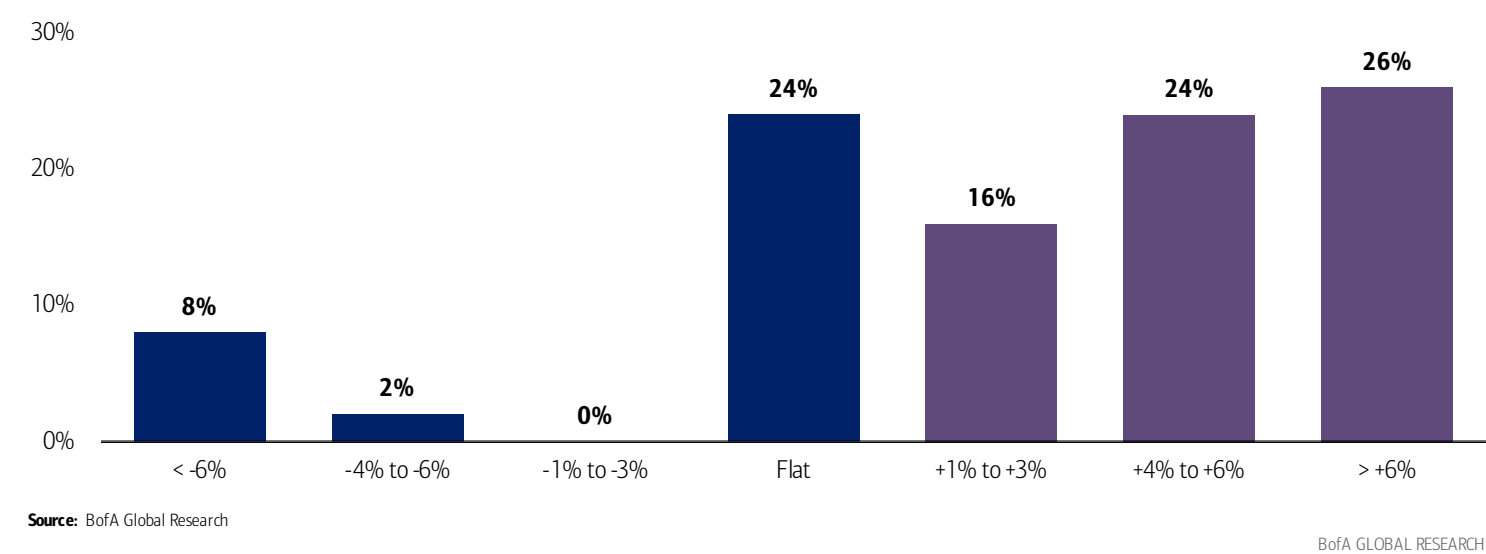


Exhibit 16: Stocks mentioned
Ratings and prices for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
OMCL	OMCL US	Omnice ll Inc.	US\$ 34.33	C-1-9
RCM	RCM US	R1 RCM	US\$ 9.11	C-1-9

Source: BofA Global Research

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Price objective basis & risk

Omnicell 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.

R1 RCM (RCM)

Our \$17 price objective is based on about 13x our CY24 EBITDA estimate. We used a blended multiple to arrive at our PO, evaluating both health IT companies as well as a wide range of other business services-oriented companies that have a combination of technology/consulting solutions. Our target multiple is well below the peer group mean of 18-19x to account for the current operational and macro headwinds RCM is facing. We think EV/EBITDA is the most appropriate metric and use a fully adjusted diluted share count to reflect the warrants outstanding.

Downside risks to our price objective are the inability to convince hospitals to outsource the entire revenue cycle, increased cost associated with cash collections leading to margin pressure, excess costs needed to help support ongoing implementations and recent billing headwinds, a slowdown in utilization that weighs on overall net patient revenue, and M&A risk. Upside risks to our price objective are incremental revenue uplift for outperformance (given the % of collections model), further gross margin contribution from automation activities, and incremental M&A that bolsters the customers served.

Analyst Certification

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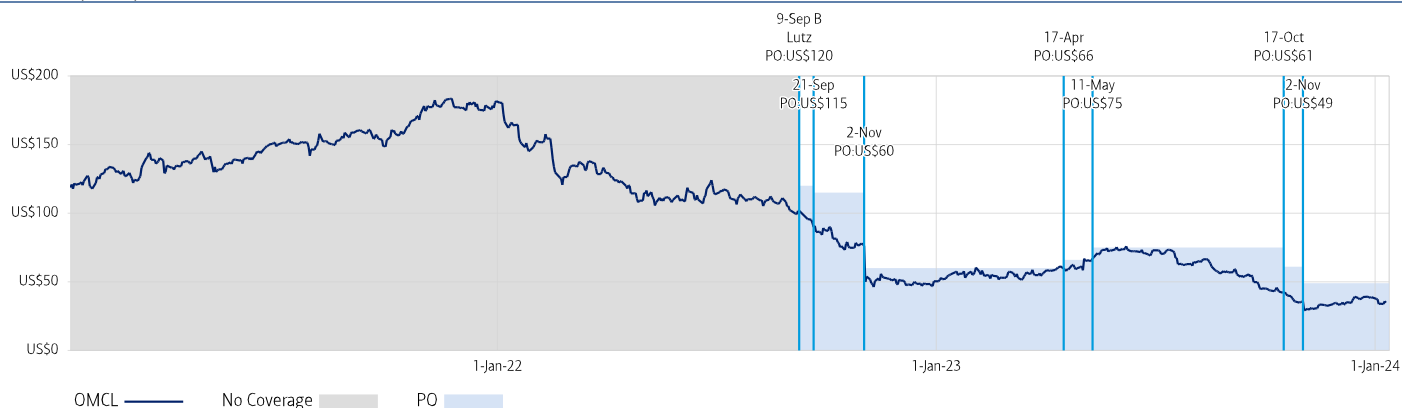
US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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

Disclosures

Important Disclosures

Omniceil Inc. (OMCL) Price Chart



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.

R1 RCM (RCM) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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