Q1 2021 Earnings Conference Call
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Corporate Participants:
Kathleen Nemeth – VP, Investor Relations
Randall Lipps - Chairman, President, Chief Executive Officer, and founder
Scott Seidelmann – EVP, Chief Commercial Officer
Peter Kuipers – EVP, Chief Financial Officer

Operator
Good day and thank you for standing by. Welcome to the Omnicell's First Quarter 2021 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After the speaker's' presentation, there will be a question and answer session. To ask a question during this time, you will need to press star one on your telephone keypad. If you require any further assistance, you can press star zero. I would now like to hand the conference over to your speaker today, Ms. Kathleen Nemeth. Please go ahead.

Kathleen Nemeth
Thank you, operator. Good afternoon, and welcome to the Omnicell First Quarter 2021 Financial Results Call. On the call with me today are Randall Lipps, Omnicell Chairman, President, CEO, and Founder, Scott Seidelmann, Executive Vice President and Chief Commercial Officer, and Peter Kuipers, Executive Vice President and Chief Financial Officer.

This call will include forward-looking statements subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied. For a more detailed description of the risks that impact these forward-looking statements, please refer to the information in our press release today, and the Omnicell Annual Report on Form 10-K filed with the SEC on February 24th, 2021, and in other more recent reports filed with the SEC. Please be aware that you should not place undue reliance on any forward-looking statements made today.

The date of this conference call is April 29th, 2021, and all forward-looking statements made on this call are based on the beliefs of Omnicell as of this date only. Future events or simply the passage of time may cause these beliefs to change, and we undertake no obligation to update these forward-looking statements. Finally, this conference call is the property of Omnicell Inc., and any tapings, other duplication, or rebroadcast without the expressed written consent of Omnicell is prohibited.

We've refreshed and expanded the Investor Relations section of our website, where you can find our first Corporate Sustainability Report and other information.

On our call today, Randall will provide an update on our business. After Randall's remarks, Scott will provide perspective on the healthcare industry and our key customer wins. Finally, Peter will cover our results for the first quarter, our guidance for the second quarter, and our total year guidance. Our first quarter financial results are included in our earnings announcement, which we

released earlier today, and is posted in the Investor Relations section of our website at omnicell.com. Additionally, we'd like to remind you that during this call, we will discuss some non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most comparable GAAP financial measures are included in our earnings announcement.

I will now turn the call over to Randall.

Randall Lipps
Good afternoon, and thanks for joining us today.

Well, Omnicell is off to a solid start to the year, and I am proud of the outstanding results delivered by the team this quarter. We exceeded the top end of our guidance ranges for revenue, non-GAAP EBITDA, and non-GAAP EPS, posting record revenues of $252 million, and non-GAAP earnings per share of $0.83 for the first quarter. We believe the strong results reflect our customer's trust in Omnicell, and their recognition of the significant benefits inherent and vision of the Autonomous Pharmacy.

Our first quarter performance also reflects excellent operational execution and financial discipline, with non-GAAP EBITDA of $51 million and strong free cash flow of $44 million. Peter will review the financial results and the guidance of the second quarter and full year in more detail later in the call.

We've had about one year now since the COVID-19 pandemic fundamentally altered our society and our daily life. During this time, we have focused our efforts on supporting our healthcare partners through this unprecedented time. We've successfully pivoted to virtual installs at hospital sites, and in clinic updates we implemented remote work practices. We learned a lot over the past year, and we believe the industry now recognizes that medication management is a mission-critical element of their care delivery model. It's been a privilege to support our customers as they've worked to modernize and optimize their medication management systems, and we are confident that Omnicell is well positioned to enable them to accomplish this effectively and efficiently.

Now, turning to recent customer successes. We increased our number of long-term sole source contracts during the first quarter with top 300 U.S. health systems. One of these new wins is the largest single sole source agreement in Omnicell's history. A top ten U.S. health system has chosen Omnicell to help them design and implement complex pharmacy workflows and supported their carrying forth the Autonomous Pharmacy. We now have long-term sole source agreements with 147 of the top 300 U.S. health systems. We are honored to have been selected for this critical infrastructure initiative and believe a win of this magnitude demonstrates that our strategy and our execution are working. And our second quarter results have followed start, with the addition of Scripts Health as our 148th long-term sole source agreement. In this new partnership, Omnicell will be implementing automated dispensing systems for patient care areas and operating rooms, cloud-based intelligence solutions, and tech-enabled services. This newest win is a competitive convergent opportunity for us and underscores the strength of Omnicell's value proposition. We

believe that the power of our customer relations is unique within our industry, as we are truly strategic partners with our customers, and work closely together to understand why and implement complex pharmacy automation workflows. This enables pharmacy staff and care providers to spend their time where it matters most, caring for patients. It is the quality of these relationships, together with our innovative products and services, that enables us to achieve market share gain and improve business performance.

Importantly, our Advanced Services portfolio, which includes several subscription-based technology-enabled services, such as Omnicell 340B, Enliven Health and Omnicell One delivered strong results for the quarter, and continues to be well-received by the market.

As we continue to enable the vision of the Autonomous Pharmacy, we are evolving from a product hardware company to a technology-enabled software services business powered by the cloud. 2021 marks nearly 30 years since the company was founded, and throughout the years, has learned that evolving this business and undertaking a shift in strategy requires that we continue to elevate our culture.

For instance, three years ago, I hired Scott Seidelmann for our commercial organization to realize our vision. And Scott has since assembled a great team that has been responsible for some of our recent strong execution.

And under this mindset, we welcome Christine Mellon to Omnicell during the first quarter this year in the newly created role of Chief People Officer. The Autonomous Pharmacy vision requires investment in our people and culture, which is why the role is so critical for us at this time. Christine brings more than 25 years of experience at high-performing software and technology companies such as Oracle, and most recently, CSG. We are delighted to welcome Christine to the team.

Our achievements over the years have always been driven by our people: individuals from diverse backgrounds who share a commitment to our vision and seek to make a positive impact on the world. And in the last year, our employees have shown great dedication and effort, despite the many, many challenges brought by the pandemic.

Now, before I turn it over to Scott, I wanted to highlight our recently released inaugural ESG and Corporate Responsibility Report, which many of you have probably already seen. We recognize that we are accountable, not only to our customers and our shareholders, but also to the global community. We are focused on innovating to drive sustainability across our business, ethically and responsibly sourcing materials by adherence to the internally recognized OECD guidance, and elevating our diversity and inclusion initiatives. We will hope you find our first report helpful, and we look forward to continuing to provide updates on our progress.

Now, looking ahead, I remain confident and believe that we are well-positioned to continue to drive growth and add real value in the communities we serve. I'm excited to continue to build on our momentum in 2021 and beyond, and we appreciate your support and confidence in Omnicell.

At last, I'll turn it over to Scott.

Scott Seidelmann
Thank you, Randy.

Before I discuss some of the customer highlights and our progress this quarter, I want to briefly expand on the point that Randy just mentioned regarding the organizational work that we have done over the last three years.

Once we translated the Autonomous Pharmacy vision into a strategy, it was clear that we needed to evolve our organizational design from one focused on delivering primarily a single hardware product, to one that could deliver new products and technology-enabled services built on the cloud. We've significantly changed our organizational design by elevating our account managing structure and nationalizing our sales in customer organization (a structure that has been recognized by Gartner as a best-in-class go-to-market design); and we also added professional services, product management, customer success, and software engineering function. And to that transformed organizational design, we recruited seasoned leaders with expertise in technology-enabled services, SaaS, customer experience, and software development. So, today, we are fortunate to have a complete, world-class commercial leadership team, which is largely responsible for our exciting Q2 results.

The combination of our strategy, transformed organizational design, and new leadership is helping us to realize the vision of the autonomous pharmacy. Practically, that progress can be seen in our continued expansion of our long-term customer partnerships and competitive conversion. As Randy mentioned, we increased the number of sole source agreements in the first quarter, bringing our total to 147. Our 146th sole source agreement was a top 10 health system, which selected Omnicell to deliver medication management solutions across its network of more than 65 hospitals and 550 facilities in the US, the largest contract in our company's history. Additionally, you'd find our 147th agreement in Q2 was North Carolina-based four hospital system. And our second quarter is off to a solid start with the addition of Scripps Health as our 148th long-term sole source agreement. Through this new partnership, Omnicell will be implementing an XT automated dispensing system and its cloud-based intelligence solution. This is a competitive conversion and underscores the value of our market proposition.

Another highlight for the quarter is the competitive conversion with an Illinois-based academic medical center that will be expanding their footprint of XT Automated Dispensing Systems across their integrated health network.

One of the reasons that our sole source is winning in the market is because of our unique Advanced Services portfolio. Let's walk through some of the highlights:

Omnicell One is a cloud-based technology-enabled service that combines software, analytics, and experts to help health systems manage drug inventory, increase provider efficiency, and reduce compliance risks. We continue to see strong market demand for this unique solution.

Recently, West Virginia-based WVU Medicine subscribed to Omnicell One as part of a multi-year sole source agreement new deal.

Central Pharmacy Dispense Service is a technology-enabled service that combines our XR2 Robots, analytics, and experts to help health systems' central pharmacies reduce errors and increase provider efficiency for oral drug distribution. We are very pleased with the positive customer feedback we are receiving on this recently launched solution, and looking forward to continuing to update you on our progress. In the first quarter, Aultman Health Foundation and the Christ Hospital Health Network signed long-term agreements with CPDS.

Omnicell 340B is a technology-enabled service that combines workflow software, analytics, and experts to help health systems organize their increasingly complex and financially critical 340B programs. We see strong market demand for this solution, and this is a great example of the power of Omnicell's channel to accelerate acquisitions. Less than six months after we acquired this technology-enabled service business, we successfully integrated the Omnicell 340B capabilities into our Autonomous Pharmacy vision. And excitedly, in Q1, the largest not-for-profit healthcare system in Texas expanded its existing Omnicell relationship with the implementation of Omnicell 340B solution under a multiyear agreement.

Also, in Q1, we signed Omnicell 340B partnerships with an integrated health system in the Midwest and one of the largest community health centers in the Northwest.

Enliven Health is a technology-enabled service that combines workflow software, analytics, and experts to help retail pharmacies and payers to increase provider efficiency, improve economics, and provide population health services to at-risk populations. We are helping retail pharmacies and health plans to improve patient outcomes while reducing costs through advanced technology solutions for patient engagement and communication. We are very proud that EnlivenHealth's CareScheduler solution is playing an important role in enabling pharmacies and other healthcare entities to efficiently manage the historic COVID-19 immunization effort. CareScheduler automates the scheduling, patient communication, and reporting for administering vaccinations, immunizations, and select diagnostics; all increasingly important services as pharmacies are asked to expand their scope of service. This week, we announced a new partnership with Twilio, a global leader in cloud-based digital communications technology. The partnership will enable EnlivenHealth to accelerate the creation and launch of an omnichannel communication solution that will allow customers to create a truly personalized experience for the patients and members using interactive phone messaging, SMS texting, chatbots, email and a mobile app. Like a traditional SaaS offering, EnlivenHealth will continue to frequently add new features and capabilities to its platform to increase value to its retail pharmacy and payer customers.

We are still early in the development of our Advanced Services portfolio and the realization of the Autonomous Pharmacy vision. However, overall, we are excited by our recent performance and long-term outlook. Our Advanced Services portfolio not only creates new sources of revenue growth and recurring revenue streams for Omnicell, but is key to achieving the full Autonomous Pharmacy. The powerful combination of our Advanced Services portfolio, with our superior

channel and long-term sole source contract strategy reinforces our confidence in the 2025 Advanced Services revenue targets we shared with you at the JP Morgan Annual Healthcare Conference earlier this year. As a reminder, we are forecasting a 50% CAGR in Advanced Services revenue from 2020 to 2025, which would be 20% to 30% of total revenue by that timeframe.

Now, I'd like to turn the call over to Peter to discuss our first quarter financial and operational results in our 2Q and full year 2021 guidance. Peter?

Peter Kuipers
Thank you, Scott.

Our strong first quarter commercial, operational, and financial results demonstrate the strength of our business model, and that our strategy is working. Healthcare system partners are embracing the vision of the fully Autonomous Pharmacy, resulting in an increasing percentage of high visibility and high predictability in current revenue for Omnicell. Our customers see the value in our platform solutions and are partnering with us as we expand their pharmacy automation roadmaps. I'm very pleased with the progress we are making at furthering the vision of the Autonomous Pharmacy, and I'm proud of the solid execution our nearly 3,000 Omnicell team members continue to consistently deliver.

Turning now to our financial results. Our first quarter 2021 revenues were $252 million, an increase of $3 million of the prior quarter, up 10% over the first quarter 2020, and above the top of our guidance range.

First quarter earnings per share in accordance with GAAP was $0.30 per share, compared to $0.37 per share in the fourth quarter 2020, and $0.26 per share in the first quarter of last year. The full reconciliation of our GAAP and non-GAAP results is included in our first quarter earnings press release posted on our website.

First quarter non-GAAP earnings per share were $0.83, compared to $0.91 per share in the previous quarter, and $0.66 in the same period last year. First quarter non-GAAP EPS results exceeded our expectations due to stronger revenue as well as favorable expense items such as, business travel, and the timing of headcount additions.

Non-GAAP gross margins for the quarter were 50.6%, a slight decrease from the previous quarter primarily due to revenue mix and increased freight expense. Year-over-year, this represents an increase of 120 basis points driven by volume leverage, supply chain initiatives, and favorable product mix.

The non-GAAP EBITDA margins for the first quarter of 20.1%, expanded by 250 basis points compared to the prior year first quarter, a decrease slightly from the previous quarter.

I would now like to comment on the strength of the cash flow performance. At the end of the first quarter, our cash balance was $548 million, up from $486 million in December 31st, 2020. The $62-million increase in cash was driven primarily by $57 million of cash flow from operations. Free cash flow during the first quarter was strong at $44 million compared to $65 million from the previous quarter, and $11 million from the prior year.

In terms of accounts receivables, days sales outstanding for the first quarter were 76 days, an increase of 5 days over the last quarter, and a decrease of 17 days over the first quarter, 2020.

Inventories as of March 31st, 2021, were $96 million, essentially flat with prior quarter, and a decrease of $17 million when compared to the first quarter of 2020 as a result of our concerted efforts of global supply chain process improvements, and inventory management.

Before turning to guidance, as a reminder, I would like to walk through the long-term financial framework we initially presented at the JP Morgan Healthcare Conference earlier this year, and that we reiterated on the last quarter's call.

I will now walk through the highlights.

Our revenue base is resilient with highly-visible in nature, and we differentiate it by five key drivers: First, a very robust product backlog, which increased during the first quarter, and we expect it to further increase during the year. Secondly, long-term sole source agreements with now 148 of the top 300 U.S. health systems. Third, customers value our offerings, as evidenced by our strong customer retention rate of approximately 99%. Fourth, we have strong insights into annual service and maintenance revenue with a large install base of connected devices, which are in the early stages of its upgrade cycles. Lastly, nearly all of our revenue has high visibility, roughly 40% of our revenue base is recurring in nature, and we are focused on growing this percentage over time.

As we have previously discussed, an area of our business which is driving substantial growth and high visibility revenue is in Advanced Services. We're forecasting a revenue CAGR of approximately 50% from 2020 to 2025 for these Advanced Services, with revenues expected to reach 20% to 30% of total revenues by 2025. This is subscription-based, recurring revenue, with high margin and unit economics.

We're targeting a company-level total revenue CAGR of 14% to 15% in 2021 to 2025, reaching $1.9 billion to $2.0 billion in total revenue by 2025.

We're targeting non-GAAP operating margins of 21% and a non-GAAP EBITDA margin of 25%, both by 2025.

We have built a company that's able to scale very well, and we believe we are very well-positioned to deliver on the 2025 guidance, driven by a number of factors including improved business mix, benefits from long-term exclusive customer partnerships, economies of scale, manufacturing

savings, and process efficiencies. As we continue to scale the business, we expect to redeploy some of these savings into value creating growth and innovation initiatives.

Now, moving on to our full-year 2021 updated guidance. Given the strong start to the year, we are raising our full-year non-GAAP EBITDA and non-GAAP earnings per share guidance ranges. As a reminder, our full year 2021 product bookings are expected to range between $1.090 and $1.150 billion. And we expect total 2021 revenue to range between $1.085 and $1.105 billion. We expect product revenue to range between $770 million and $785 million and we expect service revenue to between $315 million and $320 million. We now expect total year 2021 non-GAAP EBITDA to be between $231 million and $242 million. Using the midpoint of the updated and increased non-GAAP EBITDA ranges, this represents an approximately 21.6% non-GAAP EBITDA margin for 2021, up approximately 380 basis points from 2020. For 2021, we're assuming an effective blended tax rate of approximately 12% in our non-GAAP EPS guidance. We now expect 2021 non-GAAP earnings per share to be between $2.50 per share and $2.70 per share. We believe that our margin expansion progress is on track towards our 2025 estimated non-GAAP EBITDA margin target of 25%.

For the second quarter of 2021, we are providing the following guidance. As we noted last quarter, we continue to invest in scaling our business to support the expected increase in revenue and the timing of customer implementations. Our second quarter guide also includes additional trade costs given global market conditions. We expect total second quarter revenue to be between $265 million and $270 million, and product revenues between $192 million and $195 million, and service revenues between $73 and $75 million. We expect second quarter non-GAAP EBITDA of $53 million to $56 million. Using the midpoints of the second quarter guidance ranges, this represents an estimated quarter-over quarter non-GAAP EBITDA margin expansion of approximately 30 basis points. We expect second quarter non-GAAP earnings now to be between $0.80 per share and $0.85 per share.

The team has done a fantastic job supporting our customers during these unprecedented times, and as Randy mentioned, while many of us at Omnicell transition to remote work, this is not an option for our supply chain and manufacturing teams; who have remained on site since the start of the pandemic, ensuring that access to our critical medication automation management systems were assembled, tested, and transported to our healthcare system partners on the front lines. I would to like thank them for their efforts and contributions.

In summary, we are very pleased with our commercial, operational, and financial results for the first quarter of 2021, and we look forward to updating you on our progress in the coming quarters.

With that, we would like to open the call for your questions.

Operator
If you would like to ask a question, please press star one on your telephone keypad. We'll pause for a moment to compile a roster. Your first question comes from the line of Sean Wieland with Piper Sandler.

Jess: Hi. Thank you, guys, so much. It's Jess on for Sean. I think we're interested just to know just how exactly the COVID vaccine management solution was developed. And if you could talk just a little bit about the innovation process for your customers asking you for this. How was it rolled out? And maybe just, was it more a new customer driver? Was it incremental revenue driver at existing customers? Any details on that would be helpful.

Scott Seidelmann: Sure. I'll talk that. This is Scott Seidelmann. I think the question again, for folks who couldn't hear you was, really around sort of what was the innovation process around the development of our COVID vaccination solution, which is relaunched as Care Scheduler under the brand name. First off, Care Scheduler, what that actually is. So, Enliven Health platform, it's a SaaS platform that we provide to retail pharmacies to enable pharmacies to automate a variety of workflows. Frankly, to lessen the focus on things, and actually treating the patient as opposed to doing maybe administrative things.

Clearly, one of the things that we've heard loud and clear from our pharmacy--retail pharmacy customers as COVID unveiled, and frankly, the scope of practice for pharmacists was expanded, it became clear that pharmacists were going to have to start providing these vaccinations. Plus that, they just simply did not have the tools to do that. And we're talking in some cases around pretty basic capabilities, like how do I schedule patients? And now with COVID, do I want those patients queuing up inside the retail pharmacy, etcetera? And so, we are certainly are eager and continuing to add value and add capabilities to that retail platform, which creates incremental value to those retail pharmacies. So, I think kudos to the team that quite quickly, over about a six-month period, they identified the need, developed the software, and rolled that out.

I think one aspect of your question was, if we really rolled this out to new customers, new customers on the platform, or was this incremental for existing customers? The short answer is both, but predominantly, existing customers, right, which is that, in typical SaaS platform fashion, we can charge an additional amount for the Care Scheduler module. And as they upgrade it to that and had that capability, they could provide that service to their customers. So, it was really quite fast. And you know, I think like many things in--during the pandemic, I was really very proud of that team's ability not only to develop and bring the product to market, but actually get it deployed, and to the point where it can be used quite widely by that customer base, so. Anyway, I hope that gives some of the flavor.

Jess: Yes, that's helpful. Can I just quickly, one follow-up on that? So, how is Enliven Health driving patient engagement and communication pre-Trilio, or are they--these pharmacists essentially going from nothing to a comprehensive omnichannel solution?
Scott Seidelmann: Absolutely. And so, like I said, the Enliven platform automated workflows for pharmacy--pharmacists. And one of those workflows, or one set of those workflows was enabling pharmacists to engage their patients, and in that way, (INAUDIBLE) in the form of IVR, or (INAUDIBLE) in the form of IVR, text message follow-up communication.

So, we were providing those services. What the partnership with Trilio does, is enables us to really upgrade the quality of those communication technologies, and so, to add chat and other online, and mobile. And so, it really--it, you know, for us, instead of developing that for ourselves and modernizing those, we were able to partner with the best-in-class provider and get to market so much faster.

Randall Lipps: And it allows us to put our resources on solving problems, not delivering basic connectivity to people. So, it really allows us to work on those complex workflows that really solve problems.

Jess: Thank you.

Kathleen Nemeth: Our next question, please? Thank you, Jessica. Next question.

Operator: And your next question comes from the line of Iris Long with Berenberg Capital Management.

Iris Long: Hi, guys. Thanks for taking my question. So, I guess a follow-up to the Enliven Health question. I'm wondering if you guys can talk about how big is the retail pharmacy business as a percentage of your total revenue right now? And then as we think about the guidance, and as you continue to add more features to the platform, I guess what growth assumptions are you--do you have, or what growth assumption is embedded in the guidance?

Peter Kuipers: Yeah, thank you, Iris. This is Peter. So, there's a retail pharmacy part of our business, right, which is a smaller part of the business if you compare it to the--to the hospital side of the business. It is growing really nice momentum, maybe generally kind of in line with the total company growth. We are focusing, I think we discussed before, really on the software platform there, to really engage the patients and free the pharmacists up in the--in the retail pharmacy today.

Iris Long: Okay, got it. And then the pricing model there, is it just a subscription model based on the number of module, is that the right way to think about it?
Peter Kuipers: Yeah, it's a combination. It's a subscription model, technology-enabled services. And then, a good chunk is added also as pure SaaS.

Iris Long: Okay, great. And then the other question—

Scott Seidelmann: --Even though (INAUDIBLE) patients engaged, right? So the more (INAUDIBLE) patients.

Iris Long: Okay. And then the other question I have is on Omnicell One. So, it seems that you guys are seeing strong customer interest. So, I'm wondering if you can compare Omnicell One to maybe some of the other software solutions on the market? What's Omnicell One's advantage?

And then, I guess the same, similar question there, can you remind us what's your pricing model and what's the pricing strategy going forward?

Scott Seidelmann: Sure. So, the question is, how does Omnicell One compare to some of the other offerings in the market. I think in two ways, breadth and depth, right? And on the one hand, the vision for Omnicell One was not to be a pure analytics product, in the sense that there's a lot of analytics capabilities in healthcare. And the challenge of analytics capabilities in healthcare--I can only speak to healthcare, it's pretty much the only industry I've worked in. The challenge is that getting an operator and the customer to actually react to that data and actually change things, that's often--they're not connected in many times, because the workflow's so complicated. And so, what' we've done with Omnicell One is to really integrate analytics with workflow. So, with Omnicell One, it's predicting that there's a potential for a stock-out or a shortage, instead of just creating a dashboard that someone may or may not pay attention to. Omnicell One actually sends a notification to the pharmacy tech to actually do something, or create the task and a work order. And so, we think that on the one hand, that connectivity between analytics and workflow is really so important. And I mentioned previously, I think extending that is that, we have a customer success organization of former pharmacy informaticists, workflow experts, that get assigned to accounts that really, in true customer success fashion, are really trying to interpret some of the data and work very closely with customers to engage and provide better outcomes.

So, on the one hand, it is very much a true service on that, in the sense that we're identifying outcomes, we're integrating it with workflow, and there's an expert that is on the customer journey with the customer to achieve those outcomes. We think that's highly differentiated.
The second one, I think on the second dimension, that's your breadth of offering, is that Omnicell One optimizes inventory, optimizes provider efficiency, optimizes avoidance of compliance risks. And that is very unique when compared to other service offerings. And that was very deliberate in our approach to not offer those as separate modules, but to offer it as a single prescription service that combines those. And again, like a true subscription service, we're continuing to have that and add that functionality, and that value will continue to grow for the customer, which drives more demand for the service.

Iris Long: Great. If I may add one more question, so, you guys talk a lot about competitive conversion. So, I'm wondering, what do you think is the main driver for success there? And then, how has that changed maybe compared to last year?

Scott Seidelmann: Want me to take that, Randy?

Randall Lipps: I'll take that. I'd say it hasn't changed much from last year, but I'd say a couple years ago or two years ago, it's all product-based. And as we move to a solution-based company with a broader breadth of products, and now tech-enabled services, it really allows us to talk about how are we going to digitize the entire pharmacy workflows, so that we can use the power of the cloud to do a lot of the work that just doesn't seem to get done, as you would think would happen, and at complex pharmacy operations.

And so, when we go in and talk about the whole breadth of our product offering, and the tech-enabled solutions to help them actually get better performance, not by them just deploying the products but by us working together day-to-day, optimizing in deployment talks together, it's a different sense of success rate that they have not seen in the past with, you know, other ways of doing it.
So, you know, people wanted better outcomes, and the pandemic for sure brought up the shortcomings of, you know, the poor pharmacy supply chains in many of these systems, which, in many cases, diverted the proper care for some patients because they just didn't have the right kind of drugs positioned in the right places.

So, with that, I think there's a heightened sense of, look, we've got to digitize the pharmacy in order to really get to where we want to, which is near perfection on getting drugs to the right place, near perfection on regulation and safety and economics, and making better decisions, and get pharmacists out of the base of it. Get them out from out the counter, and get them with the patient, where their clinical practice can make a change and a difference in a big way.

Iris Long: Great. Thanks so much.

Operator: And your next question comes from the line of Scott Schoenhaus with Stephens.

Scott Schoenhaus: Hi, Randall, Peter, and team.

Randall Lipps: Hey, Scott.

Scott Schoenhaus: So my first question is on the results and guidance. You guys beat the top line, driven by greater than expected product revenues, came in about four million above the top end of your guidance range, but you didn't change your full year product revenue guidance. Was this just a pull-forward in timing of a contract that you anticipated to occur later throughout the year? I just wanted any additional color there.

Peter Kuipers: Yeah, so, (INAUDIBLE) as you know the product backlog going into the year, the product backlog through the end of December 31st, 2020 is up 67%, right? So, we feel very confident in the rest of the guidance for the year. We did actually, in the first quarter, in the front end of the guidance range, some of that's timing, but it's all there really in the year, still. So, we've been updating full year guidance, so, we might later in the year. But it mostly aligns with customer timing of implementation.

Scott Schoenhaus: That makes sense. Yeah, that makes sense, Peter, given your track record with achievable guidance. So, okay, then on the services side. Can you talk more about 340B opportunities, and the traction you're seeing in any cross-selling? I believe you stated last quarter that the 340B team closed multiple new opportunities in Q4. Is there any update to these stats in the quarter? And maybe some color on the acceleration of other, you know, software platforms that we've been talking about, Enliven Health, Omnicell One. Your guidance assumes more of a ramp in this service revenues in the back half of the year. Thanks for the questions.

Peter Kuipers: Thank you, Scott. Multiple questions there. The 340B, we're very pleased with the addition to the Omnicell platform. We do have a rich platform, and really good momentum in cross-selling the 340B. We did the first cross-sell already, within now 148 sole source partners, but then it's (INAUDIBLE). There is a really good opportunity there for those sole source customers that do not have 340B currently, or have a different software vendor. It's very possible it's there, and it's possible that we'll be able to announce some more possible news there on the additional (INAUDIBLE) throughout the year, and as we go through the years as well.

And like I also talked about in the script quite extensively, we had an early question of (INAUDIBLE) really going nicely, a lot of length in--and then also our CPS (INAUDIBLE) that I talked about a little bit earlier, we've seen some great momentum there as well. It's only (INAUDIBLE) the other way frame it is, we're very confident that we're making progress to the long term goal. And certainly for this year, we're certainly on track as we move to (INAUDIBLE) as well in the pipeline, absolutely.

Scott Schoenhaus: Thank you. Looking forward for your continued execution, Peter and team. Thanks.

Peter Kuipers: Yeah. Thanks.

Operator: Again, if you would like to ask a question, please press star one on your telephone keypad. Your next question comes from Matt Hewitt with Craig Hallum Capital.

Matt Hewitt: Good afternoon. Congratulations on the good start to the year.

Peter Kuiper: Yeah, thank you.

Matt Hewitt: A first one, and I think it's--I feel like it's been a while since we've talked about the competitive landscape. Obviously, as you guys have expanded the services, added more software, I feel like we don't talk about it much, but are you seeing anything from your peers? Are they trying to match or mimic the way that you've kind of expanded into other areas? Or have they, I don't want to say given up, but I just feel like we're not hearing much about the competitive landscape anymore?

Peter Kuipers: Yeah, maybe I take that one first, and maybe Randy—

Randall Lipps: --No, they're still there. There's always competition, and you know, it just depends on what kinds of things our customers are looking for, but most customers are taking a strategic part in medication management. And I think it--if you take a strategic approach, now you have to take a broader and more in-depth approach to figuring out how to digitize the whole pieces of the business.

We're really the only company that's got a vision for doing that, and I think--I think people are not buying only into what we have today but where we're going. And that's why you see these

partnerships for seven, 10, 15 years, is because it's not necessarily that we have every single product they want today, but they know that we're committed, and that the software services and tech-enabled services are places where we're going to continue to create value on the platform.

And so, to the extent that, you know, these customers are aligned with that vision with us, and many are, and maybe not everyone, but many of them are, it allows us to really compete sort of in a different space. And--but I will never think there's no competition, because there's always--there's always competition. I think—

Matt Hewitt: --Got it--.

Randall Lipps: --I think what we're doing is a little different than most people.

Matt Hewitt: Understood. And then, maybe shifting gears a little bit, with the ramps in the number of people vaccinated, and obviously pockets of the pandemic maybe showing signs of slowing down, is that enabling your sales and service teams to get back in and actually meet with the customers face to face, and what can that mean from driving incremental sales? Thank you.

Randall Lipps: Yeah, I think we're seeing more of that. I mean, if you're vaccinated, and under certain conditions, we can meet face-to-face. And I'm not saying everybody's there, but certainly a lot are. But I think for many of our big customers out there, this is strategic. And so, it's really beyond the question of how healthy is the financial bottom lines of hospitals, this is something they have to do, they know they need to do. And it's beyond just, you know, always having to meet in the old fashioned way, face-to-face.

So, we have a lot of engagement with our account base and with the marketplace, and I just don't feel like at this time that's really a hindrance to our execution at all. And maybe in some ways, getting a few more installs is a lot more efficient than flying some people around. So, we've taken a little bit of advantage of that. So, I feel really good about the pipeline, the momentum, the customer's ability to do what they need to do to get these solutions in front of customers at the right time.

Matt Hewitt: Well, that's great. Thank you for taking the questions.

Randall Lipps: Thank you, Matt.

Kathleen Nemeth: Next question, please.

Operator: You have a question from Bill Sutherland with the Benchmark Company.

Bill Sutherland: Thanks. Hello, everybody.

Randall Lipps: Hey, Bill.

Bill Sutherland: I apologize upfront, I got on pretty late in the call. So, if you covered it--but Peter, did you address the service gross margin in the first quarter? Was different than my model, in F4Q I thought there'd be a bit more 340B positive impact in it.

Peter Kuipers: Yeah, of course. So, on the service gross margin, if you're looking at that, we're scaling, so most of the advanced services, right, that's all of the current revenue, that is the powerful force in service revenue, and we're scaling that business. So, we have upfront investments, if you will. And from a gross margin perspective, so, we expect both product gross margin and service gross margin to increase during the year, through the quarters directionally, and then, also over the next couple of years.

Bill Sutherland: And so, I'm not sure I caught the first part of your answer, Peter. And so, the first quarter is just--is there anything other than just--I don't know what to call it, noise?

Peter Kuipers: It's scaling and an investment, if you will, right, as we build out and scale these service offerings as well.

Bill Sutherland: Oh, I see. Okay.

Peter Kuipers: You're seeing historically the benefit costs. I believe, benefit costs in the first half of the year is always higher, right? (INAUDIBLE) So, that—

Randall Lipps: --Just adding a few more people earlier on in the year to deal with demand as we move forward, and so that kind of hits a little bit more first quarter.

Bill Sutherland: Yeah. And so, that's also what kind of threw me, because R&D was lower than I expected as a percent of revenue. Anyway, one other thought I had on 340B, the customers that they have already, are there any discussions with their customers that might lead to sole source deals for your other family of solutions?

Scott Seidelmann: Yeah. I think we're--we are looking essentially at the list, in the sense of, we're looking--you know, our channel is certainly quite powerful in its ability to introduce this solution to a much broader set of customers through the sole source arrangements.
And as Randy pointed out, the comprehensive strategic portfolio, that there's certainly demand there to have that service. We are certainly--the teams are also working to say, are there customers that 340B has that we don't currently serve, right? It's going to be a much, much smaller list, just given the breadth and depth of our customer base. But certainly, the teams are exploring that.

Bill Sutherland: Yeah, I was thinking it would mostly go one way, but it occurs to me that it could--it could lead to some sole source deals, too. Thanks for taking the questions. We'll catch up later.

Randall Lipps: Thank you, Bill.

Scott Seidelmann: Thanks, Bill.

Operator: I would now like to turn the conference over to Randall Lipps for closing remarks.

Randall Lipps: Well thanks for joining us today. We're certainly pleased with the sound start to the year. And as the need for increased automation and digitization of processes goes, our solutions are more strategically relevant than ever for these customers. Our results and our continued momentum underscores that Omnicell remains a partner choice, and we're excited to continue to build on our platform as we advance the vision of the autonomous pharmacy.
Thanks for joining us today. See you next time.

Kathleen Nemeth: Thanks, everyone.

Operator: This does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.