Q2 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

Kathleen Nemeth
Good morning and welcome to the Omnicell second quarter 2021 financial results conference 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, in 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 July 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 taping, other duplication or rebroadcast without the express 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 market positioning. Finally, Peter will cover our results for the second quarter, our guidance for the third quarter and commentary on our second half 2021 outlook.

Our results were released earlier this morning and are 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 financial results press release.

I will now turn the call over to Randall.

Randall Lipps
Good morning; and thank you for joining us today.

Omnicell continues to deliver strong results and we are making significant progress towards the 5-year outlook we outlined earlier this year.

Before I dive in, I would like to take a moment to welcome investors who may be new to Omnicell and share a bit of our history and our story. Omnicell is a healthcare IT company that was founded on the idea that innovation and technology that addressed complex medication management systems and workflows could help hospitals, health systems and pharmacies improve patient care and health outcomes. We are proud of the pharmacy innovations we have brought to market throughout our history and we are humbled to be considered a trusted partner by many leading hospitals, health systems and retail pharmacies. In 2019, Omnicell, debuted the vision of the Autonomous Pharmacy, a zero-error, fully automated, digital, medication and supply management delivery platform that will enable pharmacists, nurses and other clinicians to focus more on patients and less on non clinical and administrative tasks. Covid has put a spotlight on the need for investment in medication management infrastructure and the value Omnicell brings has never been more apparent. This is our purpose, to deliver a Better Way, and it extends across all of our stakeholders and within the communities we serve. We are excited about the opportunities ahead for Omnicell and welcome those shareholders that have recently joined us.

Turning to our financial results, as a reminder of our previously stated five-year outlook, we are targeting a revenue CAGR of 14%-15% from 2021 to 2025, reaching $1.9 billion to $2.0 billion in 2025. And we are targeting a non-GAAP operating margin of 21% and a non-GAAP EBITDA margin of 25% by 2025.

Hospitals and health systems are experiencing a renaissance of importance in the healthcare continuum. And the role of the pharmacists in both acute care and non-acute settings is increasing in importance.

A key driver of our growth strategy is the continued customer adoption of our Advanced Services capabilities, which is seeing strong market interest and supports our continued confidence in our long-term view. We are also executing on value enhancing M&A. Earlier this week, we announced our intent to acquire FDS Amplicare, a leading pharmacy SaaS solutions provider that shares our mission to transform the practice and business of retail pharmacy. This acquisition will add a comprehensive and differentiated suite of financial management, analytics, and population health solutions to Omnicell's EnlivenHealth division, broadening offerings that we believe will help pharmacies to measurably improve patient health outcomes while enabling new clinical services and expanding their growth and profitability opportunities. Scott will discuss the acquisition in more detail, but we are excited to welcome the FDS Amplicare team to Omnicell and look forward to their contributions as we continue to advance our vision of the Autonomous Pharmacy.

In terms of our second quarter financials, I am proud of the strong results the team delivered this quarter. We exceeded the top end of our guidance ranges for revenue, non-GAAP EBITDA, and non-GAAP EPS. Our second quarter results included record revenues of $273 million, record non-GAAP EBITDA of $61 million, and record non-GAAP earnings per share of $0.97. We believe these strong results reflect our customers' trust in Omnicell and their recognition of the significant benefits our products, solutions, and services bring to them.

Our second quarter performance also reflects excellent operational execution and financial discipline, delivering record Non-GAAP EBITDA of $61 million and strong free cash flow of $58 million. Peter will review the financial results and the guidance for the third quarter and total year in more detail later in the call.

Our third quarter guidance and second half 2021 outlook incorporate the anticipated effects of inflationary headwinds that many others are also facing. Over the last 29 years, we have experienced several

challenging economic environments and have executed successfully within each of them. We are seeing cost inflation, primarily due to semiconductor supply constraints and, to a lesser extent, freight and raw materials cost increases. We have worked diligently to ensure our customers' implementation timelines remain unaffected and are pleased to note that we have high confidence in our supply of critical semiconductor and other key components through 2022. We are also taking steps to offset these higher costs. We remain very confident in our growth trajectory outlined in our five-year long-term outlook.

Before I turn it over to Scott, I'd like to discuss Omnicell's ongoing efforts to have best-in-class corporate governance and our ongoing Board refreshment process. We're very pleased to have announced the appointment of Edward Bousa to our Board of Directors. Ed brings four decades of proven leadership in the financial community and a unique perspective as an early proponent of ESG initiatives. His independent viewpoint complements and strengthens our Board, and we're looking forward to benefitting from his experience.

With Ed's appointment, Omnicell's Board now includes eight independent directors who collectively bring a broad range of skills and experience to the Board. Ed's appointment reflects our commitment to regular board refreshment and corporate governance enhancements. We are continuously focused on advancing our corporate governance standards as we work to deliver long-term value for all of our stakeholders.

Looking ahead, we are excited to continue building on the momentum in our business and enabling our customers to solve the complex challenges of medication management and adherence; and in doing so improve patient care. We appreciate your support and confidence in Omnicell. With that I will turn the call over to Scott.

Scott Seidelmann
Thank you, Randy. Last quarter I discussed how we evolved our organizational design over the last three years from one that delivered a single hardware product to one that can deliver new products and technology-enabled services built on the cloud. These changes to position Omnicell for the future, included transforming our sales and customer organizations, but also notably included making significant investments in our product management and software engineering organizations. All of these changes were supported by our new, world-class commercial leadership team. As a result of these organizational changes and our hard work over the last three years, we feel confident in our strategy and are truly excited about our innovation pipeline.

On today's call, I would like to provide an overview of progress against that strategy and some areas of opportunity for innovation.

When you look at healthcare today, it is clear that the industry is at a historic inflection point in terms of how healthcare is accessed and delivered. This change is being driven by the confluence of several key factors:

- First, hospitals are experiencing a renaissance of importance in the healthcare continuum. After over a decade of debating whether we have too many hospital beds in the U.S., it is clear now that the hospital plays a critical role in care delivery. And because scale matters, consolidation will continue, and the top 300 health systems will be larger and more important.
- Second, some care will move from the true acute care and other institutional settings to the home. And, not only are new entrants serving this emerging market, but traditional players like institutional

pharmacies, retail pharmacies, and health systems will play a necessary role in caring for patients in the home.

- Third, the role of the pharmacist both in retail and acute care settings is increasing in importance and, as such, the pharmacist needs tools and services to free them from the day to day administrative work in order to deliver care directly to patients.
- Lastly, the cloud is now clearly a dominant mode of technology enablement for providers.

We believe that these factors are driving a transformation of the pharmacy care delivery model and Omnicell is uniquely positioned to not only define that transformation but share in the opportunities that emerge.

I would like to highlight that Omnicell's products and solutions are installed in the majority of the top U.S. health systems – and we are notably the sole-source supplier to 148 of the top 300 of those health systems, reflecting the confidence our customers have in us to provide them the products they need today and long into the future. We are seeing more competitive wins now than we have at any time in our history, and it is clear that our full portfolio of products makes Omnicell the dominant pharmacy automation player in the health system market. This is evident by our recent addition of Scripps Health, where we are implementing automated dispensing systems for patient care areas and operating rooms, cloud-based intelligence solutions and tech-enabled services. As we have said previously, this win is a competitive conversion for us. Based on the strength of our competitive conversion and renewals, it is clear that our strategy is working.

Core to that strategy is a comprehensive portfolio of solutions. And, just this morning we announced that Spartanburg Regional Healthcare has expanded its partnership with Omnicell to become our first customer to fully extend its end-to-end medication management platform with the addition of Omnicell One, our cloud-based intelligence service, and our Central Pharmacy Dispensing and Compounding Services. This is a great example of how Omnicell's advanced services portfolio can help partners like Spartanburg achieve the vision of the fully autonomous pharmacy.

Now looking at the expansion of care delivery to the home setting. While this market will attract new entrants, we also believe that traditional players like institutional pharmacies, retail pharmacies and health systems will play a critical role in managing those patients in the home.

One example of how Omnicell is supporting these new care delivery models is through our expanded partnership with Chartwell, a leading provider of home infusion and specialty pharmacy. Earlier this month we announced that Chartwell selected our IVX workflow sterile compounding technology to manage chemotherapy medication preparations. This will enable improved clinical and operational outcomes and allow Chartwell to lead the way to zero-error medication management as it provides home-based care. We are exploring and increasingly excited about the opportunity in the ambulatory and home care markets, and expect to continue delivering innovations in the future.

As health systems continue to expand in the ambulatory market through retail and specialty pharmacy offerings, the 340B program is critical to their success. As a result, we continue to see strong demand from customers for our Omnicell 340B service and we now have an integrated go-to-market strategy and are making progress against realizing synergies across the product portfolio.

Turning to the increasingly important role of the pharmacist. As this shift continues, the automation of medication management is critical to free pharmacists from their day to day administrative work in order to

deliver care directly to patients. This is especially true in the retail setting, which we predominantly serve through our EnlivenHealth service.

EnlivenHealth delivered strong second quarter results, as we continued to expand and deepen key customer relationships. Notably in the quarter, we expanded our relationship with Walmart, which has continued to roll out key EnlivenHealth solutions to additional Walmart pharmacies around the US. And, we announced a new strategic partnership with WSPC, a Washington State-based cooperative that represents more than 300 independent pharmacies nationwide.

In addition to strong customer momentum in the quarter, EnlivenHealth continues to innovate. In Q2, EnlivenHealth launched Personalized Interactive Voice Response, a SaaS technology solution that automates patient communications and frees up pharmacists to spend more quality time with patients. As the first release of EnlivenHealth's new omnichannel communications platform, Personalized IVR is an inbound recognition solution that enables patients to seamlessly engage with the pharmacy via telephone without ever having to speak to a staff member. This builds off EnlivenHealth's strategic partnership with Twilio, the leading cloud communications and customer engagement platform, that we announced in Q1.

On the clinical care side, EnlivenHealth just launched two new capabilities for CareScheduler, a digital solution that automates the scheduling, communications and reporting for vaccinations and point-of-care testing for pharmacies. The new CareScheduler enhancements include an AI-driven messaging solution to increase outreach to target patients for flu vaccines, and fully electronic forms for flu documentation.

And last, but not least, we announced our acquisition of FDS Amplicare which adds several key capabilities to EnlivenHealth's platform and expands our channel reach into independent pharmacies. Upon closing this acquisition, EnlivenHealth will have a comprehensive SaaS platform for retail and be capable of servicing the entire retail pharmacy market.

Finally, the cloud is now a dominant mode of technology enablement for providers and Omnicell is well-positioned. Year to date, we have added nearly 50 cloud software engineers to our employee base. And we continue to deliver new innovations on the cloud. Later this summer, we will release for general availability a cloud hosted version of our Omnicenter platform, which is the primary software for our core products. This is a major milestone for our customer's journey to the cloud. We are excited about the opportunity that the cloud offers and Omnicell is well positioned to be an innovator in this area.

In summary, in light of this rapidly changing healthcare environment, Omnicell is uniquely positioned to transform the pharmacy care delivery model and enable significant improvements in quality, provider efficiency and reductions in cost. We are solely focused on this transformation and excited about the opportunity ahead.

Now, I'd like to turn the call over to Peter to discuss our second quarter financial and operational results and third quarter guidance and second half 2021 outlook. Peter?

Peter Kuipers
Thank you, Scott.

Our strong second quarter commercial, operational and financial results demonstrate the strength of our business model and strategic market positioning. Our healthcare system and retail pharmacy customers

are clearly embracing the vision of the fully Autonomous Pharmacy, and the demand metrics for Omnicell remain strong.

We are making strong progress toward the 5 year outlook we provided earlier this year and I am proud of the solid execution that our over 3,000 Omnicell team members continue to consistently deliver. During the quarter, we welcomed many new team members to the Omnicell family and our headcount increased by over 100 new employees to support our continued strong growth.

Turning now to our financial results. Our second quarter 2021 revenues were $273 million, an increase of $21 million over the prior quarter, up 37% over the second quarter of 2020, and above the top end of our guidance range. The sequential revenue increase reflects continued momentum in our commercial business and strong customer implementations. The year over year increase was partially attributable to the lower than typical second quarter revenue levels in 2020 due to the Covid-19 pandemic.

Our second quarter earnings per share in accordance with GAAP were $0.43 per share, compared to $0.30 per share in the first quarter of 2021, and a loss of $0.10 per share in second quarter of last year. A full reconciliation of our GAAP to non-GAAP results is included in our second quarter earnings press release and is posted on our website.

Second quarter non-GAAP earnings per share were $0.97 per share compared to $0.83 per share in the previous quarter, and $0.37 in the same period last year.

Non-GAAP gross margin for the second quarter was 51.7%, an increase from the previous quarter by 110 basis points primarily due to revenue mix and favorable services gross margins.

We delivered record Non-GAAP EBITDA of $61 million in the second quarter. The Non-GAAP EBITDA margin for the second quarter was 22.4% compared to the 20.1% for the previous quarter; and 13.1% from the prior year period.

Now, I would like to highlight the strength of our cash flow performance. At the end of the second quarter, our cash balance was $614 million, up from $548 million as of March 31, 2021. The $66 million increase in cash was driven primarily by cash flow from operations. Free cash flow during the second quarter was very strong at $58 million, compared to $44 million from the previous quarter and $28 million for the prior year period. The increase in free cash flow was driven primarily by strong business momentum and working capital management.

In terms of accounts receivable, days sales outstanding for the second quarter were 71 days, a decrease of 5 days over last quarter, and a decrease of 16 days from the second quarter in 2020.

Inventories at June 30, 2021 were $101 million, a slight increase from the prior quarter, and an 11% decrease compared to the second quarter of 2020. We are executing well on our global supply chain process improvements and inventory management initiatives. As Randy mentioned, our team remains confident in our supply of semiconductor and other key components, minimizing potential disruptions to our customer implementation timelines. That said, we have not seen any disruptions to date and do not expect any disruptions at this time.

We have built a company that is able to adapt and scale very well, and believe we are well positioned to deliver on our 2025 targets, 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 onto our third quarter guidance and second half outlook.

Based on the strong commercial momentum, we are narrowing our full year 2021 product bookings guidance by increasing the bottom end of the guidance range by $20 million. Product Bookings for the year are now expected to range between $1.110 and $1.150 billion. We are very pleased with the continued momentum in market demand for Advanced Services. We are also raising our expected total 2021 revenues now to between $1.100 and $1.115 billion. We expect total 2021 product revenue to range between $785 million and $795 million, and we expect total 2021 service revenue to be between $315 million and $320 million.

As Randy commented on earlier, we are experiencing the effects of inflationary headwinds, primarily in semiconductors and other electronic components, as well as continued elevated costs due to freight and raw materials such as steel. As the Fed indicated, these costs are expected to be transitory in nature with potential easing beginning in 2022.

We expect to offset the majority of the impact of inflationary headwinds – which, as we mentioned, is primarily due to semiconductor costs and, to a lesser extent, freight and raw materials – in the second half of 2021 through actions I will discuss in a moment. Omnicell products utilize a variety of semiconductor technology nodes, while we do use chips from 300mm wafers, the majority of them are based off 200mm wafers. These devices have typically been low cost but have recently risen in price due to a variety of market factors. We have already taken steps to manage these challenges as we continue to evolve our global supply chain. We have high confidence in our supply of semiconductors and other key components through 2022 in order to support our health system customers that are critical to health care.

We are offsetting the vast majority of the impact of inflationary costs through:

1. Higher revenue from strong commercial momentum, customer demand, and healthy backlog;
2. Prudent and targeted expense reductions while maintaining our investment in research and development areas and customer teams to support our long-term growth strategy and scale our business to meet customer demand; and
3. The initial benefit from pricing refinement actions.

We now expect total year 2021 non-GAAP EBITDA to be between $231 million and $237 million, reducing the midpoint of our guidance slightly by $3 million. Our full year guidance includes additional costs for semiconductors, freight, and steel, given global market conditions. Using the mid points of the updated revenue and non-GAAP EBITDA guidance ranges this represents approximately 21.1% non-GAAP EBITDA margin for 2021, up approximately 320 basis points from 2020.

For total year 2021 we are assuming an effective blended tax rate of approximately 9% in our non-GAAP EPS guidance, which is a reduction from 12% provided in our April 2021 earnings call. The change in the tax rate includes additional expected tax benefit from stock option activity and incremental benefits from certain other discrete items in the second quarter and second half of 2021. We are increasing our guidance

for non-GAAP earnings and now expect 2021 non-GAAP earnings to be between $3.65 and $3.75 per share. We remain confident in our five-year long-term outlook to deliver:

1. Organic revenue growth CAGR between 11% and 12% through 2025
2. Total revenue growth CAGR between 14% and 15% through 2025
3. Growth of Advanced Services revenues totaling between 20% and 30% of total revenue by 2025
4. Non-GAAP operating margin expansion to 21% by 2025
5. Non-GAAP EBITDA margin expansion to 25% by 2025

For the third 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 third quarter guidance also includes additional costs for semiconductors, freight, and steel, given global market conditions. We expect total third quarter revenues to be between $281 and $286 million, with product revenues between $202 million and $205 million and service revenues between $79 million and $81 million. We expect third quarter non-GAAP EBITDA of $57 million to $60 million. At the mid-point of guidance, this implies a non-GAAP EBITDA margin of 20.6%. We expect third quarter non-GAAP earnings now to be between $0.89 per share and $0.94 per share.

In summary, we are very pleased with our strong commercial, operational, and financial results for the second quarter of 2021. We are taking steps to address inflationary headwinds in the market, and we remain confident in our long-term outlook. We are also pleased to have announced our acquisition of FDS Amplicare, which adds several key capabilities to EnlivenHealth's platform. Upon closing, this acquisition is expected to be immediately accretive to Omnicell's non-GAAP EBITDA and Non-GAAP earnings per share. 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

Your first question comes from Jessica Tassan of Piper Sandler.

Jessica Tassan

Hi. Thank you for taking the question. Good morning. (Multiple speakers) FDS Amplicare side, we were just interested to know if you guys could clarify whether the independent pharmacy customer base that you're acquiring is entirely incremental to your existing retail pharmacy footprint. And then just do the acquired solutions have the potential to be cross-sold into your existing retail pharmacy install base or would they be redundant and if redundant includes the incumbent?

Scott Seidelmann

The short answer is basically (inaudible) question. So one are the independent—the FDS customer base largely is there's much overlap. The reality is there may be some overlap but the vast mass majority of it is a complementary market. It's just not an area that Enliven's focused on. We've been primarily focused on Tier 1s and Tier 2s, so the large chains and the (inaudible) chains, and FDS we've been excited about is that it's very complementary because it really brings in the independents. And yes, a big portion of the fees this year is the ability to cross-sell both Enliven solutions, particularly like CareScheduler, the omnichannel communications into the current FDS, those independent pharmacies, and we certainly think there's an opportunity and it's quite complementary there with their capabilities. So we believe that there's a really good opportunity for us to cross-sell the current FDS capabilities to the current Enliven customer base.

Peter Kuipers

And then, Jessica, this is Peter, maybe specifically we announced signing of the acquisition earlier this week and you can see there that we disclosed that FDS Amplicare would bring around 15,000 independent pharmacies and those are—the vast, vast majority of those will be incremental markets for us. Maybe an additional note as well is that the revenues of FDS Amplicare are a pure SaaS revenue. It's also high growth. So we'll have also as a total growth rate. And then lastly, of course, it's immediately accretive, we expect, for non-GAAP EBITDA and for non-GAAP EPS. And then maybe a final point as well, as far as the additional capabilities Scott referred to earlier, we're very excited also about the capabilities of the Medicare plan (inaudible). The automated tool there is really a great opportunity for us as well and it helps really to enhance the value for retail pharmacies.

Jessica Tassan

Got it. That's really helpful. If I could just follow-up with one, continue the direction a little bit. In 2016, I think the DoD awarded an ABC (phon) contract to your largest competitor. We know that deployment has had a bunch of issues, and then the contract expires in 2021. So are you guys anticipating a replacement RFP from the DoD anytime soon and would you be eligible to compete in that market with the (inaudible)? Thank you.

Randall Lipps

This is Randy. We'd certainly be eligible to compete. We haven't seen anything yet and don't have enough to comment on it really. But we certainly have a lot of government business in many facets and this certainly would be one that we'd be taking a close look at when it becomes available.

Jessica Tassan

Thank you.

Operator

Your next question comes from Scott Schoenhaus of Stephens.

Scott Schoenhaus

Hi, Randy, Peter and team. Hope you can hear me. Congrats on the results and the recent acquisition.

Randall Lipps

Thank you.

Scott Schoenhaus

Peter or Scott, I guess, this question is for you. I think this is really for Peter. But on the software expansion story here in the retail pharmacy side, clearly you're growing this side of the business with FDS Amplicare. I just wanted to make sure I understand how you are recognizing the revenue and how you're charging your customers. Are these independent complementary modules that you charge, so you add on for each module to your retail customer, or do you bundle it as kind of a bundled offering? That's actually my first question.

Peter Kuipers

Yes. Thank you, Scott. Good to talk to you. This is Peter. These are incremental revenue opportunities. These are additional modules, specifically on the financial side, the Medicare plan review side and then also in workflow integration as well. So those are incremental revenue streams to pure SaaS and we'll charge them—they are charged on a monthly basis essentially.

Scott Schoenhaus

Perfect, that's exactly what I wanted to hear. My second question, Peter, is on ease shifting away from the FDS Amplicare. How is it going with the cross-selling opportunities? You have an install base of 160 large healthcare systems. What do you see in the market for the 340B, on the 340B side? Could you just add any color there? Thank you.

Peter Kuipers

Yes. So on 340B, we're very pleased with the integration. We've completed most of the integration, we would say, very successfully and according to plan. We did, I think in the first quarter, mention publicly that we had our first cross-sell contract actually signed of really selling and incorporating Omnicell 340B to an

existing long-term sole source customer within (inaudible). That pipeline is very nicely growing and we see some really good momentum there.

Scott Schoenhaus

Great. Thanks. That's all for me. Great quarter.

Operator

Your next question comes from Steve Halper of Cantor.

Steven Halper

Hi. Two questions. Could you just talk about some of those key capabilities of FDS, just trying to understand exactly what those are.

Kathleen Nemeth

Scott, do you want to take that?

Scott Seidelmann

Yes. I got it. Sorry, it was so many mutes (phon). Several key capabilities, or I would say several buckets. One bucket is really all around financial analytics. So really helping pharmacies understand payment discrepancies, claims visibility, opportunities for improvement. So that's one set or one bucket of functionality, just simply helping a pharmacy understand its own business and how to make it more profitable. That happens on the Enliven road map. So that's certainly a synergy and an acceleration.

The other category, on the clinical side, one that Peter mentioned was a set of tools that helps patients or helps pharmacists guide and advise patients on which Medicare plan is best suited for the types of drugs or the drug regimen. That's certainly a really interesting opportunity with the growth in Medicare Advantage and I think the increasing importance of the role of the pharmacist to really engage patients at that point of care.

So that's really interesting. And then there is some overlap. That's an additional functionality to Enliven. There's some overlap with med synchronization and communications, which we believe the Enliven toolkit and the FDS Amplicare capabilities can certainly add in.

And the last bucket, which is less around functionality so much as technology capability is FDS Amplicare has a really interesting technology stack that allows you to sit on top of the pharmacy management system and so that a pharmacist wouldn't have to swivel between systems, instead the technology can now just engage a pharmacist with notifications.

And so, it's a really complementary set of functionality, a lot of which was already in the Enliven road map. So, we think it's a really synergistic acquisition.

Steven Halper

Great. Thank you. That's very helpful. And then the follow-up question was on the inflation cost. Could you just quantify what you think those are going to be and to what extent can you quantify the cost saves, recognizing that you did lower the EBITDA midpoint just a bit? I guess I'm assuming that's because of the inflation headwinds.

Peter Kuipers

Yes. Thank you, Steve. It's Peter. I'll answer that question. Yes, net-net, so we have really practiced—since we've seen the market economic change in the semiconductor market to really first of all with high confidence secure critical supply of semiconductors that go in our products to really secure supply to our critical healthcare customers. So that was our first objective. We're very confident that we have surety of supply going all the way through 2022. We've placed direct orders with semiconductor manufacturers and we've qualified also additional parts. So we feel really good about that priority.

Secondly, of course, our objective is to offset the transitory inflationary costs and we're able to do that for the second half of '21. As we said in our prepared remarks, the vast majority, we are offsetting the high revenue with lower cost, or cost control, if you will, while maintaining of course the investments in innovation and customer experience. And then lastly, of course, we've also implemented what we call price optimization and price actions. And they almost net off. So really great job done by the team of supporting our customers. It would be our aim as well going forward, of course, to continue to follow that strategy. You can imagine that price actions, of course, they take sometime to take hold and show up in the P&L, if you will. Then also, from a cost perspective, as you know, cost goes (inaudible) our backlog and inventory also over time. So we're managing the totality, if you will. At this point we're not breaking out kind of the different components.

Steven Halper

But is it safe to say that the net impact was primarily responsible for the lower top end of the range of the EBITDA guidance. Is that correct?

Peter Kuipers

Yes, the biggest driver is inflationary. Transitory inflationary cost is semiconductor. Yes, that's the biggest driver.

Scott Seidelmann

Just to answer your question directly. I believe the whole drop is just inflation, for the additional cost of—it's the only impact above the midpoint there.

Steven Halper

Right. Got it. Thank you.

Operator

Your next question comes from Matt Hewitt of Craig-Hallum Capital Group.

Matt Hewitt

Good morning. Congratulations on the strong quarter.

Randall Lipps

You bet.

Matt Hewitt

A couple of questions on FDS first. I think in the press release you mentioned a high growth rate for that business. Can you give us what the percentage growth was maybe over the last 12 months and what the margin profile is for that business?

Peter Kuipers

Yes. So it's a high growth business. Again, it's SaaS solutions. Think about the growth as mid to mid double-digit growth directionally, maybe a tad higher. Maybe a reminder. We haven't closed the acquisition yet, right, so we signed and then announced it. So we'll provide more guidance once we close the acquisition as well.

Really good gross margin as well. As you would expect, it's pure SaaS solutions. So it's accretive on the gross margin level as well—to Omnicell total gross margin. Yes.

Matt Hewitt

Thank you for that. And then I guess as we think out—if you look back in the early 2000s your product gross margin was 58% plus. Once this acquisition is completed and you start getting active on the cross-selling front, can gross margins on the product side maybe get back to that level over time, or are you more focused on the EBITDA margin? So, some incremental costs here and there on the cost of goods side is more than offset by leverage in the operating lines, and therefore your EBITDA margins start to approach that 2025 target.

Peter Kuipers

Yes, I would say the primary goal is, of course, the EBITDA margin expansion that we feel very, very confident on and we think it's more or less linear to the five-year period. Gross margins, we have talked about publicly before, we see increasing through the year sequentially, right. Also on the product side. So that probably is the largest driver over time, and there's going to be some cost leverage as well, specifically on SG&A.

Matt Hewitt

Got it. And if I could sneak one more. Just out of curiosity, of the 148 sole source agreements that you have with the top 300 hospitals, how many of those are currently using Omnicell One? And how do you anticipate that growing over the next couple of years? Thank you.

Peter Kuipers

Yes. So Omnicell One is in early days of early adopters, if you will. The pipeline is growing very nicely there if we were to expect a large portion of our large healthcare top 300 system customers to use our Omnicell One solution. But that's over time, right? So, again, the pipeline is really strong. Advanced services, bookings, if you will, Omnicell One is part of that, is ahead of plan actually year-to-date. So that's going well. But then, of course, you go from booking to implementation planning and roll-out and you train more users, if you will. So that's a nice recurring SaaS revenue that will build up over time.

Matt Hewitt

That's great. Thank you.

Operator

Your next question comes from Anne Samuel with J.P. Morgan.

Anne Samuel

Hi guys. Congrats on the quarter and thanks for taking the question. Scott, you talked about the renaissance for hospitals coming out COVID. Was hoping maybe you could talk a little bit about the patient appetite of incremental purchasing and just maybe how that'll impact timing of when we'll see that start to come through the P&L.

Scott Seidelmann

Sure. I mean, look, I think my point there was what COVID has really done is that clearly I think from a societal perspective, as well from a healthcare policy perspective, cemented the role of the hospital and certainly the large health system and its value as a quaternary or tertiary care facility and what that means in the overall sort of healthcare delivery (inaudible).

In terms of what we're seeing, I think we've said several times that one benefit of COVID or certainly a tailwind of COVID for us has been it really shined a light on managing medications to treat that, and more broadly, just the importance of pharmacy and medication management to the health system. As a result, I think what we reported and what we saw last year and what we're seeing this year is really strong demand not only for the core products but the newer services as well. And so that's translating into really strong bookings growth across the portfolio and I think Peter will give you a better sense of how that may flow through the P&L. But I think the short version is that we're seeing really strong demand and that's certainly flowing through bookings.

Peter Kuipers

Yes, I think that's really the case. And with the FDS Amplicare acquisition we're also really bolstering our presence and platform offerings across the continuum of care. So the pharmacies outside the hospital and not necessarily kind of fully separate from the larger health systems as well.

So we really look at it more and more in totality also.

Anne Samuel

That's really helpful and really great to hear. Maybe just one on the quarter specifically. You saw some really nice expense savings this quarter. Was just wondering is that related to some of the cost savings actions that you're anticipating taking, or is there something unique to this quarter? Thanks.

Peter Kuipers

Yes, thank you Annie. No, there wasn't really anything specific in the third quarter. Maybe a little bit of the cost actions we're taking in the fourth quarter. But I would say that that's really a small, small piece of it.

Anne Samuel

Great. Thanks guys.

Operator

Your next question comes from David Larsen with BTIG.

David Larsen

Hi. Congratulations on a very good quarter. Can you please talk a little bit about your sales force. It's my understanding that the products that you're selling into the healthcare industry there is complicated, these are long sales cycles, they're expensive and what that ultimately means in my view is that your sales force has a lot of value in the relationships they've built and their knowledge levels. Did I hear something about sort of a realignment or something like that with the sales force earlier or not? Just any color there would be very helpful.

Peter Kuipers

Yes. Thank you, David. Let me first maybe comment on that one. So we realigned really the commercial organization. That's about two years ago that really we've seen the impacts now. I think we talked about before publicly that for our top U.S. health system customers, the 148 that we have long-term contract agreements with, we have a customer success executive that works with the health system to develop a multiyear medication management automation assessment plan. So that's where the assessment is. These are really deep relationships, if you will, really a good understanding of the health systems, of their needs and really helping them to get to the next level of self automation pharmacy. So that's what Scott was referring to. And we're seeing the benefits of that, and we're seeing larger and larger deal sizes. If you look at it from a trailing perspective, our deal sizes are increasing. We announced, I think in the last earnings call, our largest deal, if you will, multiyear deal as well with an undisclosed national leading health system also.

It's paying dividends. So it's definitely working, yes.

David Larsen

Okay, fantastic. That's great. Thank you. And then just on the retail and home health side, it sounds to me with the FDS Amplicare solution you have all of the software solutions that a retail pharmacy might need in order to basically run their practice, billing, A/R, everything, communications. Is that true, or not? If not,

what other components would you need to buy? And then can you maybe just touch on the home health piece. Like as folks start delivering these medications next day or real-time or same day to the home, is there any sort of opportunity there with all of these telehealth vendors seeking to close gaps in care at the last mile? Thanks a lot.

Scott Seidelmann

Yes, I can help with that. So the first question which is really around the software needs for retail pharmacy. I'd really break it down to two buckets. One is the pharmacy management system itself. So that's a piece of software that's been around for a very long time and that is the sort of primary tool that a retail pharmacy uses to fill scripts and to kind of manage their day-to-day. We do not have that software today.

What we have is really the second bucket, which is really all of the complements, or many of the complementary capabilities above that PMS that helps pharmacists engage patients, follow-up of those patients and managing adherence, communicating with those patients. With the potential FDS Amplicare acquisition, we would add to that financial capabilities, financial analytics capabilities, the ability to have pharmacists help engage patients around which Medicare plan they might need to be on.

So that certainly would be—that combination would certainly enable us to have a much more comprehensive software solution for those value-add capabilities, which we certainly think are the more interesting area. But we do not have a pharmacy management system today.

I think your second question around home health and mail order delivery—was your question really there in terms of what capabilities could we or do we potentially have to enable that?

David Larsen

Yes, it's more like if you're a telehealth vendor and you want to have a script delivered to the patient at home, technologies are needed to basically make sure that happens, track it, make sure they're adherent to their formularies and so forth.

Scott Seidelmann

Right. So that's really an emerging market and I think it's an interesting one that we're exploring. We really don't have capabilities today that supports them in theory. I think what's an interesting potential opportunity is that some of the Enliven tools—I mean they are a pharmacy, and so you still need pharmacists to engage those patients to do medication adherence, to do follow-up. So, that's an area of really keen interest for us to understand as a potential emerging market for Enliven capabilities.

David Larsen

Okay. Congrats on a great quarter, and congrats on the FDS deal.

Operator

Your next question comes from Iris Long of Berenberg.

Iris Long

Hi, good morning team. Thanks for taking my question. My first question is on the FDS Amplicare. So I understand that the acquisition will give you additional capabilities, like financial management, analytics and population health. I'm just wondering, from a customer's perspective, so how important are these new added capabilities to your existing Tier 1 pharmacy customers? And then, maybe how should we think about the integration timeline? When do you expect to finish integration, and what would the go-to-market strategy look like?

Scott Seidelmann

We believe there's—as we mentioned before, we believe that in both those segment, both on the independent segments and the typical, which is the FDS Amplicare core market, as well as the core market for Enliven, the Tier 1 and Tier 1s, the functionalities or the respective functionalities of EnlivenHealth and FDS are very synergistic. And so we believe there's strong demand both in the independent side for the EnlivenHealth capabilities and the Tier 1 and the Tier 2s for the FDS Amplicare. So that's really why we're so excited about the potential acquisition.

Post close, and I won't speak to how long that process might take, but from an integration perspective, really from a go-to-market perspective, it's very complementary. They have a sales channel that is very good and adapted at targeting independent pharmacies that's not a channel or a capability that EnlivenHealth has today, and vice versa, we do have very strong relationships with the customer base in Tier 1 and Tier 2.

So, the channel is very complementary from a branding perspective. We think the mission, vision and the capabilities are very complementary. And so we'll roll this under the EnlivenHealth brand, but we haven't worked that through yet. And then lastly, from a product integration perspective, again, that will take longer as it always does, but like I said, the capabilities are so synergistic that we're really excited about getting those integrated.

Iris Long

Okay, good. And then I guess my second question is on the inflationary comment. I'm wondering to what extent is this inflationary headwind kind of reflected already in the Q2 results? And then Peter, I'm wondering if you can talk a little bit about the pricing refinement that you mentioned, kind of what's the scope of that, how much pricing change are we talking about? Anything there will be helpful. Thank you.

Peter Kuipers

Yes. Good question, Iris. Thank you. So there's some transitory inflationary cost in the second quarter. For the third and then for the total year that implies, of course, for the fourth quarter. We have included our forecasted number for those inflationary costs. So that's embedded in there, right, and we disclosed in the prepared remarks that we are almost offsetting. So the vast majority of those inflationary costs were offsetting the high revenue and then cost actions and then also pricing actions. So we have increased, if you will, minimum margin requirements for deals, given our market strengths as well. We've increased separately—we also use CPIs, if you will, and some (inaudible) as well. So there's a variety of factors there. Realistically, it's really a pricing optimization strategy.

Iris Long

Okay, great. I guess if I can squeeze in one last question.

Peter Kuipers

Yes.

Iris Long

I'm wondering if you can talk about the Spartanburg expansion a bit. So, I think that the expansion includes the adoption for the central pharmacy, event (phon) services in Omnicell One and they have been a customer with you guys. I'm wondering how much time have they been a customer with you and what kind of triggers their interest for this expansion.

Scott Seidelmann

I don't have the exact number. I know that they've been a customer for multiple years on the cabinet side. I think why we're so interested in this account is I can get really—it's a great example of where we see the market and the customer base going, which is that Spartanburg is and has been a great customer of ours on the point of care side of things. As they look—that health system has grown from, like many have, from one large hospital to multiple ambulatory acute care hospitals spread across a region. They've been acquiring physician practices. So what that's done is it's not only changed—from a pharmacy perspective, the pharmacist is not just focused on how do I make sure that the meds are getting to the right floors above me, now suddenly I've also got to be aware of serving that entire geologically distributed footprint.

So, some of the things that they're looking at there is really centralizing some of that central pharmacy capabilities and scaling it up to really support that much broader both acute care but now also ambulatory care as well. So, as a result, what they've done is now they're investing in both our central pharmacy dispensing, (inaudible), but also IV compounding service as well. And then, because now you've got both point of care automation as well as central pharmacy automation and you've got a widely distributor, geologically distributed footprint, the use of Omnicell One to create visibility and control end-to-end throughout that organization from central pharmacy to point of care across that geologically distributed.

I think we called it out because it's really where we see, going back to the point about the renaissance and the ever-changing role of the hospital, is that we think that it's a really great example of where health systems are headed and really how the full portfolio of our capabilities can really help that health system manage what is becoming an increasingly complex care (phon) traffic control problem for them.

Iris Long

Great. Thank you.

Operator

The next question comes from Bill Sutherland of Benchmark Company.

Peter Kuipers

Hey Bill.

Bill Sutherland

Hey. Thanks. Good morning. Hey guys. Thought I'd just change gears here because most of my questions have been asked. I know you changed leaders, or you expanded leadership in the international group last year. So maybe there's—is there any developments there that we should know about?

Peter Kuipers

Yes. Thank you, Bill, for the question. Yes, we hired Sara Dalmasso from GE Digital Healthcare last year. She has really reformed her team and really focused on the platform strategy. I think the initial win that we talked about from a platform perspective was the platform deal at South East London that we, I think, released a press release about in January. We see more platform type deals evolving specifically in the pipeline for the U.K. and then also the Middle East.

More to come there. The business is growing nicely. But again, first has to go via pipeline and then of course bookings and the ones that we can announce we will of course and then it will flow into it. But we're pleased.

Bill Sutherland

Great. I think I'll stop there. Great job guys. Thanks.

Operator

Your next question comes from Gene Mannheimer of Colliers Securities.

Gene Mannheimer

Hey. Thanks guys. I thought you dropped me. Congrats on the great quarter. I just had another question on FDS. I'm just thinking about the growth trajectory you're talking about, but I'm a little bit torn because I see the product looks to be penetrated in about two thirds of the independent pharmacy market, and it's a market that's flattish to declining. So, would the growth that you're talking about come more from net new business within the MDs, or cross-selling into your existing Enliven base? Thanks.

Peter Kuipers

Gene, it's Peter. It's both, right. So, specifically on the independents, especially with the—what we see and we also see in the industry is that we believe that the role of the retail pharmacy, and specifically independent pharmacy and pharmacists as well as a primary caregiver and provider, that seems to be tracking to be expanding. There's two bills, we believe, from Congress that has some effects as well. So for the MD market, independent market from a revenue perspective, we definitely see, if you will, more revenue per independents over the years, if you will, and then there's also a component of, of course, the FDS Amplicare additional value enhancing capabilities that we can cross-sell to the current EnlivenHealth Tier 1 and Tier 2 customer base.

So, it's both.

Gene Mannheimer

Got you. Okay, thank you.

Scott Seidelmann

The only other thing I will add there which is important is is that some of the FDS Amplicare products are penetrated broadly in independent, but their newer products, which is really predicated on Medicare Advantage growth, there's a lot of opportunity for growth. Simply as that Medicare Advantage program continues to expand at a very high rate, then that will grow as well.

So even within the existing FDS Amplicare customer base, there's opportunity for growth, and that's before we can get to the cross-sell opportunities.

Gene Mannheimer

Got you. Thank you.

Kathleen Nemeth

Operator, we have time for one more question.

Operator

At this time, there are no further questions.

Kathleen Nemeth

Okay. Thank you very much. Randall? Closing remarks?

Randall Lipps

Well, thanks everybody for joining us today. I want to give a special warm welcome to our new shareholder base. If you've recently joined us, welcome. I want to thank also Ed Bousa for joining us on our Board as a new member. It's great to have you. If you're some of the new Omnicell employees who've joined over the last 90 days, welcome to this team. And if you're a new customer with us, we're so grateful that you've entrusted us with helping you reinvent the pharmacy, and all of us as we move forward to reinvent the pharmacy, to really change the pharmacy care delivery model so that we can improve healthcare for everyone. Look forward to the journey. See you next time. Stay safe. Cheers.

Operator

This concludes today's conference call. You may now disconnect.