Q3 2021 Earnings Conference Call
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Corporate Participants:
Kathleen Nemeth – VP, Investor Relations
Randall Lipps – Chairman, President, Chief Executive Officer, and founder
Roxanne Turner – VP, Corporate Responsibility
Scott Seidelmann – EVP, Chief Commercial Officer
Peter Kuipers – EVP, Chief Financial Officer

Kathleen Nemeth:

Good morning and welcome to the Omnicell third 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. Also joining us today is Roxanne Turner, Vice President of Corporate Responsibility who will share an update on our ESG initiatives.

This call will contain forward-looking statements, including statements related to financial projections or other statements regarding Omnicell's plans, objectives, expectations, targets, or outlook, that are 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 issued 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 November 2, 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, except as may be required by law. Finally, this conference call is the property of Omnicell and any taping, other duplication or rebroadcast without the expressly written consent of Omnicell is prohibited.

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. With respect to forward-looking non-GAAP measures (such as guidance and targets), we do not provide a reconciliation of forward-looking non-GAAP measures to the comparable GAAP measures on a forward-looking basis as these items are inherently uncertain and difficult to estimate and cannot be predicted without unreasonable effort.

I will now turn the call over to Randall.

Randall Lipps:

Good morning; and thank you for joining us today.

On today's call I will walk through the drivers of our strong performance this quarter and our continued progress toward our 2025 growth targets. I would also like to briefly discuss our Corporate Responsibility initiatives, before handing the call to Roxanne Turner, Vice President of Corporate Responsibility, to provide additional color on all the great work the team is doing in this important area.

Beginning with our financials, we delivered strong third quarter results, reflecting the continued momentum in our business as well as solid execution. Overall, we exceeded the top end of guidance ranges for revenue, non-GAAP EBITDA, and non-GAAP EPS. Our third quarter results included record revenues of $296 million, record non-GAAP EBITDA of $66 million, and record non-GAAP earnings per share of $1.08.

I'd also like to highlight that we closed the acquisition of FDS Amplicare in early September. This is a major milestone, and I would like to extend a warm welcome to the employees of FDS!

As a reminder of our previously stated five-year outlook, we are targeting a revenue CAGR of 14%-15% from 2021 to 2025 and expect to reach $1.9 billion to $2.0 billion of revenue in 2025. Additionally, we are targeting a non-GAAP operating margin of 21% and a non-GAAP EBITDA margin of 25% by 2025. We believe we are making good progress toward achieving these long-term objectives. While we are mindful that we are not immune to the current inflationary pressures in the market, the underlying customer demand for our products and solutions continue to be robust, and we are confident in our ability to successfully navigate this economic cycle.

I'd like to discuss a few of the current healthcare trends that we believe Omnicell is well positioned to address; particularly with our Advanced Services portfolio.

First, we believe medication management and adherence is a critical area within healthcare infrastructure. In our view, the pandemic has highlighted the pressing need to invest in intelligent infrastructure; migrate legacy data systems to the cloud; and elevate the role of the pharmacist. Quite simply, the healthcare delivery model is undergoing a historic transformation, and we find that the challenges of medication management require automated and intelligent solutions now more than ever before. While many healthcare systems were already looking for ways to improve their care management and delivery, we believe the pandemic has accelerated these trends by 5 to 10 years based on our experience. Omnicell is leading the way and it is clear to us that our customers recognize the benefits of moving their data and workflows to cloud based systems. We believe Omnicell is uniquely positioned to enable critical advancements in transforming the pharmacy care delivery model, and importantly, improving experiences for the care team and driving better patient outcomes.

Another trend that our healthcare system partners and retail customers appear to be facing is the looming labor constraints within healthcare, particularly for nursing and pharmacy staff. At last month's meeting of the Autonomous Pharmacy Advisory Board, nearly all of the chief pharmacy officers on the board reported that they were facing staff shortages of pharmacy technicians. Likewise, a nationwide survey conducted in late May by the National Community Pharmacists Association (NCPA) found that nearly 90% of the survey's 278 respondents said they were having trouble hiring enough pharmacy technicians. And it's a similar story with nursing staff. As the category creator of automated medication management, Omnicell's

solutions are designed to reduce manual and administrative tasks, so clinicians' time can be optimized and devoted more toward patient care.

As a result of these trends, we are seeing continued strength in Advanced Services. This quarter, we saw increased adoption of Omnicell One, a technology-enabled service delivered through the cloud. Omnicell One enables enterprise-wide optimization for medication spend, reduction in medication waste, and improvement in pharmacy labor productivity, and also supports identifying potential diversion activity. We are pleased to report that we now have multiple customers in live deployment.

Also, this quarter we are pleased to note that the VA Tucson will be implementing our Central Pharmacy Dispensing System. The VA is the nation's largest integrated healthcare system, and we are proud to support their mission of providing care for our veterans and their families.

Enliven Health also had a very strong quarter. With the flu season now in full swing and the COVID-19 booster shots approved for millions of patients nationwide, many pharmacies are grappling with how to manage this increased patient demand. EnlivenHealth's CareScheduler was built for these pharmacy challenges and opportunities. CareScheduler automates the scheduling, patient communications and reporting of administering vaccines and point-of-care testing. In the third quarter of 2021, EnlivenHealth closed a major deal to provide CareScheduler to its longtime partner Publix, a leading regional chain of grocery stores and pharmacies serving seven Southeastern states. Publix plans to deploy CareScheduler to manage its offsite vaccination clinics.

Another Advanced Services highlight was the strong performance this quarter from our 340B service solution. Our teams continue to make excellent progress toward developing cross-sell opportunities within our channel, and successfully closed on several large deals during the quarter.

Turning to our health system partners. We signed three net new Long-Term-Sole-Source agreements, bringing our total to 151 health system partners. With these latest signings, all of our top ten largest customers have now agreed to partner with us in long-term agreements. We believe this is a testament to our innovation roadmap, led by our Advanced Services portfolio, our consultive approach to redesigning pharmacy workflows, and our customers' confidence in our ability to help them advance toward a zero error, zero waste, and highly efficient pharmacy delivery model. We are humbled by their reliance on us; and are motivated by our mission to be the clinicians' most trusted partner for medication management and adherence.

Now, as I noted, I'm joined today by our Vice President of Corporate Responsibility, Roxanne Turner, who will speak to our commitment and approach to corporate responsibility. We're excited to have convened an executive steering committee of operational leaders who are accountable for developing strategies and setting targets to achieve our ESG objectives. I'll now hand it over to Roxanne to discuss these initiatives in a bit more detail. Roxanne?

Roxanne Turner

Thank you, Randy.

I am happy to share our progress since we published our first report Corporate Responsibility Report in April of this year. As you may be aware, we began to implement our formal ESG program over the past two years, even though Omnicell has a longer history of contributing to the well-being of our communities where we live and work. We recently completed our materiality assessment of issues that impact our business. The results indicate we have 4 categories of significance for our stakeholders – Diversity, Equity & Inclusion, Talent Retention & Recruiting, Business Ethics, & Data Privacy - with about a dozen areas of focus within each of those four categories.

Our assessment process included interviews with both internal and external stakeholders, including our executive team and functional leaders, as well as customers and individuals who serve on boards of different companies, including our own. We have also been actively soliciting input from the investment community each time we have the opportunity to talk about our ESG program. The executive steering committee Randy mentioned consists of leaders in several operational areas including supply chain, product, quality, HR, finance, Risk Management, and Customer/Sales who are accountable for targets and strategies in the areas of focus for us. This will help ensure that the ESG program can be operationalized across the organization.

We also have a cross functional working group undergoing target-setting exercises, referencing our materiality assessment, with the aim to set short, medium, and long-term SMART objectives for overall operational improvements. We expect this team to also set goals intended to contribute towards global efforts to reduce greenhouse gasses, including reductions in Scope 1, 2, & 3 emissions by 2030. Corporate responsibility is a long-term focus for Omnicell, and we look forward to keeping you updated on our progress.

I'll now hand it over to Scott Seidelmann to discuss our innovation pipeline and key customer highlights. Scott?

Scott Seidelmann

Thank you, Roxanne.

Last quarter, I provided an overview of our progress toward our long-term strategy and some areas of opportunity for innovation. The pandemic has highlighted what Omnicell has recognized since our founding 29 years ago: pharmacy requires innovation. Now, more than ever, healthcare system pharmacies need solutions that will enable them to safely and efficiently address complexity in medication management.

In early October, we welcomed more than 1100 pharmacy, nursing, IT executives, and C-Suite leaders for our second annual Omnicell Illuminate 2021 digital medication management event. This is the largest industry event of its kind, and we believe that the interest and participation that it attracts underscores the growing need for an entirely new digital medication management infrastructure. The three-day virtual gathering featured more than 30 sessions and more than 50 speakers sharing insights and best practices for tackling the biggest challenges in medication management and healthcare more generally. Randall hosted an opening keynote discussion with representatives from leading health systems discussing their

digital transformation experiences. They shared stories highlighting the benefits of digital infrastructure and ways that it has positively impacted patient outcomes, improved the experience of the care team, and lowered costs. Attendees had the opportunity to see our technology in action and chat live with Omnicell experts in virtual chat rooms. New to the agenda this year were two sessions focused on specific industry challenges, including Mental Health Support for Healthcare Workers and Women in Healthcare Leadership. We also specifically highlighted Omnicell's investment and commitment to improving the customer experience, a cloud infrastructure, and packaging technology as true services that deliver real customer outcomes. Overall, we are pleased by the industry response to this event and look forward to continuing these important conversations, and helping our customers realize the industry vision of the Autonomous Pharmacy.

Now, let's turn to some of the key business highlights this quarter:

Omnicell's products and solutions are currently installed in the majority of the top U.S. health systems. – As Randall mentioned, we added three net-new Long-Term Sole Source customers this quarter, bringing the total to 151 of the top 300 health systems. We are very pleased to be the medication management partner of choice for these three prestigious healthcare providers:

- A major northeastern health system
- A current Omnicell customer, and one of the nation's leading children's hospitals
- And a Texas-based health system

Each of these customers has selected Omnicell because of our singular focus on medication management, our comprehensive platform of products and solutions, and our commitment to investing in innovation.

The third quarter was an exceptionally strong quarter for Omnicell One. We now have multiple live deployments. Omnicell One, which we launched in July of 2020, is a cloud-based service that combines software, analytics and expertise to optimize medication inventory, improve employee efficiency, and reduce compliance risks. Covid not only highlighted the need to better manage medication inventory, but also exacerbated labor shortages. Omnicell One directly addresses these challenges and as a result is a significant differentiator for Omnicell generally.

Our Central Pharmacy Dispensing Service is also resonating well with the market. Today we announced that Tucson VA Medical Center will expand their Omnicell platform with the implementation of our Central Pharmacy Dispensing Service – which includes the XR2 robotic pharmacy dispensing technology, operational staff, maintenance support, and analytics for real-time optimization. Central Pharmacy is labor intensive and error prone. We launched Central Pharmacy Dispense Service two years ago because we knew that we could help health systems overcome these challenges and improve outcomes and lower costs. This is an important element of our Advanced Services portfolio and we are pleased with the positive market reception.

Turning to 340B, as we have commented in prior calls, we believe there are very strong cross-selling opportunities for our 340B solution. 90 percent of the top 300 healthcare systems are 340B eligible. And optimization of the 340B program is a key component for realization of the Autonomous Pharmacy vision. Our 340B Advanced Service is well received by the market, had strong performance in the third quarter, and is tracking well against our expectations.

During the third quarter, we announced that we completed the acquisition of pharmacy technology provider FDS Amplicare. This is a strategic addition to our EnlivenHealth solution. FDS adds a suite of comprehensive and complementary SaaS technology solutions, and a national network of more than 15,000 independent retail pharmacies. So far the integration is going well and we are excited about the positive market reaction.

And, as Randall noted earlier, the community pharmacist needs more support than ever. The recent approval of booster shots, the anticipated approval of vaccination for children ages 5-12, and the start of the flu vaccination season will put enormous pressures on community pharmacists. Enliven's CareScheduler was built for these types of pharmacy challenges. CareScheduler automates the scheduling, patient communications, and reporting for vaccinations. And FDS enables pharmacies to bill Medicare for these services. Enliven and FDS are well positioned to help pharmacists address their upcoming challenges. Our recent Publix relationship highlights this demand and the power of our recent combination.

In summary, Omnicell is uniquely positioned to drive the transformation of the pharmacy care delivery model. Our innovative, cloud-based services approach will enable improvements in quality, provider efficiency, and financial performance. We are solely focused on this transformation, we have considerable domain expertise, and we are passionate about the opportunity ahead.

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

Peter Kuipers

Thank you, Scott.

I'm pleased with the strong third quarter momentum in our long-term sole-source partnership strategy, in our commercial pipeline, product bookings and revenue, which we feel demonstrates that our strategy is working and that our products and solutions are resonating with our customers. Our healthcare system and retail pharmacy customers continue to turn to Omnicell to realize the vision of the fully Autonomous Pharmacy, and the overall demand metrics for Omnicell remain strong.

We are making good 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 over 200 FDS Amplicare employees to the Omnicell family, in addition to adding around 100 new employees mainly in the customer, product, and software engineering teams.

Turning now to our financial results. Our third quarter 2021 GAAP and Non-GAAP revenues were $296 million, an increase of $24 million over the prior quarter, up 39% over the third quarter of 2020, and above the top end of our guidance range. Our third quarter GAAP and Non-GAAP revenue reflects the timing of certain customer implementations initially expected to occur in the fourth quarter of 2021, as well as GAAP and Non-GAAP revenue from FDS Amplicare; the acquisition that we closed on September 9, 2021. The sequential revenue increase of $24 million reflects continued strong demand for Omnicell's medication management and adherence automation solutions. As a reminder, the year over year increase was partially attributable to the lower than typical third quarter GAAP and Non-GAAP revenue levels in 2020 due to the COVID-19 pandemic.

Our third quarter 2021 earnings per share in accordance with GAAP were $0.61 per share, compared to $0.43 per share in the second quarter of 2021, and $0.20 per share in third quarter of last year. A full reconciliation of our GAAP to non-GAAP results is included in our third quarter earnings press release and is posted on our website.

Third quarter 2021 non-GAAP earnings per share were $1.08 compared to $0.97 per share in the previous quarter, and $0.60 in the same period last year. The year over year increase was mostly driven by higher revenue and gross margin leverage.

Non-GAAP gross margin for the third quarter 2021 was 51.1%, a decrease of 60 basis points from the previous quarter primarily due to increased inflationary costs related to semiconductors and components, raw materials, and freight.

We delivered record Non-GAAP EBITDA of $66 million in the third quarter of 2021. The Non-GAAP EBITDA margin for the third quarter of 2021 was 22.2% compared to the 22.4% for the previous quarter; and 19.3% in the prior year period.

Moving to cash flow. Year to date free cash flow of $130 million reflects the overall increased demand in the business, better collections, and strong working capital management.

At the end of the third quarter of 2021, our cash balance was $482 million, down from $614 million as of June 30, 2021. The $132 million decrease in cash is the result of financing activities related to our recently completed acquisition of FDS Amplicare partially offset by operating cash flow in the quarter. Free cash flow during the third quarter of 2021 was $27 million, compared to $58 million from the previous quarter and $27 million from the prior year period.

In terms of accounts receivable, days sales outstanding for the third quarter of 2021 were 73 days, an increase of 2 days over last quarter, and a decrease of 9 days from the third quarter in 2020.

Inventories as of September 30, 2021 were $104 million, a slight increase from the prior quarter, and slight increase compared to the third quarter of 2020. The increase was due primarily to the advance purchase of semiconductors that we believe will reasonably secure supply for future customer implementation timelines. We continue to execute well on our global supply chain process improvements and inventory management initiatives.

We have built a company that we find 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 growing Advanced Services revenue, benefits from long-term sole-source customer partnerships, increased average deal size, manufacturing savings and process efficiencies. As we continue to scale the business in the coming years, we expect to invest and redeploy some of these savings into value creating growth and innovation initiatives.

Now, moving onto our full year outlook and fourth quarter guidance. All guidance includes FDS Amplicare. For context the last 12 months revenue for FDS Amplicare per September 30, 2021 was $30 million. Going forward we anticipate FDS Amplicare to have an annual revenue growth rate between 15-20%.

As we noted last quarter, we are experiencing the impact of inflationary headwinds. This continued to be primarily due to semiconductor and other component costs and, to a somewhat lesser extent, freight and raw materials costs.

As discussed in the previous call the measures we are taking to generally offset the majority of the impact of inflationary costs in the second half of 2021 include:

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

In line with the comments we made on last quarter's call, we have high confidence that we have secured supply for semiconductor and critical components through 2022 in order to deliver our mission critical systems and connected devices to our healthcare customers. Our supply chain and procurement teams have done a great job addressing these challenges and minimizing disruptions to our customers.

We are very pleased with the continued momentum in market demand for Advanced Services, and we are increasing our full year 2021 product bookings guidance based on strong commercial, and in particular, Advanced Services momentum, which includes now the FDS Amplicare. Product Bookings are now expected to range between $1.130 and $1.170 billion. We are increasing our 2021 revenue guidance and now expect total 2021 GAAP and Non-GAAP revenues to be between $1.129 and $1.134 billion. We expect total 2021 GAAP and Non-GAAP product revenue to range between $808 million and $811 million, and we expect total 2021 GAAP and Non-GAAP service revenue to be between $321 million and $323 million.

We are also increasing our 2021 non-GAAP EBITDA guidance. We now expect full year 2021 non-GAAP EBITDA to be between $235 million and $238 million, which includes an anticipated $2-$3 million of Non-GAAP EBITDA from FDS Amplicare. Our full year guidance includes additional costs for semiconductors, freight and steel, given global market conditions. Using the mid-point of the updated revenue and Non-GAAP EBITDA guidance ranges this represents approximately 21 percent non-GAAP EBITDA margin for 2021.

For full year 2021 we are assuming an effective blended tax rate of approximately 7% in our non-GAAP EPS guidance, which is a reduction from 9% provided in our July 2021 earnings call. The change in the tax rate includes additional expected tax benefit from stock option activity in the second half of 2021. The Company also recognized a discrete tax benefit related to a release of net uncertain tax benefit of $6.2 million as a result of effective settlement with tax authorities for the nine months ended September 30, 2021. This one-time tax benefit was excluded from the third quarter 2021 non-GAAP results.

Lastly, we are also increasing our guidance for non-GAAP earnings and now expect full year 2021 non-GAAP earnings to range between $3.80 and $3.85 per share.

Based on the total year guidance provided earlier in this call, for the fourth 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 fourth quarter guidance includes additional costs for semiconductors, freight, and steel, given global market conditions. We expect total fourth quarter 2021 GAAP and Non-GAAP revenues to be between $308 and $313 million, with GAAP and Non-GAAP product revenues to range between $219 million and $222 million and GAAP and Non-GAAP service revenues to range between $89 million and $91 million. We expect fourth quarter 2021 non-GAAP EBITDA of $58 million to $61 million. We expect fourth quarter non-GAAP earnings to be between $0.90 and $0.95 per share. This outlook includes FDS Amplicare, which is expected to contribute

approximately $10 million in revenue and $2 million in Non-GAAP EBITDA. Please note that the fourth calendar quarter is typically a seasonally strong quarter for FDS Amplicare.

As I mentioned a moment ago, we continue to have high confidence in our supply of semiconductors and other key components through 2022 to support our health system customers that are critical to healthcare. We are anticipating supply chain challenges and inflationary cost impacts to continue through at least the middle of 2022. And at the same time, we continue to refine our pricing actions, and expect the favorable impact from these actions to offset more inflationary costs as we progress throughout 2022.

We remain confident in our five-year long-term outlook and expect 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

In summary, we are very pleased with our commercial, operational, and financial results for the third quarter of 2021. We are taking steps to address inflationary headwinds in the market, and we remain confident in our long-term outlook. 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 with Piper Sandler. Please go ahead with your question.

Jessica Tassan

Hi. Thank you so much for taking the question and congratulations on a good quarter.

Maybe, Randall, in your prepared remarks you mentioned some takeaways from the Autonomous Pharmacy Advisory Board. Can you just remind us of when and why you formed that board and who is consists of, and maybe just how it's contributing to your thought leadership and contract wins at existing and new acute care customers? Thanks.

Randall Lipps

The Board is led by Chief Pharmacy Officers interested in the future of pharmacy and raising the level of pharmacists out of the administrative work to the more clinical pieces of pharmacy disciplines that really are what pharmacists went into the career for. So as they are looking for and into the future and what's driving the future, it's really cloud-based technologies, and particularly these technologies since this last board meeting, we're really emphasizing the labor shortage component that we continue to see in a lot of industries, but particularly in the pharmacy technician area.

But we're excited about it because they are not only just helping to lead the industry to this next level of pharmacy understanding of what's needed and how the technologies will enable the autonomous pharmacy, but maybe most importantly what are the steps long the way to get there? It's a real privilege to be a part of the Autonomous Pharmacy Board as an industry movement.

Jessica Tassan

Thank you. And maybe just a quick, unrelated follow-up? Can you just help us understand the impact of supply chain inflation and disruption on Q3 results, and then on your guidance for Q4? Thanks again.

Peter Kuipers

Hello Jessica. This is Peter. We see increased inflationary costs from the third to the fourth quarter as about $2 million to $3 million incremental quarter-over-quarter additional inflationary costs. That said, like in the prepared remarks as well, we have high confidence in the surety of supply for semiconductors. We've done prebuys. We have stocked semiconductor inventory as well, as part of prepared remarks. That said, freight and steel are more of a spot market and we expect some more volatility in that going forward.

Operator

Your next question will come from the line of Scott Schoenhaus with Stephens. Please go ahead with your question.

Scott Schoenhaus

Okay. My first question is around the third quarter and fourth quarter moving parts. It looks like you saw some nice demand pullthrough this quarter, especially on the software side; service revenues grew over 32%. That led to nice operating leverage. Peter, you mentioned some of the pull-forward from earlier customer implementations which you expected to actually hit in the fourth quarter. Can you give us a sense of how much of this pull-forward was on the product side versus software side? Then, just to confirm that all your software platforms, whether it be 340B cross-selling success you mentioned, the Omnicell One, the new FDS Amplicare, they're all recognized as recurring SaaS revenues off of this strong revenue increase that we saw in third quarter.

Peter Kuipers

Thank you, Scott. I think you packed in three or four questions there, but I'll answer the last one first. Yes, that's all recurring revenue. The timing, I would call the timing not necessarily a pull-in. The timing of revenue between the fourth and the third quarter, it's about $6 million. So, $6 million of revenue mostly in product revenue occurred actually in the third quarter and we had originally planned for that in the fourth quarter.

Scott Schoenhaus

Okay, great. Then as follow-up to the margin question, we talked about the gross margin pressures from additional semiconductor costs, freight, steel costs that you continue to expect throughout the remainder of the year, but anything on the operating expense side we should be aware of? Obviously labor costs are helping you probably on the demand side, but are you having to pay more for your specific labor at Omnicell?

Peter Kuipers

We think (inaudible) and the innovation that we drive that we have (inaudible) new employees that we welcomed to Omnicell. I would say maybe see some pressure from a cost perspective, but not significant at this point.

Scott Schoenhaus

Okay, great. Congrats on the strong quarter.

Operator

Your next question will come from the line of Iris Long at Berenberg. Please go ahead with your question.

Iris Long

Hi team. Thanks for taking my question. I guess first one on Omnicell One, I'm wondering if you can talk about how many customers are either using or have signed up for the platform. Then, can you also talk about the implementation process a little bit? What is that process like and how much time does it take for you to implement the system?

Scott Seidelmann

Hey Iris, it's Scott Seidelmann.

The first question you asked, which was really how many Omnicell One customers we now have live, the good news is the demand is incredibly strong and we're seeing that demand tied to really the entire portfolio of sale. In other words, customers are interested not only in OC One but certainly how that relates to point-of-care and some of our other products, so that's really good news.

As far as number of live implementations, we now have several and are tracking well to plan.

I didn't hear the second part of your question, though, which I apologize for.

Iris Long

It's about implementation. I'm just wondering what that process is like and roughly how much time does it take you to implement it.

Scott Seidelmann

Yes. It's implementing a data-driven IT project inside health systems which is always complicated because you have to find the data and connect the data, and so that takes some time, but nothing unusual relative to implementing any other piece of software inside of a health system.

As far as timing, the largest tent in the pole, so to speak, is simply the fact that oftentimes OC One, if you think about it, is really lighting up data that exists in other forms of automation and so huge implementation. It's not necessarily the OC One implementation takes time; it's simply that there's really no point in

implementing it until the large portion of the automation is done because there's no data to be generated for OC One to optimize. So, when we look at implementation for OC One and as you should think about it in terms of the lag that might occur as it gets implemented, it's really just a function of it's really well designed for large health systems that are all-in on Omnicell products, and so that implementation, those systems just take a while to implement.

Iris Long

Okay. Appreciate that. Then another question on the Tucson VA hospital deal. I believe that the press release said that this hospital is actually the first one deploying CPDS around a VA hospital. I'm just wondering was it more difficult to sell into a VA hospital? Then, do they kind of make the purchase decisions for the Advanced Services a little bit differently than the other hospitals? If you can talk about the dynamics there it would be helpful. Thank you.

Scott Seidelmann

The key point on the Tucson VA announcement, and frankly, the really exciting part of it is that it's the first time that a VA—at least from an Omnicell perspective, has purchased a true service where we're not only combining the hardware but we're combining that with optimization, ongoing services, analytics, etc., so that was the really important milestone. While no means is this a—in terms of go-forward with other VAs, it certainly, like I think selling into any large system, it's certainly helpful when one VA has made this decision to go in and reference that VA with other VAs, but it's by no means any kind of large enterprise-wide VA deal.

Iris Long

Thank you so much. Appreciate that.

Operator

Your next question will come from the line of David Larsen with BTIG. Please go ahead with your question.

David Larsen

Hi. Congratulations on a very good quarter. Can you talk a little bit about the pipeline for Omnicell One, Scott, please? What is the difference between Enliven, FDS Amplicare and maybe 340B, and how can all of these different solutions sort of (inaudible).

Scott Seidelmann

We're very bullish on. We, one, drive the most value. If you really think about it, it's large enterprises that are all-in on Omnicell products, and so when you're all-in on the platform Omnicell One ties it all together, helps you optimize that data. So, where we're seeing Omnicell One as a great differentiator for us as a company is those large health systems, and so it's not surprising that oftentimes in the 151 (phon) in those relationships, OC One is part of that. That's sort of a comment on the pipeline.

I think your question which is around Enliven, FDS, 340B and how all these pieces and parts might come together, Enliven FDS as a portfolio is really focused on the retail outpatient pharmacy, so not really the

health system but the large—the 60,000 retail pharmacies and really helping that community pharmacist deliver value-add services beyond filling vials. Omnicell 340B and Omnicell One are really focused on the acute care and the health system sector and helping those health systems optimize inventory, labor, compliance events in the case of OC One, and then the 340B program in the case of OC 340B.

The vision of how it all comes together which is really exciting is that as health systems increasingly move from inpatient acute to managing and to treating patients in the ambulatory environment into the home, they are now going to need the same tools and capabilities that a retail pharmacist has. So, we're really excited about the prospects of pulling the whole platform together and really engaging those health systems to manage the entire continuum of care. That's really how they'll ultimately all come together.

David Larsen

Congratulations. I think that's exactly the right strategy.

Then, I guess, Peter, how much revenue came from FDA Amplicare in the quarter and was that part of the 3Q guide? Was FDS in the 3Q guide?

Peter Kuipers

The third quarter FDS Amplicare revenue was about $1.5 million and it was not included in the guidance.

David Larsen

Okay. So there was a huge beat there even if we back out the FDS Amplicare. Okay, thanks very much.

Operator

Your next question will come from the line of Steven Halper with Cantor. Please go ahead with your question.

Steven Halper

Hi. Good morning. Appreciate the comments around the inflationary headwinds and some of the steps you're taking to offset that. But on a go-forward basis, does the company have any ability to pass that along to customers in order to make up that margin that it's costing you?

Peter Kuipers

Thank you, Steve. This is Peter. Like we said in our prepared remarks, we are refining pricing actions and we have some ability to adjust price. What we said, I think in the last call, was that we have increased list prices. We've increased service price as well, and we've increased margin deal threshold approval levels. Also, good to point out for context what was also in the prepared remarks is that of course these pricing actions, the impact of those will start to increase as we go through the quarters, into next year as well. Looking at next year, preliminary look, the first half next year you can assume that the inflationary costs are greater than the impact of the pricing actions, and then throughout the year we believe at this point that it will catch up.

Now, that said, semiconductors we've done prebuys and we have taken inventory in effect as well, as you can see in the balance sheet. We have high confidence there of security of supply. That said, freight and steel are more of a spot market, so there is more expected volatility there; we manage it on a day-to-day basis.

Steven Halper

Right. You feel as though you have enough supply of chips for the foreseeable future given the actions you've taken.

Peter Kuipers

Yes, that's correct, throughout 2022 calendar year.

Steven Halper

Then just do me a favor and just walk me through the pull-forward commentary again that occurred in Q3. Just reiterate—I just want to make sure $6 million of product that was accelerated.

Peter Kuipers

Yes. Compared to the original guide we had about $6 million of revenue that we initially anticipated to occur in the fourth quarter. Those implementations were actually completed early in the third quarter.

Steven Halper

Great. Thank you.

Operator

Our next question will come from the line of Matt Hewitt with Craig-Hallum Capital. Please go ahead with your question.

Matt Hewitt

Good morning. Congratulations on the strong quarter. First question, now that the FDS Amplicare transaction is closed, do you have any plans to add sales reps on the retail pharmacy side as you've kind of broadened your capacity in your application set for that market?

Scott Seidelmann

Short answer is given the growth and the demand being so positive, I think we will continue to invest there on the sales side, for sure.

Matt Hewitt

Okay. Then maybe a follow-up question. You're seeing the challenges that some of your customers are having hiring employees and getting up to full staff. As you start to add more and more services into these

customers as they acquire those services from you, are you able to find the talent required to meet their needs, or has that been a source of pressure? Thank you.

Scott Seidelmann

I think labor pressure is labor pressure, and regardless of who the employer is. That said, I think that our services—Omnicell is a pretty compelling employer. We're a really interesting place to work for a lot of this technology sometimes, and so as of now we feel there's a good strong pipeline of candidates. We're not seeing undue pressures there. I think, frankly, the candidates, to that end, one of the things that we can offer is training and certifications on advanced robotics, and so I think that's a pretty exciting career prospect for pharmacy technology labor.

Matt Hewitt

Understood. Thank you.

Operator

At this time there are no further questions. I will now turn it back over to Mr. Lipps for any closing remarks.

Randall Lipps

I want to thank everyone on the Omnicell team including the over 300 new employees that we added this quarter. Welcome to Omnicell. Thank you for getting on the road with us to the autonomous pharmacy and making a difference in healthcare for everyone.

See you next time. Cheers!