Omnicell Fiscal Year and Fourth Quarter 2021 Results
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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 afternoon and welcome to the Omnicell fourth quarter and full year 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 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.

Our results were released this afternoon 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 afternoon and thank you for joining us today.

2021 was another outstanding year for Omnicell as strong customer demand for our differentiated tech-enabled and cloud-based medication management products and adherence solutions exceeded our expectations across all metrics. We believe our business is resilient, and our innovation growth strategy is delivering results.

We delivered a record $1.22 billion in bookings for the full year, compared to $1.002 billion for 2020. This was a year-over-year increase of 21%, exceeding the top end of our guidance by $47 million. Demand for our Advanced Services Portfolio was exceptionally strong and exceeded our plan for the year. As a reminder, Advanced Services includes our SaaS, Subscription Software & Tech-Enabled Services.

Our 2021 non-GAAP revenues of $1.13 billion were also a record for the company, increasing $241 million, or 27%, from 2020. And we are entering 2022 with a record backlog of $1.25 billion.

We increased our total number of Long-Term Sole Source Partnerships to 151 of the top 300 US Health Systems, an increase of 6 from 2020. Many of these were competitive conversions. In addition to increasing the number of sole-source partnerships, we are seeing an increase in average booking size. In fact, we booked 3 of the largest deals in our history in 2021.

As a trusted partner, we develop solutions that we believe will continue to elevate our critical role in the pharmacy health system. To that end, we're excited to announce that Omnicell is partnering with Long Island University to launch pharmacy simulation centers that prepare the next generation of pharmacy leaders. This immersive experience goes live later this year and will provide the opportunity for more than 200 pharmacy residents and technicians to become certified in the innovative technology, systems, and workflows that will help them navigate the challenges of medication management and shift their focus to clinical care. These centers will also be used to train and certify Omnicell pharmacy technicians, as well as pharmacy students, who will go on to support our customers and their technology onsite. We are excited to launch this initiative and look forward to providing updates on our progress on future earnings calls.

The critical role automation and digitalization play in addressing the healthcare labor shortage, ensuring access to care, and improving patient outcomes is becoming recognized by our healthcare system partners and retail customers even more strongly today. The pandemic led to increased demand for care, causing heavier workloads for healthcare and pharmacy workers, which in turn resulted in worker burnout and resignations. According to the U.S. Bureau of Labor Statistics, from February 2020 to September 2021, the healthcare sector lost 524,000 workers from an already aging workforce. And with the continued high demand for administering COVID-19 vaccines, tests, and treatments, the nationwide acute shortage of pharmacy technicians has adversely impacted both hospitals and retail pharmacies. Moreover, patient volume is projected to rebound and exceed pre-pandemic levels. A McKinsey & Co. survey of 100 large private-sector hospitals—which was conducted several months prior to the emergence of the Omicron variant—concluded that on average, hospitals' inpatient admissions had returned to 2019 levels, and predicted that inpatient admissions would increase by 4% in 2022 relative to 2019. Thus, not surprisingly, a recent American College of Healthcare Executives survey of 310 community hospital CEOs found that personnel shortages were their top concern in 2021, marking the first time since 2004 that financial challenges were not executives' primary concern. We believe we are uniquely positioned to assist our customers in addressing these labor challenges by implementing an automated and cloud-based

comprehensive medication management and adherence platform, reducing the manual processes within pharmacy workflows and enabling pharmacists to practice at the top of their license.

In 2019, at our Investor Day at the ASHP Midyear Clinical Meeting we outlined our plan to fundamentally transform our business toward building the IoT of medication management, to support the industry vision of the fully Autonomous Pharmacy. We believe the results we achieved in 2021 demonstrate that our strategy is working. And while we are still in the early innings of this strategy, we are very pleased with the level of customer interest, which is ahead of our initial expectations, as well as the value we find we are already creating for our healthcare system partners and retail customers. In our opinion, the broad adoption of these new services and cloud-enabled SaaS solutions validates our decision to take this path toward transforming the pharmacy care delivery model.

Now, turning to how we expanded our Advanced Services portfolio over the past year with three strategic and accretive acquisitions: FDS Amplicare, MarkeTouch and ReCept. We are pleased with the early momentum and progress we are making in strengthening our market position through value-enhancing M&A. In December, we announced our agreement to acquire ReCept, which is a leading provider of specialty pharmacy management services for health systems, clinics, and physician groups. This acquisition is expected to open a new market for Omnicell and will expand Omnicell's portfolio of capabilities and advanced services that are designed to address the significant need to improve access to and management of complex medications. In January, we announced our acquisition of pharmacy software solutions provider MarkeTouch, which will expand and deepen EnlivenHealth's footprint across key pharmacy segments. Each of these acquisitions are strong additions to our EnlivenHealth and 340B solution sets. Scott will speak more about how these companies have strengthened our competitive offerings in just a moment.

Looking ahead, we also intend to continue strengthening our market position through our robust innovation pipeline. From next-generation IV robotics, to new SaaS and connected device capabilities, we are very proud of the advancements we have made. We expect to launch new next-generation IV robotics in the coming months and are very excited about the years ahead.

As I noted earlier, 2021 was an outstanding year. And yet, despite the records we set across a number of financial metrics, we are not immune to the inflationary headwinds and supply-chain constraints that others are also seeing. As we indicated last quarter, we have been taking, and will continue to take, steps in an effort to address and offset these challenges. Despite current headwinds, we are entering 2022 with significant momentum and expect to deliver profitable growth and value creation in the year ahead.

2022 marks the 30th anniversary since our founding. It is a milestone we will be celebrating throughout the year. Over the last 30 years, we have successfully navigated through many difficult economic cycles and we believe we will do the same in this current cycle. Our focus on creating long-term, enduring value for all of our stakeholders, and transforming the pharmacy care delivery model, continues to inspire and guide us. We are confident in the opportunities ahead of us and look forward to updating you on our progress.

Now, before I turn the call over to Scott, I would like to say how pleased we are that Omnicell's Environmental, Social, and Governance (ESG) efforts have been recognized by Sustainalytics, one of the largest providers of ESG research, ratings, and analytics. In their most recent report, Omnicell was ranked higher than 89% of other companies in the healthcare industry for ESG risk management, which acknowledges our company's tremendous efforts and improvements in this area. Sustainalytics also rated Omnicell #1 for lowest risk among our peers. We remain focused on innovating to drive sustainability across

our business; ethically and responsibly sourcing materials by adhering to internationally recognized OECD guidance; and elevating our diversity and inclusion initiatives.

With that, I'd like to turn the call over to Scott to discuss the industry landscape and key customer engagements.

Scott Seidelmann

Thank you, Randall.

As Randall stated, in our view, our results demonstrate that our strategy is working. Our shift in 2018 toward tech-enabled services and cloud-based services, which we shared with you in 2019, is gaining traction and delivering initial results.

We made this shift back in 2018 because we recognized the significant need and large opportunity to transform the pharmacy care delivery model. And we recognized the unique position that Omnicell had because of its high-quality brand, significant customer base, and large channel to successfully execute a "land and expand" strategy. In 2018, the primary reason that the pharmacy care delivery model struggled with quality and cost problems was that its labor force was overwhelmed, overworked, and under-supported. COVID significantly exacerbated this people problem. And in 2022, we feel better about our market opportunity than we did 3 years ago. We find the need to automate and digitize manual processes within pharmacy workflows is now even more pronounced.

We offer our customers an intelligent medication management infrastructure that equips and empowers pharmacists and caregivers to focus on clinical care rather than administrative tasks. This infrastructure is a comprehensive cloud-based platform that combines automation, analytics, and expert services. Our intelligent infrastructure provides the foundation for realizing the industry's vision of the Autonomous Pharmacy, a vision defined by pharmacy leaders for improving operational efficiencies, and ultimately targeting zero-error medication management. Ultimately, our intelligent infrastructure will enable pharmacists and care givers to improve patient outcomes, reduce costs, and reduce provider burnout.
Now I would like to comment on some of our recent customer wins

Our intelligent infrastructure platform clearly resonates with customers. For example, we are excited to announce today that we signed a long-term sole source contract with UMC Health System in Lubbock Texas. Omnicell was selected to support key pharmacy initiatives across acute care, outpatient and retail care settings. This is a competitive conversion, and the partnership includes central pharmacy services, point of care solutions, our Omnicell 340B service, and EnlivenHealth patient engagement solutions. We think this is an excellent example of several key elements of the strategy and demonstrates why we are winning in the market:

1. Our comprehensive platform approach and long-term vision significantly differentiate Omnicell.
2. Our EnlivenHealth solution will appeal to health systems as they focus on ambulatory and retail opportunities thereby adding further differentiation, and
3. Our channel can successfully deliver acquired solutions, such as Omnicell340b

Similar to UMC, I am also pleased to announce that University Health in San Antonio, Texas has selected Omnicell One, along with Omnicell's Central Pharmacy and point of care solutions, to support their pharmacy care model. Our platform is aligned with University Health's goals and long-term vision for growth.

Additionally, AnMed Health in Anderson, South Carolina, selected Omnicell One, Omnicell's Central Pharmacy Dispensing Service, and IV Compounding Service, as a comprehensive platform that can support their goals of supply chain control, improved efficiency, and enhanced patient safety.

Lastly, an Ohio-based health system partnered with Omnicell to help them address staffing constraints, while enhancing visibility and communication across the system. Again, this health system chose Omnicell One, Central Pharmacy Dispense Service, and IV Compounding Service to help them achieve their goals to manage near-term staffing challenges and support future growth.

Based on the strength of Advanced Services bookings and robust customer demand, in 2022 we are continuing to invest in our innovation pipeline, cloud platform, and customer experience.

Now, I will comment a bit more on the acquisitions we made in 2021.

FDS Amplicare, ReCept and MarkeTouch are great examples of where we think retail pharmacies and health systems are going, and why we are so energized by the opportunities ahead.

In 2020, specialty drugs totaled $269 billion and accounted for 51% of all drug sales. Furthermore, health system owned specialty pharmacies are generating significant patient outcomes and profits for the health system and, as such, are a strategic priority for the C-suite. However, managing a specialty pharmacy requires a different skillset, and increasingly hospitals are outsourcing their specialty pharmacy operations to managed service organizations like ReCept. Specialty pharmacy is a key part of the medication management process, and Omnicell can significantly scale the ReCept solution through our channel, and ultimately create new value for customers through integration with other parts of our intelligent infrastructure. It is another way we are expanding our footprint within our existing customer base.

As Randall mentioned, we also strengthened our EnlivenHealth solution with the acquisitions of FDS Amplicare and MarkeTouch. The addition of FDS Amplicare's differentiated financial management, analytics, and population health solutions, along with its nationwide network of more than 15,000 independent retail pharmacies, expands EnlivenHealth's product functionality and its market footprint. And the addition of MarkeTouch Media not only expands Enliven's customer base, but also adds critical mobile capabilities to the solution. With these acquisitions, Enliven adds critical functionality to its platform and expands its customer base.

We believe COVID and the current labor market have accelerated the need for a new intelligent medication management infrastructure. Omnicell is uniquely positioned to deliver this intelligent infrastructure and ultimately enable our customers to transform a significant part of the healthcare system. We are early in this journey and we are excited by our progress to date. With that I will turn the call over to Peter.

Peter Kuipers

Thank you, Scott.

I'm pleased with the strong results for our fourth quarter and full year 2021. Our healthcare system and retail pharmacy customers continue to partner with Omnicell to realize the industry vision of the fully Autonomous Pharmacy, and the overall demand metrics for Omnicell remain strong.

I am especially proud of the solid execution that our over 3,500 Omnicell team members continue to consistently deliver. During the quarter, we welcomed 429 employees to the Omnicell family, 293 of whom joined us via the ReCept and MarkeTouch acquisitions. Throughout the pandemic, Omnicell employees have demonstrated their unwavering commitment to ensuring our front-line healthcare heroes receive the critical medication automation management systems and expertise they need, to deliver the best patient care possible.

Before I dive into the specifics of our financial results, I'd like to highlight that, despite the challenges from the pandemic, 2021 was a record year for bookings, backlog, revenue, Non-GAAP EBITDA, Non-GAAP EPS, and free cash flow generation.

Record product bookings for full year 2021 were $1.217 billion compared to $1.002 billion for the full year 2020 and were $67 million above the mid-point of our full year guidance range and an increase of 21% over the prior year. Total product backlog at the end of 2021 was $1.254 billion compared to $924 million at the end 2020, a significant increase of 36% year-over-year. Of the $1.254 billion in ending product backlog, $439 million or 35% is considered long-term. This percentage is up from 33% at the end of 2020. The year over year percentage increase primarily reflects the growth in Advanced Services.

We believe the strong 2021 product bookings are an indication that our healthcare system and retail pharmacy customers continue to turn to Omnicell to realize the industry vision of the fully Autonomous Pharmacy. We saw specific strength in Advanced Services as well as the strength in our key customer partnerships, including long term sole source agreements with now 151 of the top 300 U.S. Health systems. Out of the 151, 50% have now booked at least one Advanced Service. We have partnered with the majority of the 151 long term sole source partners to create multi-year investment plans for medication management automation. These plans provide significant visibility into future bookings. We're continuing to see strong momentum with Advanced Services when engaging with our health system and retail pharmacy customers. For the larger deals, we find that Advanced Services are a clear differentiator and one of the main reasons these partners do business with Omnicell.

Turning to our financials, our fourth quarter 2021 revenues in accordance with GAAP were $311 million, an increase of $15 million over the prior quarter.

Our fourth quarter 2021 non-GAAP revenues were $312 million, up 25% over the fourth quarter of 2020 and approaching the top end of our guidance range. The strong year over year non-GAAP revenue increase reflects continued strong demand for Omnicell's medication management adherence automation solutions as well as the contribution of revenue from the FDS Amplicare acquisition in the third quarter of 2021. A full reconciliation of our GAAP to non-GAAP results is included in our fourth quarter earnings press release and is posted on our website.

We delivered record GAAP and Non-GAAP revenues in 2021 reflecting strong customer demand and strong commercial execution. Our full year 2021 GAAP revenues were $1.132 billion. Our Non-GAAP 2021 revenues were $1.133 billion, an increase of $241 million or 27% from 2020. As a reminder, the year over year increase was partially attributable to the lower than typical GAAP and Non-GAAP revenue levels in 2020 due to the COVID-19 pandemic.

Non-GAAP gross margin for the fourth quarter of 2021 was 49.8%, a decrease of 130 basis points from the previous quarter primarily due to the mix of customer and product implementations in the quarter as

well as modestly higher inflationary costs. Included in fourth quarter gross margin is the impact of approximately $5 million of inflationary costs compared to costs paid for semiconductors, other materials, and freight in 2020. Excluding the approximately $5 million in inflation costs the gross margin percentage would have been 160 basis points higher.

Our fourth quarter 2021 earnings per share in accordance with GAAP were $0.28 per share compared to $0.61 per share in the previous quarter, and $0.37 in the fourth quarter of 2020.

Fourth quarter 2021 non-GAAP earnings per share were $0.92 per share compared to $1.08 per share in the previous quarter, and $0.91 per share in the same period last year. Fourth quarter non-GAAP earnings per share were near the mid-point of fourth quarter guidance inclusive of a favorable tax benefit from stock compensation of $0.10 per share offset by the impact of incremental expenses related to compensation from significantly stronger product bookings, M&A related expenses, and certain key investments.

Our full year 2021 earnings per share in accordance with GAAP were $1.62 per share. Our full year 2021 non-GAAP earnings per share were $3.81 per share, an increase of $1.27 per share or 50% from 2020. The year over year increase was mostly driven by higher revenue volume and gross margin expansion partially offset by the impact of inflationary costs in 2021 as well as the impact of higher share count.

We delivered Non-GAAP EBITDA of $52 million in the fourth quarter of 2021 resulting in a record full year Non-GAAP EBITDA of $230 million. In comparison to guidance, fourth quarter and total year non-GAAP EBITDA includes the impact of additional variable compensation from significantly stronger product bookings, M&A related expenses, and certain key investments.

The full year 2021 Non-GAAP EBITDA margin was 20.3%, an increase of 240 basis points from the previous year, despite inflationary headwinds of approximately 100 basis points.

Moving to cash flow. Full year 2021 free cash flow of $173 million was a record and reflects the overall increased demand in the business, strong cash collections, and working capital management.

At the end of the fourth quarter of 2021, our cash balance was $349 million, down from $482 million as of September 30, 2021. The $133 million decrease in cash is the result of financing activities related to our recently completed acquisitions of ReCept and MarkeTouch partially offset by operating cash flow in the quarter. Free cash flow during the fourth quarter of 2021 was $43 million, compared to $27 million from the previous quarter and $65 million in the fourth quarter in 2020.

In terms of accounts receivables, days sales outstanding for the fourth quarter of 2021 were 70 days, excluding the impact of ReCept and MarkeTouch acquisitions which were completed in the last few days of 2021 and therefore did not contribute significant revenue within the quarter. The days sales outstanding in the fourth quarter of 2021 reflects a decrease of 3 days over last quarter, and a decrease of 1 day from the fourth quarter in 2020.

Inventories as of December 31, 2021 were $120 million, an increase of $16 million from the prior quarter, and an increase of $24 million from the fourth quarter of 2020. It's important to note that the inventories as of December 31, 2021 includes approximately $10 million of advance purchases and receipts of semiconductors that we believe will help reasonably secure supply for future customer implementation timelines. We continue to execute very well on our global supply chain process improvements and inventory management initiatives.

Now, moving onto our full year 2022 guidance. All guidance includes our recently announced acquisitions including FDS Amplicare, ReCept, and MarkeTouch. As we look to the rest of the year, we continue to expect strong revenue growth from customer demand and a record backlog. Our record 2021 Product Bookings reflect strong market demand including momentum in Advanced Services. We continue to have high confidence that we have secured supply for semiconductors and critical components through 2022 in order to deliver our mission critical systems and connected devices to our healthcare customers. Our global supply chain and procurement teams have done a great job addressing these challenges and minimizing disruptions to our customers.

We expect 2022 product bookings to be between $1.370 and $1.430 billion.

We expect total GAAP and non-GAAP revenues to be between $1.385 billion and $1.410 billion.

We expect GAAP and non-GAAP product revenue to range between $950 million and $965 million.

We expect GAAP and non-GAAP service revenue to be between $435 million and $445 million.

At the mid-point this reflects an increase in total Non-GAAP revenue of $265 million or 23% over the prior year.

We expect Advanced Services revenue as a percentage of total revenue to increase from 10% in 2021 to approximately 15% in 2022.

We expect total year 2022 non-GAAP EBITDA to be between $243 million and $255 million. This Non-GAAP EBITDA guidance reflects:

1. the expected impact of inflation; and
2. integration costs for recent acquisitions.

As we noted for the last two quarters, we are experiencing the impact of inflationary headwinds. This continues to be primarily due to semiconductor and other component costs and, to a lesser extent, freight and steel and other raw materials costs. The total year Non-GAAP EBITDA guidance includes the impact of approximately $30 million to $35 million of cost inflation in 2022 as compared to costs paid for semiconductors, other materials, and freight in 2020.

The 2022 non-GAAP EBITDA guidance also includes $8 million of integration costs for the FDS Amplicare, ReCept, and MarkeTouch acquisitions.

As we've noted, we have had a particularly active year in terms of M&A. As expected, there are integration expenses associated with this activity. Generally, the majority of integration expenses are incurred in the first year after acquisition. We have a strong balance sheet, which we believe positions us well for future growth and we look forward to continuing our plan to execute on our value-enhancing, disciplined M&A strategy.

Now, I'll provide some color to the gross margin outlook throughout 2022. We are working through product backlog and pipeline prior to pricing actions. As a result, we expect that the pricing actions we have put into place will begin to have a greater impact near the end of 2022, and as we move into 2023. Included

in our Non-GAAP EBITDA guidance is the favorable impact of these pricing actions. We expect gross margin to modestly expand in the second half of 2022 as compared to the first half of 2022.

We expect 2022 non-GAAP earnings to be between $3.75 and $3.95 per share. This takes into account a higher expected blended tax rate in 2022 and the expected share count increase from employee stock plans.

For full year 2022 we are assuming an effective blended tax rate of approximately 6% in our non-GAAP EPS guidance compared to 4% in 2021 actuals.

For the first quarter of 2022, we are providing the following guidance. We expect total first quarter 2022 GAAP and Non-GAAP revenues to be between $312 and $318 million, with GAAP and Non-GAAP product revenues between $216 million and $219 million and GAAP and Non-GAAP service revenues between $96 million and $99 million. We expect first quarter 2022 non-GAAP EBITDA to be between $45 million to $49 million. We expect first quarter non-GAAP earnings per share to be between $0.65 and $0.72 per share.

In 2021, we made the decision to secure what we believe is an adequate supply of semiconductors and other key components via direct buys and pre-buys from brokers and OEMs to support our customers. We are confident 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 particularly for freight and steel, which are spot markets, to continue throughout 2022. As I noted earlier, the majority of our current product backlog and pipeline reflect pre-inflation pricing. As a result, we expect that the pricing actions we have put into place will begin to have a greater impact near the end of 2022 and as we move into 2023.

We believe that we have built a company that is able to adapt and scale very well and believe is well positioned to deliver on our 2025 total revenue growth targets driven by a number of factors including growing Advanced Services revenue, benefits from long-term sole-source customer partnerships, including multi-year co-developed plans and increased average deal size.

We continue to have line of sight and are committed to our 2025 profitability targets. However, it is important to note that we issued these targets prior to the current inflationary environment.

We continue to execute pricing actions, 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.

In summary, we are very pleased with our commercial, operational, and financial results for 2021 and the forward visibility and resilience of the business. We continue to take steps to address inflationary headwinds and supply chain disruptions 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. Your line is open.

Jessica Tassan

Hi. Thank you so much and congratulations on a great 2021.

I think we were just curious if you could maybe help us understand how the price increases work within the context of either GPO contracts or under your sole source contracts. And specifically, is price flexibility based into the sole source contracts or do you have to negotiate each of those on a kind of one-on-one customer-by-customer basis? Thank you.

Scott Seidelmann

Hey, it's Scott Seidelmann. I think a couple of questions there.

Your first one was really how did GPO pricing impact long-term sole source agreement and how is pricing in the long-term sole source agreement. I think to the latter point, typically the sole source agreement will have a price lock of maybe a first couple of years, one or two years, and then after the fact pricing can adjust. Sometimes tied to CPI, etc., but after that initial price lock it can adjust.

GPO pricing really doesn't come into any kind of effect in a long-term sole source agreement; it's outside of that. Long-term sole source agreements are negotiated directly with the (inaudible).

I'm sorry, Jessica. You had a second one?

Jessica Tassan

No, I think that's actually helpful on that.

I guess this one is for Peter. Just what explains the improvement in Adjusted EBITDA margin expansion over the course of the year? Is that mostly owing to cost of goods, or is that integration costs concentrated in the first half? Any color there would be helpful. Thanks again.

Peter Kuipers

Good question, Jessica. I'm going to go back to the initial pricing action. We do have flexibility on service pricing. That was a pricing action that we talked about in the last earnings call. That is starting to build up and flow through as well. We've also talked about in the prepared remarks in the last call that we have increased the margin approval levels as well.

Now, to your question around the improvement on gross margins, through the year we delineated in the prepared remarks between the first half and the second half. The way to look at this is there's really two factors there. One is the pricing action. The majority of our product backlog and also a portion of our quotes are from before pricing actions, right? The pricing actions kicked in in the quoting process and the sales process, so we expect that to go through the backlog into revenue and to offset a larger portion of the

inflation near the end of 2022 and as we move into 2023. We expect now that pricing actions will fully offset inflation beginning in the first half of 2023, so you'll see that dynamic.

Then from an inflation perspective, we had initiated pre-buys, initially via brokers, and then directly also via OEMs, and so we see that pricing in the cost easing over time starting probably really near the end of 2022 and then flowing into 2023.

Those two factors drive a lot of the gross margin, a modest improvement that we currently see from the first half through second half of 2022.

Jessica Tassan

Got it. Thank you.

Operator

Your next question comes from the line of Stan Berenshteyn with Wells Fargo. Your line is open.

Stan Berenshteyn

Hi. Thanks for taking my questions. Maybe a couple on bookings.

I guess first, how much of the booking's guidance is coming from M&A? Could you quantify that number for us?

Peter Kuipers

Yes, the bookings guidance and also revenues, there's a couple of points from the full year impact of M&A compared to last year.

Stan Berenshteyn

Okay. I guess one thing I'd like to ask, just in the context of your booking's guidance, can we get some insight into the conversations you're having with sales reps? Are sole source clients expressing any notable changes, maybe in the product or services roadmaps that they're contemplating, or perhaps in the pacing of product implementations over the coming year? Can you comment on anything along those lines?

Peter Kuipers

(Inaudible) what we see really is a couple of factors in the prepared remarks. First, we really see the strong momentum in Advanced Services and that is a clear differentiator and very often the vast majority of all deals are really that makes the choice for us, for Omnicell to be the partner. We have not seen any change in implementation timelines related to COVID or a change in demand. Demand is very strong from our perspective, obviously in the field. Maybe Scott, do you want to comment as well?

Scott Seidelmann

We're not seeing from an implementation perspective; we're not seeing any impact from COVID.

Stan Berenshteyn

Okay, okay.

Peter Kuipers

Stan, did you have a second part of your question as well? I'm not sure we fully answered it.

Stan Berenshteyn

No, I think that gives us some color.

I guess maybe just switching gears, I'd like to maybe ask the question on the 340B sales that you were generating. Qualified hospitals already have solutions in place. I'm trying to understand what's really driving the incremental growth for that business. Is it mainly tech-enabled services, or are you also displacing existing point solutions as you're generating these incremental sales?

Scott Seidelmann

Right. Our existing Omnicell 340B business is a tech-enabled service. It's a PBA that includes the split billing software and expert services that advise the hospital on how to manage their 340B program and how to optimize it. We are displacing other vendors and we're doing that because as part of the portfolio is an element to the portfolio that has systems engaging us in a much broader relationship. The 340B solution is only one of many services and products that that health system is acquiring from us. We've got a thoughtful vision for how you can integrate the 340B split billing software into other aspects of our software and unleash synergies between 340B and opportunities such as IV and so that's something that health systems are keenly aware of. And again, I'll point you back to the health system that we recently announced, the sole source agreement with UMC in Lubbock, Texas which engaged us both the 340B, Central Pharmacy, Points-of-Care and Enliven, and the general impetus there was not only from a health system which I think is a great example of health systems generally focusing on optimizing inpatients, but also this health system like most is very much engaged and focused on optimizing ambulatory and outpatient, and when you start to do that then services like 340B and patient engagement programs like in EnlivenHealth become incredibly important to the health system.

Stan Berenshteyn

Got it, got it. Then can you comment at all on the trajectory of growth in that segment?

Peter Kuipers

Yes. This is Peter. I would say it's in line with the general growth for the business.

Randall Lipps

Yes, and just ReCept, of course, allows us to have a different angle. Our current 340B product uses contracted pharmacies. ReCept would use the pharmacies of our provider and so that allows an additional option for 340B customers and the provider world to use either one. We're really happy with that acquisition

and it really broadens our specialty pharma offering, and really allows us to meet I think both the demands of providers and pharma.

Stan Berenshteyn

Okay. Then maybe just a clarifying question. I think was Jess was asking earlier on the pricing adjustments, when you're commenting that towards the end of 2022 you're going to see everything kind of back to normal from a pricing standpoint, are we thinking about from the perspective of that now bookings at the end of 2022 will be priced accordingly, or is the mix of bookings still going to have some kind of a drag where when we're thinking about next year you're still going to have a margin impact coming from inflationary prices? Maybe not as much as you're seeing now, but we should still factor some kind of an impact going into next year because not the entire full-year bookings have that pricing adjustment. Is that the correct way to think about it?

Peter Kuipers

Yes. I think there was really two questions there. From a ledger impact perspective for the financial results we estimate that the pricing actions will offset a larger portion of the inflation towards the end of 2022, and into 2023, and we expect these pricing actions to fully offset the inflation starting in the first half of 2023. That's the way I think about that. We have of course analyzed and estimated our quotes in the pipeline; a portion of those are of course pre pricing actions, and when they book, if you will, they will be kind of net negative from a inflation and pricing action perspective, but more and more newer quotes since we started the pricing actions in the third quarter will (inaudible) offset most of the inflationary costs.

We continue to manage, of course, inflation as well. We do see and what we see in the industry and what we also are looking at industry reports, we see inflation continuing also to an extent into 2023, but to a lower extent.

Stan Berenshteyn

Got it. Thanks so much.

Operator

Your next question comes from the line of Scott Schoenhaus with Stephens. Your line is open.

Scott Schoenhaus

Hi team. Happy Valentine's Day.

Peter, I think you said there was a $35 million impact to margins from inflationary cost pressures, and then was it $15 million from integration costs? What was the second number you provided to the bridge?

Peter Kuipers

Thank you for the question. Inflationary cost we estimate to be in the range of $30 million to $35 million, and then the second (inaudible) $8 million of acquisition integration costs with a caveat there that most of

the integration costs as we model it and execute on integration or strategic acquisitions is in the first year. So in 2023 that number should be significantly lower, if you will.

One other element talking about acquisitions is that the acquisitions that we've done, the three acquisitions in general or in total are often average lower EBITDA percentage than the core total business, right? So that's also a headwind in 2022 that you can also factor in.

Scott Schoenhaus

That was actually what I was getting to and where you can really see leverage on the SG&A side, I'm assuming.

Peter Kuipers

Over time as we scale and integrate, yes. Over multiple years.

Scott Schoenhaus

That helps me get to the bridge.

Just another question. Services revenue, you guided to about 31% of your total overall mix for 2022, that's a healthy increase from the end of even this past year. Should we expect that kind of momentum to continue annually going forward, Peter?

Peter Kuipers

The answer is you should not expect that absent any additional acquisitions. The most of the difference between the organic revenue growth and total revenue growth is of course inorganic, and most of the acquisitions, most of the revenue of the three acquisitions we did in the last year are actually being recorded as Service revenue, so there's quite the growth there on an inorganic basis as well.

Scott Schoenhaus

Thank you.

Peter Kuipers

Yes.

Operator

Your next question comes from the line of Anne Samuel with JPMorgan Chase. Your line is open.

Anne Samuel

Hi guys. Thanks for taking the question.

You spoke to increased booking size and was hoping maybe you could talk a little bit about what you would attribute that to, and are you seeing any benefit yet in those numbers from some of the labor shortages that you noted?

Randall Lipps

I think most of the booking size is because of people have underinvested in infrastructure particularly around medication management, and the real desire as these large providers want to create a standard and make a strategic investment; just not answer some of the problems but put in an entire platform to digitize their whole network. So, once that sort of presentation gets to the right level—usually the C-suite—people want to invest strategically over many years to automate and deliver on the relief of not only labor shortages, which have become even more acute these days, but also accuracy. Some of the labor shortages have to do with some of the most difficult people to find like an experienced pharmacy technician who is compounding IVs. While moving to an automated robot that compounds IVs really just doesn't relieve some headcount but relieves some headcount that are the most difficult to find and also in an area that is fraught with—could be fraught with danger if you're not doing it properly.

It really means that you take a strategic approach to the total partnership with Omnicell in a broader spectrum.

Scott Seidelmann

I'd add to that. That's obviously completely correct. I'd add to that that the strategy has been explicit on two fronts, which is one, focus on the large health systems and engage the large health systems so the comprehensive portfolio, namely the Advanced Services, and where that's been really working for us over the last couple of years and namely last year is that we have been winning those larger health systems on the strength of the differentiation provided by the advanced services, and I think what we're seeing is that I think over the last 14 large competitive conversions, 11 of those have had at least one advanced service in addition to the point-of-care.

These health systems are engaging and because of the strength they are engaging quite heavily with us.

Anne Samuel

That's really helpful. Thank you.

Then maybe just one. I apologize if I missed it. Was wondering given some of these near-term inflationary headwinds that you're seeing, does that impact your 2025 profitability targets? That 400 basis point expansion that you had called out.

Peter Kuipers

Great question. In the prepared remarks we commented on the 2025 framework, right? From a revenue perspective we feel very confident on being able to achieve that. On a profitability perspective, of course there's a caveat on inflation, however we have line of sight via execution of pricing actions, part of the process improvement and cost synergies and leverage.

Anne Samuel

Great. Thanks very much.

Operator

Your next question comes from the line of David Larsen with BTIG. Your line is open.

David Larsen

Hi. Can you provide a little more detail around the $30 million to $35 million inflation pressure for next year? What portion of that is coming from semiconductors versus freight versus steel? Then it sounds to me like quotes were provided but then after those quotes were provided the prices of the materials increased which is why there is a margin headwind. Why can't you just sort of go back to the customers and be like, "Hey, inflation popped up. We got to adjust the quote." Is that possible to do or not? Thanks.

Peter Kuipers

Great questions.

On the first part of the question, the $30 million to $35 million of inflationary costs you should think about roughly half of that is semiconductor related. The second half is roughly divided between freight cost inflation and steel cost inflation.

On the second part of the question, of going back to customers with quotes in hand or orders in backlog, there is limited flexibility to do so. We've chosen not to do that. Again, we're focused on the long term, focused on the customers. Part of that is also of course our pre-buy of semiconductors which gets us a high level of confidence that we can supply our end customers but it does come at transitory inflation costs here in 2022 and we see some of that continuing in 2023 as well.

David Larsen

That's helpful. Thank you.

Assuming that prices do cover these inflationary costs in early 2023, then for your 2025 guidance for earnings, it seems to me like maybe worst case scenario that could get pushed back by one year. Right? Because I mean the prices are going to offset the inflation a year from now, so maybe if you get pushed back a year at worst case scenario, is that reasonable or not?

Peter Kuipers

I think that's (inaudible) part of the question. We're working through the inflation, so there is uncertainty there. Of course we are investing here also incrementally year-over-year on the Advanced Services and cloud given the strong demand. That said, like we said earlier in the call, we are executing on these pricing actions. We believe that those pricing actions will continue or stick, if you will, on an ongoing basis, also in the outer years, and then we're working cost productivity, manufacturing (inaudible) and leverage.

Scott Seidelmann

Yes, leverage on the Advanced Services as well. Many of the Advanced Services are early stages where the margins aren't as leveraged up as they will be, as they gain scale. Certainly as we go on through 2023 to 2025, these will scale and deliver much better gross margins.

David Larsen

Great. Then just one more if I can squeeze one in. For the $8 million in integration costs, are those one-time in nature or will they recur in 2023? If they're one-time in nature, I mean can't we think about them as being kind of one-time in nature and exclude them from Adjusted EBITDA? What is the $8 million?

Peter Kuipers

That's a great question. They are one-time in nature, and just to be clear we have not excluded those costs. We have not adjusted for that cost in our EBITDA guide. They are a drag on EBITDA and earnings in 2022 per our integration plans and we like to integrate strategic acquisitions for the majority in the first year, so the integration costs in 2023 are significantly lower. Think about maybe $1 million or $2 million compared to the $8 million in 2022.

David Larsen

Okay. Thanks very much. It sounds like it's sort of a temporary headwind here that will be overcome in 2023. Thank you.

Operator

Your next question comes from the line of Matt Hewitt with Craig-Hallum Capital. Your line is open.

Matt Hewitt

Good afternoon. Thank you for taking the questions. A couple of different fronts here.

Maybe first up, and sorry to keep asking about the inflation, but Peter, you specifically talked about the semiconductors, trade steel. I'm curious, you're also seeing it on the wage side as well, particularly as you get more and more ingrained in the services business. Are you seeing it on that side as well?

Peter Kuipers

That's a great question. We believe we a fairly attractive employer. We've been able to hire great talent, as you've seen in the last couple of quarters. We have seen quite any significant labor inflation, so it's probably too early to tell. We do think our compensation is good compared to market.

Matt Hewitt

Okay, great. Then separately, I'm curious—and this is maybe a little bit out there, but over the past couple of years with the pandemic procedure volumes are down. Patient visits to the doctors are down, all of that, unless it was tied to COVID. I'm curious how that is—if you want to call it a headwind—has impacted the

340B in some of the markets that you've moved into here recently and as we come through the pandemic, is it your expectation that you'll actually start to see increased growth in those markets which you will now be the beneficiary of.

Randall Lipps

I think for sure, as I said in my prepared remarks, we do expect volumes of big providers, particularly hospitals, to go up. I think it was about 4%. Many of it was delayed, but that really hasn't slowed down the buying from what we've seen. I think that it's just going to be more healthy for our customers as we move forward because there will be more volume to go through.

I think it's not just in the acute care but also in outpatient areas. Just like Scott was talking about UMC, so I think people have all deferred many of the attention to some items in their healthcare that they should have done in the pandemic, and I think as you say that Omicron is moving away so the volumes should be increasing.

Matt Hewitt

That's helpful. Thank you.

Operator

Your next question comes from the line of Dev Weerasuriya with Berenberg Capital Markets. Your line is open.

Dev Weerasuriya

Okay, great. Thanks for taking my questions.

Just to kick it off on this inflation, hopefully you've circled this out. I just want to confirm, I think you mentioned on wage inflation that it wasn't maybe considered in 2022/2023 in regards to your inflation $35 million impact. I just want to confirm that. I guess that doesn't include any kind of wage inflation there.

Peter Kuipers

This is Peter. We also plan of course for good merit increases that are tied to inflation as well. Did you say $5 million in '21?

Randall Lipps

Nothing extraordinary, how about that?

Dev Weerasuriya

Okay, great. Then maybe just jump into kind of the top line. On the revenue side, just trying to get some more color around this tech-enabled SaaS services and maybe disaggregated by the end market. Where are you maybe seeing more momentum? For example, I guess, Omnicell One, maybe kind of an easier sell with sole source agreements that already have ADS versus maybe going after new retail customers or

payer. Just any color around kind of the momentum, more disaggregated on that side would be helpful. Thank you.

Scott Seidelmann

This is Scott. In terms of markets, the focus of the business and the channel has largely been the large health systems and that's not exclusively acute. The large health systems are increasingly, A, expanding through other hospitals, and increasingly expanding in ambulatory, outpatient and now even hospital and home or home healthcare. I think when you look at that, that's driving a lot of demand to automate potential pharmacy, not only to fill the acute care beds but to support a large geographic enterprise institution. Omnicell One is linking that entire health system up to help them in effect act as a air traffic control function to make sure that the right drugs are in the right locations, both inside the hospital and outside the hospital. Things like 340B resets now are helping that hospital grow the top line, whether that's through retail meds, management of the 340B business, that's certainly on the outpatient side. And then Enliven, as we mentioned with UMC Lubbock we're seeing more and more demand from health systems to actually utilize tools and solutions like the EnlivenHealth portfolio which is now pretty comprehensive because we've added FDS Amplicare and MarkeTouch capabilities. That's showing there's real demand for the health systems.

Again, those, the primary market for those are the more traditional retail pharmacy, but we're certainly seeing the vision for the strategy was always that the worlds would certainly start to intertwine and that we will be well positioned with a fully comprehensive solution.

Dev Weerasuriya

Okay, that's helpful. I guess maybe thinking like a customer, for example, on EnlivenHealth, Walmart as an example, just in regard to recurring revenue growth, and also maybe also on the gross margin side, a double-edged question here. On the revenue side, after you do the implementation on the SaaS side, what kind of growth drivers are there after you roll it out, I guess, widely? Then I guess on a gross margin side, I would assume there's some implementation costs in the first couple of years. Would you expect that to improve? I guess at what rate would you expect that to kind of improve on a unit economic basis per client? Just on the Advanced Services and tech side. Thank you.

Scott Seidelmann

First point, which is really around where is growth from an Enliven customer? Very traditional (inaudible), really on two dimensions. One dimension is that's a subscription product and that subscription is tied to, call it number of stores, number one. Then number two, what services are within that subscription? Any large Enliven customer revenue would scale on two dimensions, one of which is how many stores am I adding into the platform? Then how many services am I subscribing within the platform? The customer you mentioned may be rolling out all the stores on one of the subscriptions or one of the services, call it, scheduling or IVR, etc. The growth comes really with that inside sales notion of engaging that customer to add more of the services. Maybe I started with IVR and now I want to add MedSync and financial analytics and scheduling, and then ultimately participate in some of the payer marketplace and activity. That's how you can see that growth dimension.

Gross margin, we really have never commented on the particular gross margin of Enliven or outward scale.

Dev Weerasuriya

Okay. But I guess just generally would you expect gross margin to kind of increase over time after you win a customer?

Scott Seidelmann

Oh sure. There's certain—even a SaaS business a fixed cost associated with a given customer that would scale over time as you add more volume to it, for sure.

Dev Weerasuriya

Okay, great. Thank you.

Operator

There are no further questions at this time. I will turn the call back to Randall Lipps for closing remarks.

Randall Lipps

Look everyone, thank you so much for joining us today. Omnicell has always been about growth for the last few years and yes, there's some headwinds in the inflationary places and some M&A cost and integration cost, but we've got a good game plan. And most importantly, we're going to get these systems installed for our customers so that they can improve healthcare for everyone, and we'll get back to our normal gross margin as we go down the road.

Thank you so much. We'll see you next time.

Operator

This concludes today's conference call. Thank you for joining. You may now disconnect.