Omnicell Third Quarter 2022 Financial Results
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Corporate Participants:
Kathleen Nemeth – SVP, Investor Relations
Randall Lipps – Chairman, President, Chief Executive Officer, and founder
Scott Seidelmann – EVP, Chief Commercial Officer
Peter Kuipers – EVP, Chief Financial Officer

Kathleen Nemeth:

Good morning and welcome to the Omnicell third quarter 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, expense management, 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 25th, 2022, 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. All forward-looking statements speak only as of the date hereof or the date specified on the call. Except as required by law, we do not assume any obligation to update or otherwise release publicly any revisions to our forward-looking statements.

Our results were released this morning and are posted in the "Investor Relations" section of our website at ir.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 posted in the "Investor Relations" section of our website. 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.

With that I will turn the call over to Randall

Randall Lipps:

Thank you, Kathleen.

Good morning and thank you for joining us today. This quarter we continued to advance our strategy to transform the pharmacy care delivery model and deliver mission-critical medication management solutions to our customers.

As I said at our recent investor day, I started this company 30 years ago to improve medication management and enable medical caregivers to spend more time with their patients. We continue to

innovate each day to further this objective as well as to achieve our mission to be the clinician's most trusted partner. Our go-forward strategy is not only to continue to advance these important objectives, but also to deliver on the tremendous growth we see ahead of us as we transition our business to an "as a service" model. It is clear to us that our strategy is working as the demand for our Advanced Services, including retail SaaS solutions, remains strong.

Advanced Services are Omnicell's future, and we are especially encouraged by the strong results we are seeing for these solutions. We continue to focus on the long-term value we believe we can create by delivering cloud-based platform solutions designed to enable SaaS and tech-enabled pharmacy operations across the entire continuum of care.

With that said, in the near term, we are seeing significant headwinds in our point-of-care products.

The economic environment, including its effect on our health system customers, shifted rapidly toward the end of the third quarter. This has caused many health systems to implement capital budget freezes and additional budget approval processes, which is resulting in elongated sales cycles. At the same time, ongoing health system labor constraints have continued to increase, which has resulted in a higher than typical number of customers requesting to temporarily defer point-of-care implementations. These factors have adversely affected bookings and revenue in our point-of-care business, and we are updating our overall bookings and revenue outlook for the year accordingly. I do want to point out that despite the current environment we are continuing to see major implementations move forward. We continue to believe our customers recognize the need for our point of care products to meet compliance.

Like many other companies across industries, we are navigating a dynamic macro-economic environment. We will continue to respond to this changing environment, including by implementing appropriate actions on expenses where needed, to take what we believe is a prudent and disciplined approach to managing our business through this period. I'll speak more about these actions in a minute.

Let's walk through the third quarter financial results. Third quarter revenue of $348 million was below our guidance range, driven primarily by customer requests to reschedule delivery and implementation of our point of care products.

GAAP net income for the third quarter of 2022 was $17 million, or $0.37 per diluted share.

Non-GAAP net income for the third quarter of 2022 was $45 million, or $1.00 per diluted share. This was in line with our guidance due to strong expense management as well as reductions in performance-based compensation expense.

Non-GAAP EBITDA for the third quarter of 2022 was $61 million.

As I mentioned, despite headwinds in point of care, our Advanced Services, including our EnlivenHealth products and solutions, continue to see robust demand. One example of this demand is the fact that, in the third quarter, we installed a record number of CPDSs, or that is our XR2 Robot "as a service" installations. We are also pleased with the momentum we are seeing in Omnicell One and the strong demand for our IV Compounding Service.

During the third quarter EnlivenHealth closed a deal with a major Northeast-based pharmacy chain that contracted for two key digital solutions. EnlivenHealth is expected to exit 2022 with an approximate Annual

Revenue Run Rate, or ARR, of $90 million, as our retail customers appear to increasingly turn to EnlivenHealth for our uniquely positioned SaaS offerings.

As well, we now have 152 of the top 300 US health systems under long-term sole-source contracts. Many recent long-term sole-source wins have been competitive conversions. This was the case for one of our two new long-term sole-source customers, with the other being an existing Omnicell customer that expanded its relationship with us. Whether a competitive conversion or a current customer, we believe health systems are choosing to enter into long-term sole-source contracts with Omnicell due to our strong positioning with our Advanced Services offerings. Scott will provide more color on this growth shortly, but I want to acknowledge that our strong presence across the US health system is a testament to our 30 years of hard work by Omnicell employees, and we find that the breadth and depth of our channel, our comprehensive portfolio of solutions, and our singular focus on the pharmacy continue to be important points of competitive differentiation for the company.

We believe that we are uniquely positioned to capitalize on the growth opportunities ahead and that we're just getting started. We are facing headwinds and operating in a difficult environment, but, as I said on our last call, Omnicell has been through many different market cycles in the past 30 years. We have navigated each of those cycles and evolved our business to ensure we meet our customers' needs – and we will continue to do so.

On that note, I want to address how we intend to navigate the headwinds we are seeing.

We plan to take actions to significantly reduce expenses, with a review of all areas of our cost structure underway. We intend, and believe we have the ability, to adjust our spending to align with revised bookings and revenue levels.

At the same time, we plan to continue to invest in our Advanced Services. We believe they are Omnicell's future and that our continued investment in R&D and our innovation roadmap will enable us to continue to transform our business and support our growth agenda.

Near term, we anticipate operating against a challenging backdrop, and we have revised our outlook for the year, taking this expectation into account. That said, we continue to be confident in our strategy, and we believe Omnicell is well positioned to enable the digital transformation of the entire medication management continuum. Our healthcare system customers recognize the value Omnicell provides, and we look forward to delivering long-term value to all of our stakeholders.

So with that let me turn it over to Scott for some details on the quarter.

Scott Seidelmann:

Thank you, Randall.

As Randall noted, we saw significant headwinds, primarily in our point of care products and solutions, this quarter. Hospitals and health systems are under financial pressure and experiencing labor constraints, in some instances resulting in cap ex budget freezes and/or additional budget approval processes resulting in elongated sales cycles. Also, in some cases we have seen pauses in point-of-care implementations due to availability of health system labor or hospital construction delays. We are also now well over 50% through

the XT upgrade cycle. We are currently operating in a difficult environment, particularly with respect to point of care.

However, it is important to understand that we strongly believe our strategy to transform our business to an "as a service" model is working.

How do we know? Let's look at a few of the key indicators we are tracking to gauge our success: First, we are seeing many of our Advanced Services customers achieving real ROI with these solutions – whether it is through improved patient care, reduced labor expense, better compliance, and/or improved financial performance, our customers are relying on us to partner with them to address their most pressing medication management challenges across the continuum of care; and as a result, we are seeing increasing reference-ability for our services with customers proactively sharing their successes with other health systems. We are also seeing strong demand in the market and our pipeline for these services appears to be growing faster than the market. Also, this quarter we saw record revenue for our Central Pharmacy Dispensing Service. And lastly, as I will discuss further in a moment, our Advanced Services portfolio continues to differentiate Omnicell with large health systems.

For all of these reasons, we intend to accelerate our transition to Advanced Services and we are continuing to invest in our growth agenda.

One example of what we believe is smart continued investment in our Advanced Services is our recently launched Specialty Pharmacy Service that can help provide hospital systems with an additional, potentially significant source of revenue to help ease some of the financial pressures that they are facing.

We also believe that, in the future, our transition to Advanced Services, which comes with projected predictable recurring revenue, will ease the point-of-care replacement cycle challenge we are currently experiencing.

Next, I will touch on a few of our recent customer highlights.

At Investor Day, I spoke about our vision to transform health care by optimizing medication management within each setting of care, with the patient at the center.

We believe this vision is resonating strongly with customers. Randall spoke briefly about this in his remarks, and we're really excited about the long-term, sole-source customers we have added recently as we continue to build strong partnerships among Top 300 health systems through these agreements.

To that end, we're excited to announce that a Virginia-based health system signed a five-year, sole-source agreement for Omnicell's central pharmacy and point-of- care dispensing solutions, inventory optimization services, and cloud-hosted medication management platform. This customer signed the agreement after successfully adopting Omnicell's IV Compounding Service. This win of a top 300 health system customer was a competitive conversion that we understand was won due to our expertise and our commitment to investment in, and focus on, next generation medication management.

We are also excited to announce a new 10-year long-term sole-source agreement signed with an Indiana-based health system. This customer was also an IV customer that is now implementing both XT Automated Dispensing Systems and Omnicell One, our SaaS Advanced Service that delivers inventory optimization capabilities.

With the addition of Specialty Pharmacy Services to our portfolio, we are engaging our customers more strategically. Our Specialty Pharmacy Services team can work with customers to identify how the addition of an in-house specialty pharmacy will lead to better patient care and potentially significantly improved financial performance. Specialty pharmacy is a significant part of medication management, and our Specialty Pharmacy Service is a key part of our portfolio. We signed two significant customers this quarter and our pipeline continues to grow.

Also, this quarter a long-time Omnicell customer in the South, adopted additional Advanced Services offerings for inventory optimization and central pharmacy dispensing service to improve visibility and accelerate time-to-value realization for these solutions.

We also hosted over 280 health systems for our Fall Illuminate LIVE event which included the formal launch of our Specialty Pharmacy Services offering, that further expands our portfolio of advance services, and other exciting solution updates. Event participants appeared very interested to hear how Temple University Hospital, a Specialty Pharmacy Services customer, is achieving significant financial outcomes through their in-house specialty pharmacy operations.

Also, within our Advanced Services portfolio, EnlivenHealth has been performing very well.

Enliven is helping pharmacies streamline and automate their patient engagement and clinical and financial workflows. This frees up critical time for pharmacists, allowing them to practice at the top of their license and provide high-value clinical services that improve patient health outcomes and strengthen bottom-line pharmacy business results. As Randall mentioned earlier, we are excited about the new deal we closed with a major Northeast-based pharmacy chain that contracted for two key digital solutions. We believe our strong execution will continue to help retail pharmacies overcome current challenges to deliver better care and increase profit.

This is currently a difficult business environment, and we are disappointed in these results. However, we are pleased that we added two new long-term sole-source customers, and that we continue to see strong demand and make solid progress with our Advanced Services, including our EnlivenHealth solutions.

While this near-term period may be difficult, we are confident in our transition to an “as a service” model and excited to work closely with our customers to transform healthcare for the better.

I will now turn it over to Peter.

Peter Kuipers:

Thank you, Scott.

This was a very challenging quarter, with the business environment shifting rapidly towards the end of the quarter. As Randall noted, we are seeing a high level of customer requests to postpone point-of-care installations. Hurricane Ian also occurred late in the quarter, which delayed multiple customer implementations. Both of these factors negatively impacted our revenue.

In addition, we are seeing an increasing number of health systems implement cap ex budget freezes or additional cap ex approval requirements, which have resulted in lower expected bookings for the full year.

It is important to note that the vast majority of the decrease in expected full-year 2022 bookings is in point-of-care products. Demand for our Advanced Services remains robust.

While revenue was modestly impacted in the third quarter, I am pleased that strong expense management, as well as lower performance-based compensation expense enabled us to deliver non-GAAP EBITDA and non-GAAP EPS within our guided ranges.

Omnicell employees across the company continue to put our customers first, and I'm pleased with our team's diligent expense management during the quarter, as well as the solid execution that our more than 4,100 Omnicell team members continue to consistently deliver in a macroeconomic environment that remains challenging.

Turning now to a review of our third quarter results…

Our third quarter 2022 GAAP and non-GAAP revenues were a record $348 million. Our non-GAAP revenues increased $17 million or 5% over the prior quarter and were up 17% over the third quarter of 2021.

The year-over-year revenue increase reflects strong demand for Omnicell's mission critical medication management automation solutions as well as the contribution of revenue from recent acquisitions. Total revenue in the quarter was below our guidance range, primarily due to customer timing delays, including delays from health system labor availability, and a small portion due to the impact of Hurricane Ian and FX headwinds.

Our third quarter 2022 organic GAAP and non-GAAP revenues increased 11% year-over-year. In addition, the acquisitions of FDS Amplicare, Recept, now referred to as Specialty Pharmacy Services, and MarkeTouch Media are performing well, and we expect these recent acquisitions to support our long-term growth objectives.

Non-GAAP gross margin for the third quarter of 2022 was 47.5%, a decrease of 200 basis points from the prior quarter. This decrease was primarily due to the product and customer mix of implementations during the quarter, as well as higher employee-related costs due to higher headcount and our annual merit increase, which became effective July 1.

Our third quarter 2022 GAAP earnings per share were $0.37 per share compared to $0.20 per share in the second quarter of 2022 and $0.61 per share in the third quarter of 2021. As a reminder, third quarter 2021 GAAP EPS and Non-GAAP EPS included a stock excess tax benefit of $0.15 per share compared to $0.03 per share in the third quarter of 2022.

A full reconciliation of our GAAP to non-GAAP results is included in our third quarter 2022 financial results press release posted in the Investor Relations section of our website.

Our third quarter 2022 non-GAAP earnings per share were $1.00 per share, meeting the high end of our guided range, compared to $0.84 per share in the previous quarter and $1.08 per share in the same period last year. We delivered non-GAAP EBITDA of $61 million in the third quarter 2022; compared to non-GAAP EBITDA of $56 million in the previous quarter and $66 million in the same quarter last year. Despite the lower-than-expected revenue relative to our guidance, we achieved non-GAAP EBITDA and non-GAAP

EPS within our guided ranges as a result of strong expense management and lower performance-based compensation

At the end of the third quarter of 2022, our cash balance was $266 million, up from $245 million as of June 30, 2022. Cash flow provided by operations was $21 million. Non-GAAP free cash flow during the third quarter of 2022 was $5 million. Our free cash flow in the quarter was impacted by lower cash collections from the reduced revenue and timing of shipments in the quarter.

For accounts receivable, days sales outstanding for the third quarter of 2022 was 93 days. The days sales outstanding reflects an increase of 7 days over last quarter, primarily from the timing of invoicing within the quarter.

Inventories as of September 30, 2022 were $147 million, a decrease of $3 million from the prior quarter and an increase of $43 million from the third quarter in 2021. It is important to note that the inventories as of September 30, 2022 include approximately $18 million of advanced purchases and receipts of semiconductors that we believe will help reasonably secure supply for future customer implementation timelines. We believe we are continuing to execute very well on our global supply chain process improvements and inventory management initiatives.

Now moving on to our full year and fourth quarter 2022 guidance. We are revising our full year 2022 outlook due to the following factors:

- Increased health system cap ex budget freezes
- Additional health system capital budget approval processes which are resulting in elongated sales cycles
- Health system labor availability impacting implementation schedules; and
- Continued macroeconomic environment uncertainty.

Demand for Advanced Services remains strong, and we are very pleased with the interest in our Advanced Services portfolio from the top 300 US health systems. However, the factors I noted earlier are impacting our expected full-year bookings, primarily in point of care. As a result, we now expect the following:

For full-year 2022, we expect product bookings to range between $950 million and $1.050 billion.

We expect 2022 GAAP and non-GAAP revenues to be between $1.284 billion and $1.294 billion.

We expect full year 2022 GAAP and non-GAAP product revenues to range between $889 million and $894 million. We expect full year 2022 GAAP and non-GAAP service revenues to be between $395 million and $400 million. 340B solutions for 2022 revenue continues to track to our prior estimate of $30-35 million. We now expect Advanced Services revenue as a percentage of total revenue to be approximately 14% in 2022.

We expect full year 2022 non-GAAP EBITDA to be between $177 million and $183 million, reflecting the margin impact of the reduction in revenue. We expect full year 2022 non-GAAP EPS to be between $2.73 per share and $2.83 per share.

We now expect total inflationary costs in 2022 of approximately $30 million.

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

For the fourth quarter of 2022, we are providing the following guidance. Our outlook incorporates our expectations for the impact of lower revenue as a result of the lower than anticipated bookings in point of care, as well as an uncertain business environment, as I noted previously.

We expect total fourth quarter 2022 GAAP and non-GAAP revenues to be between $285 million and $295 million with GAAP and non-GAAP product revenues to be between $183 million and $188 million, and GAAP and non-GAAP service revenues to be between $102 million and $107 million. We expect fourth quarter 2022 non-GAAP EBITDA to be between $10 million and $16 million and we expect fourth quarter 2022 non-GAAP earnings per share to be between $0.05 per share and $0.15 per share.

In summary, this was a difficult quarter, and we expect the business environment to remain challenging in the near term. We remain confident in our long-term outlook, and we intend to take actions designed to align our cost structure with expected bookings and revenue levels. We are looking at all categories of cost and intend to manage expenses prudently and diligently. At the same time, we plan to continue to invest in our growth agenda. We are committed to delivering value to all of our stakeholders and 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: At this time, I would like to remind everyone in order to ask a question, press star followed by the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

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

Stan Berenshteyn: Hi, thanks for taking my questions. I guess I'll start with the elephant in the room on the booking side here. It's pretty sizable reduction at the end of the year, but can you walk us through exactly how widespread across your customer base? Are you seeing these capital budget freezes? And then maybe related to the delay in implementations. Have clients provided any visibility into how long the plan to delay these implementations?

Randall Lipps: Yes. Well, I think it's fairly widespread, but not everywhere, but I think increasingly more and more large health systems have put a delay, particularly at the end of third quarter and they start to see their financial results. And so, and as far as implementations, we see because there are not enough people on-site to deal with the installation process because of labor shortages and probably also some concern about nursing. These systems all are impacted by nursing as the major user of them so that they don't want to disrupt the shortage of nursing with another project and divert them to when they feel like they have more control over their local environments. And usually, that gets delayed a quarter or two because they've committed to do the upgrade or put the equipment in. So, that's not going away, but the timing on when it actually happens is the key.

Stan Berenshteyn: Okay. And then maybe one quick one. Are you still sticking with your 2025 guidance? Randall Lipps: No, we are not reaffirming the 2025 framework, but we remain committed to these targets. We cannot reaffirm the timing at this point.

Stan Berenshteyn: Okay. Thank you.

Kathleen Nemeth: Thanks, Stan. Next question please.

Operator: Your next question is from the line of Jessica Tassan with Piper Sandler. Your line is open.

Jessica Tassan: Hi. Thanks for taking the question. I guess just on the 2Q call, you guys specifically said the customers were not delaying, but if any one of them did, you'd have plenty of backlog to, kind of just replace one deployment with another. I guess, what happened with that strategy relative to the products revenue guidance revision, right? It appeared as this guidance was adequately covered and I guess where is the disconnect.

Peter Kuipers: Yes, this is Peter. So, what changed really to the very end of the third quarter was really the timing availability as well. Customer requests of delays of implementations were a multiple on prior quarters. So, we've seen that multiply and now that's had the majority of the delays in implementation projects, have been rescheduled.

Jessica Tassan: Okay. Got it. And then just as you talk about, kind of pulling back on operating expenses to commensurate with the revenue revision. Should we think about the ADC upgrade site or upgrade opportunity as being less than that $1.8 billion you outlined a few years back?

Peter Kuipers: So, two parts to the question, I guess. So, we're looking at all types of expenses. Of course, we're looking at variable costs. We'll adjust accordingly. We'll look at all types of operating expenses as well. As far as the ADC product line, we do believe that the majority of the upgrade cycle will happen, but there is definitely a timing impact. As you can see the majority of the lowering of the product bookings guidance, the expected product bookings guidance for 2022. The fast, fast majority of that is point of care.

Jessica Tassan: Got it. And my last quick one is just, Walgreens, I think reported that Shield is partnered with 75 health systems. Curious your view on how many health systems are candidates for their own specialty pharmacy? Can you help us frame the TAM in terms of health systems? And then just I think for Walgreens, at least this business is growing upwards of 40% a year, so just how quickly do you expect your specialty pharmacy offering to grow? Thanks.

Scott Seidelmann: Hey, Jess, it's Scott. I think we feel that the specialty pharmacy, the sort of the market for outsourcing the operation of in-house specialty pharmacies is a big market. It's largely greenfield. So, we think that there is a significant number, the exact counts. I'm not sure quite how to get at it or at least I don't have that at my fingertips, that's something we could follow-up on. But it's a big Greenfield market and we're well-positioned and we think that having this offering paired with Omnicell's channel, but more importantly, our other products and services is a significant differentiator and we're really excited about the growth.

Jessica Tassan: Got it.

Operator: Your next question is from the line of Allen Lutz with Bank of America. Your line is open.

Allen Lutz: Thanks for taking the questions. I guess one for Peter. Can you talk about the timing of any potential OpEx reductions? Is this something we could see in 4Q or is this more of a 2023 dynamic?

Peter Kuipers: Yes. We're going through the planning of course of operating expense and also variable cost and we'll update accordingly. But in the next couple of months, we'll provide more clarity on the sizing, the impact, and the timing of the cost actions.

Allen Lutz: Okay. Thank you. And then, you mentioned delays began really the end of third quarter when health systems started to see their financial results. Can you provide any type of context historically when there has been a slowdown or a change in the conversation with these health systems? How long that typically takes to play out? I know that every cycle is different than the last, but typically, how long does that typically last? Thanks.

Randall Lipps: Yes. Thanks for the question. I think this is probably unprecedented in my 30 years. Usually, it's a slow ramp down and a slow ramp up, more of a U-shaped when it comes to capital spending in healthcare systems. And I really think many of these healthcare systems believe that September was kind of returned back to normal. And they were improving on their margin throughout the year. And so, I think it's been improving enough. And so, I think with the increased cost of capital, the increased cost of nursing and the uncertainty of what that cost might be. The availability of labor all impacted, sort of at the same time, which created this sort of frozen moment for some of the health systems to have orders in hands that they deferred, and I think it's really unprecedented. I really don't… I think we don't know a lot about the future because this is such an unusual time. And precisely how it will come back and when it will come back, but one thing I know long term, they need the systems. They know that their infrastructure and pharmacy is underinvested in. And so, these orders aren't disappearing, they're deferring.

Allen Lutz: Appreciate the color. Thank you.

Operator: Your next question is from the line of Scott Schoenhaus with KeyBanc. Your line is open.

Scott Schoenhaus: Hi, team. So, drilling in on the full year guidance, everyone has talked about the lower revenue guide coming from the delayed sales cycle and delayed installations that deteriorated rapidly in the quarter. I want to focus on the profitability guidance that came down by 28%. Peter, I guess, can you break out the makeup of this guide down? How much of this was due to the integration costs? And how much of this was due to higher labor cost and slower macro? Thanks.

Peter Kuipers: Yes. Thanks for the question, Scott. So, first of all integration costs are tracking through the original guidance. It's about $6 million - $8 million for the year that remains on track. Integration by itself is going well also. We're hitting the milestones from an integration perspective. I would say 90% plus of the decrease in profitability on EBITDA level is driven by the reduction in volume, mostly for product revenue.

Scott Schoenhaus: Thanks.

Kathleen Nemeth: Do you have a follow up, Scott?

Scott Schoenhaus: No, that's it.

Kathleen Nemeth: Thank you.

Operator: Your next question is from Matt Hewitt with Craig-Hallum Capital Group. Your line is open.

Matt Hewitt: Good morning and thank you for taking the questions. I guess this kind of goes back to a couple of questions ago, regarding this potentially being an unprecedented situation that you're facing. If I think back to 2008 and 2009 when you had the credit freeze essentially, short term markets froze up. I feel like at that time you ran into a somewhat similar situation where… If I remember correctly, it was like Q4 you provided your fiscal outlook for I think it was for 2009, and by Q1 ordering patterns have changed because the markets had short term funding markets. I don't know if you can remember, but how long did it take for those things? And I realize it's a little bit different situation than that now you've got labor shortages, but there was still a credit financial situation where the budgets froze, it required extra timing to get signatures. Is there any correlation to that period?

Randall Lipps: Yes. Well, I'm kind of reaching back into my memory back there. Maybe that was a year I try to forget. I'm sure it was probably a year or so before. And it didn't come back all at once. It sorts of did a gradual upswing as the credit markets unfroze and people could really see their cash flows. That was more of a financial driven, while I guess the cost of capital here is also sort of a factor. And I actually think the factor is more about readiness to accept systems with labor shortage and the sensitivity to nurse activities than just the capital alone. People need the systems, people need to install them and upgrade them. And eventually, the systems that they have, they're not upgraded, have to be upgraded. So, that will come, but now they're trying to delay as long as they can until they get a firmer grip on their own financial situation. But I recognize my recalling, I think it was within the year.

Matt Hewitt: That's helpful, Randy. Thank you. And then, maybe as you look at the current delays, how much of those would you say are tied to budget conditions versus labor? So, are there customers that it's simply listen, we've got the money, we want to implement these systems. But we just don't have the staff and is there something that you could do on your side even if it's just over the short term to help get those systems integrated? Thank you.

Scott Seidelmann: Hi, this is Scott. Honestly, I think the behavior at the hospital side is a bit frenetic. Most of what we're hearing majority of what we're hearing is kind of last minute, oh, like, gosh, we don't have the staffing for this, can we push this out a couple of weeks? Or we thought we had staging areas, but we don't have staging area, can we move it around? Very, very little of what we've heard has been, sort of a financial question or issue driving the delay. It's simply been mostly, gosh, I'm down 40 people to begin with, and now I'm down 10 more. I just don't have the staff right now.

Randall Lipps: We have worked at supplementing some of the labor on-site to help with some of those situations. There's a limited amount of things that we can do as an outside vendor in some of those situations. So, but we're looking at ways to ease the pain.

Matt Hewitt: Understood. Thank you.

Operator: Your next question is from Dev Weerasuriya with Berenberg Capital Management. Your line is open.

Dev Weerasuriya: Hey, good morning. Thanks for taking my questions. The first one, just curious how much of the bookings backlog, the products and customers that you have from bookings backlog that we had discussions with in regard to these delays? Because what I'm wondering is if there's more delays from customers, I just haven't informed you yet where part of the product backlog that you currently have even more of a falloff. Any percentage, any color on that would be helpful? And I have one more follow up. Thanks.

Randall Lipps: I don't think we have a percentage. I think that we are expecting that in this environment that hospital labor shortages will continue and that what we're sort of what is included in our guidance. Q4 is the notion that we will continue to see delays in movement just because hospitals are continuing to struggle.

Dev Weerasuriya: Okay. That's helpful. The other thing is, I guess, kind of around this time, hospitals are also looking into full year 2023 budgets. Curious as to what the discussions are there? As part of these delays, are the discussions that we expect this to be implemented in sometime in 2024. I think Randy mentioned it's usually delayed a couple of quarters. And then from a booking standpoint, with these capital budget freezes, is there any color as to when that might turn around? Do you expect, for example, the XT replacement upgrades that to be a windfall in maybe 2023 when because I don't know how long they could delay that for right from an upgrade standpoint? Any color there would be helpful. Thank you.

Scott Seidelmann: I think to the last point, I think that as Randy pointed out that replacing equipment that is end of life, this falls into the risk management and compliance. So, that portion of the ADC business, when those need to be replaced, I think we have seen and we believe going forward that hospitals will continue to replace that, but that is only a portion of the ADC sales. I think as we think about 2023 in the financial impact to hospitals and I think my sense is that hospitals are a bit of what's driving their… a bit of what's driving their behavior currently is they're unknown in terms of when my electives come back, when does my revenue and my cost model align, etc. And so, I think what we're assuming is that this financial challenge for hospitals continues through 2023. And as a result, I think that we have to think through our bookings through 2023 in a conservative way.

Operator: Your next question is from the line of Joy Zeng with SVB Securities. Your line is open.

Joy Zeng: Hey, guys. Thanks for taking my question. I want to go back to an earlier question made by one of the analysts about this being questioning why this is sort of unprecedented versus 2008 or 2009? I think just looking at the differences, macroeconomically labor market is much tighter now versus back then. Which should be some sort of offsetting factor to demand, right? And looking at your current versus non-recurring exit revenues, you also have a lot more recurring revenue than before. So, I mean, all these factors point to a sort of slightly better situation versus fully online. And as a follow up, are there any other factors maybe on the competitive landscape side that could be driving in this situation being worse?

Randall Lipps: Yes, I would say comparing 2008, 2009 to now, obviously, I was talking to the capital equipment point of share market only. Advanced Services continue to be strong because of the great ROI. And the fact that many of them we provide an expert on-site so that they don't actually have to go hire someone to enable some of our solutions to get the optimal output out of them. So that really speaks to probably why these services continue to grow through this economic environment situation and labor situation is that's exactly what they need. And it's just looking at our financial model. The point of care systems is such a large portion of our growth in our profit right now that as they are affected and until we get through the conversion to the Advanced Services model more. We're going to have a bigger impact, certainly less than it would have been if we were only capital equipment-oriented business as we were then. So, certainly a different situation from that standpoint.

Joy Zeng: Appreciate the color.

Operator: Your next question is from the line of Anne Samuel with J.P Morgan. Your line is open.

Anne Samuel: Hi. Thanks for taking the question. You've talked in the past about M&A being a big component of your growth strategy. I was just wondering given some of pressures that you're facing right now. Are there any changes potentially in the near term to your capital allocation strategy?

Randall Lipps: Well, I think M&A long term is always a sheet or a strategy. It has been as we transform the business and still will be. I think with that said, we want to be prudent during this time until we get a really good handle on the pace of the business and the pace of the market.

Anne Samuel: Helpful. Thank you.

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

David Larsen: Hi. Can you talk a little bit about what you're seeing in terms of inflation for your costs related to semiconductors steel freight? And then can you also talk a little bit about your sourcing for semiconductors? Are they coming from Taiwan or other areas? And what are you doing about pricing to help cover this cost for 2023 and beyond? How do you know your raising prices high enough? And are you getting any pushback from the hospitals? Thanks.

Peter Kuipers: Thanks for the question. So, inflation in our prepared remarks, the inflationary cost headwinds for fiscal 2022 we brought down by couple of million a 2 -3 million lower than previously expected. Most of that lower headwind, if you will, for the year is in semiconductors. So, we see some favorability there. On your question on the sourcing, it's really a mix of where we get our semiconductors. You can see in the prepared remarks that we have about $18 million by the end of the quarter. We pre-purchased and have previously semis in stock if you will to really be certain about being able to supply health systems with our connected devices. We are seeing price increases come through specifically on pricing for point of care and also for the robotic equipment. Bookings first, backlog, and then revenue increasingly.

David Larsen: So, with the $18 million in higher inventory, like, do you have enough semiconductor supply right now to bring you through all of 2023? And then, I think you also mentioned that some of these implementations have been rescheduled. Have they all been rescheduled? Or do they all have start dates or is it just sort of an ambiguous kind of delay there? Thanks.

Peter Kuipers: Yes. So, on the inventory level and kind of the months of run rate, that is not the full year for calendar 2023, but certainly a good portion of that. As far as the scheduling, I think Scott, commented on it as well. So, we see really the schedule changes or requested changes from a labor constraint perspective at the health system. We see the continuing. So, there's more changes if you will. But by and large, the backlog has scheduled starting dates. Now, the nuance here is that, compared to other quarters, other time frames, the frequency and the amount of requested changes of start date of an implementation that has been really been increasing probably 2x-3x than what we normally have seen. So, it's a continuous process where we refine the scheduling with customers.

Scott Seidelmann: David, I'd only add, this is Scott. I'd only add there that we see movement every quarter. That's not uncommon, and it's a relatively modest percentage of the revenue in a quarter that moves around. What's different right now is that and we always manage that because of the backlog. If a customer needs to move something out, if we need to move something out, there's plenty to move around and to pull into cover. What's more challenging in this environment is that the movements now are from customers due to labor constraints. The challenge is that all customers are dealing with that. So, they're

much less fungible to say, oh, we'll call the next customer and say, hey, we've got an open slot on Wednesday, do you want to get going? The customers are just struggling. They don't have that much flexibility. That's the challenge right now, which is different.

David Larsen: Okay. Thanks very much. It sounds like nothing has actually been canceled. Where they're saying we're canceling this altogether, it's more to lead. Okay. Thanks very much.

Peter Kuipers: That's correct.

Operator: Your next question is from Scott Schoenhaus with KeyBanc. Your line is open.

Scott Schoenhaus: Hey, guys. Thanks for the follow up. Just wanted to kind of re-cycle back on what's different from the previous cycle in the 2008, 2009 recession? Peter, I believe you've always said that you have about 30-40% of your customer base that uses some part of some third-party financing now that was nothing back in the 2008, 2009 recession. Are you seeing any differences in customer behavior on the ordering side because of that? And then the second question is, I think you automated a lot of your implementation throughout the pandemic as a result of everything being shut down. How much is that helping you now with these in this tight labor market? Thanks.

Peter Kuipers: Yes. So, we would say the percentage of our customers in a large customer population using third party financing is probably still the same, around that 40%. That said though, of course, cost of capital has increased. So, we maybe see a little bit of slowdown there, but the percentage is probably the same. And as far as the implementation efficiencies, yes, we believe that the way we schedule implementation is from our perspective. We're definitely more efficient, but we're dependent on time lines, we're scheduling, like Scott pointed out to the customer side.

Scott Schoenhaus: Thanks.

Operator: Your final question comes from the line of Stan Berenshteyn with Wells Fargo Securities. Your line is open.

Stan Berenshteyn: Hi. Thanks for the follow up. Just quickly on bookings guidance, can you maybe give us an insight into what part of the bookings mix is coming from long-term bookings? Thank you.

Peter Kuipers: Yes. So, we lowered the mid-point of the product bookings range by $400 million. The expected bookings for Advanced Services for the year, our own plan essentially. So, the full reduction is in non-Advanced Services. And the Advanced Services part of course is multi-year. So, we expect then consequently the percentage of long-term in the mix to go up as well.

Scott Seidelmann: Stan, I'd just add to that is that while we've seen an elongation of sales cycles across the board, the majority of the slowdown is on the point of care side of things.

Peter Kuipers: Exactly.

Stan Berenshteyn: Thank you.

Operator: There are no further questions at this time. It is now my pleasure to turn the call back over to Mr. Randall Lipps.

Randall Lipps: Thank you for joining us on the call today. To our shareholders, we will realign this business to meet with the current economic factors. We are committed to our strategy of moving to Advanced Services. We're committed to our customers to improve their experience and get better results and we're committed to our employees who will help us get through this difficult time as we emerge and move forward. Thank you for joining us today.

Operator: Ladies and gentlemen, thank you for participating. This concludes today's conference call. You may now disconnect.