Omnicell First Quarter 2023 Financial Results
May 2, 2023 – 1:30pm PT/4:30pm ET

Kathleen Nemeth:

Good afternoon and welcome to the Omnicell first quarter 2023 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, cost savings actions, 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 March 1, 2023, 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 afternoon and are posted in the "Investor Relations" section of our website at ir.omnicell.com. Additionally, we would 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 issued today. With respect to forward-looking non-GAAP measures 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:

Good afternoon and thank you for joining us today. Our team had a solid start to the year as we continue to advance our strategy to transform the pharmacy care delivery model and deliver mission-critical medication management solutions for our customers.

I'd like to begin with an update on what we are currently seeing in the overall healthcare industry and medication management space, and then walk through our high-level financial results and key highlights from the first quarter.

Starting with the market environment. Our customers are continuing to face challenges due to labor constraints and they remain mindful of their capital budgets. While we are seeing some stabilization throughout the industry, we expect the labor and salary cost pressures that hospitals saw in 2022 to continue throughout this year. In our view, these trends underscore the need to automate and modernize the medication management process. And as the industry continues to navigate these challenges, we believe Omnicell is an important part of the solution.

As discussed last quarter, we remain focused on taking what we think is a cautious approach to managing the business and have taken decisive action in line with this approach. In February, we announced plans to reduce our workforce across many of our functions in order to lower our cost structure. We have also reduced our real estate footprint to align with our broader hybrid work strategy and in an effort to further reduce costs.

We continue to execute on our expense-containment efforts and in the first quarter we incurred approximately $14 million of non-recurring restructuring and related charges including $8 million of impairment and abandonment charges of operating lease right-of-use assets and other assets and $5 million of employee restructuring. Since the inception of our cost containment plan in November 2022 we brought our office space square footage down by 21% and our headcount reduction is tracking to our plan which was originally announced in November 2022 and updated in February 2023. We also continue to anticipate that the annualized savings from operating expenses will be around $50 million for 2023, which does not include the expected volume-based reductions within our cost of sales.

Now, turning to our high-level financial results for the first quarter. We think our results reflect our team's operational execution and financial discipline as we navigated another quarter of macroeconomic uncertainty. We exceeded our first quarter 2023 guidance ranges for total, product and service revenues, non-GAAP EBITDA and non-GAAP EPS. We generated total revenues of $291 million, non-GAAP EBITDA of $27 million and non-GAAP earnings per share of $0.39. Our solid first quarter performance was primarily driven by the timing impact of revenue, cost, and expense within the year, and we expect to continue executing through the uncertain macroeconomic environment as we progress through 2023. Peter will speak to the key drivers of the quarter in his remarks, and provide further details on our financial performance.

Moving on to the current customer landscape. Quarter to quarter, it becomes increasingly clear to us that despite a challenging macroeconomic environment, customers continue to choose Omnicell. We are pleased to note a new Central Pharmacy Dispensing Service win, which includes the XR2 Robot with the University of Iowa to support central pharmacy operations.
Additionally, a southern California-based, not-for-profit healthcare system signed up for CPDS including the XR2 Robot, a New York state healthcare enterprise plans to convert their automated dispensing system footprint across the four-hospital system to Omnicell's XT cabinets, while also upgrading to Central Pharmacy Dispensing Service, and a major Illinois health system along with a Texas-based medical center chose to partner with Omnicell to establish a new specialty pharmacy services program.

We have also made meaningful progress on integrating our recent acquisitions, and the pipeline for our Advanced Services portfolio remains strong. Scott will speak about these integrations shortly, and we are confident Omnicell is well positioned for growth in the future.

Now, I'd like to briefly discuss our strategic alliance with Long Island University and the opening of the Center for Innovative Medication Management, or CIMM, that we announced recently. As we continuously discuss, we find there is a significant burden put upon nurses and pharmacists to handle the bulk of the administrative work. This strategic alliance is intended to modernize and standardize pharmacy education as health systems start to embrace automation in order to foster a safer and more efficient pharmacy.

The CIMM is a state-of-the-art laboratory with a working fleet of Omnicell devices and is designed to provide an immersive pharmacy technology and analytics experience for LIU pharmacy students. Through the

CIMM, LIU Pharmacy students have early access and exposure to Omnicell devices and should enter the workforce with a competitive edge, as well as hands-on experience with Omnicell's innovative technology. The CIMM will also host Omnicell customers for product demos and diligence and will serve as a training facility for our Advanced Services operational teams, who will then go to implement this technology at customer sites. We are excited to invest in the future of pharmacy through this important initiative with LIU, and we believe it will bring increased awareness to Omnicell's devices.

I also want to highlight that in April we published our 2022 ESG report, which many of you have hopefully had the chance to see. If you have not yet read it, I encourage you to take a look at the full report on our website.

As noted in the report, we have taken steps to bolster our internal systems in order to protect patient data, execute critical efforts to further harden our identity computing environments, and implement various human capital initiatives to foster a culture of inclusivity, well-being and belonging. As we strive to build a healthier world, we are dedicated to furthering our ESG journey through purposeful action.

Before I turn it over to Scott, I want to touch on our search for Omnicell's next CFO. As mentioned on last quarter's call, Peter will be stepping down at the beginning of July and a national search for our next CFO is well underway. I want to reiterate my thanks to Peter for the significant contributions he has made to Omnicell, as well as his commitment to making this a seamless transition process. We'll provide additional updates as appropriate.

With that, I'll turn it over to Scott.

Scott Seidelmann:

Thank you, Randall.

As Randall noted, with health care labor shortages persisting, our pipeline for our automated and modernized medication management solutions is strong. Advanced Services are a key part of our intelligent infrastructure, which is intended to help customers address problems in their medication management processes from the inpatient bed in an acute care setting to the home.

We are pleased to report that we've made notable progress integrating our recent acquisitions and expanding our Advanced Services solutions to ensure Omnicell is well positioned to meet pharmacy and hospital needs.

Over the past few years, we have made three key acquisitions intended to enhance our Advanced Services offerings – Recept, a specialty pharmacy services management provider; FDS Amplicare, a leading pharmacy SaaS solutions provider; and MarkeTouch Media, a pharmacy technology solutions provider. From an administrative perspective, the integration of all three acquisitions is largely complete, and we are now actively executing our go-to-market commercial strategy.

Recept has been rebranded as Omnicell Specialty Pharmacy Services and was introduced to the market in late 2022. In 2023, we plan to focus on integrating customer success functions into our broader organizational structure.

FDS Amplicare and MarkeTouch Media are now fully functionalized within EnlivenHealth, and we are currently working on merging the technology platforms of all three companies into one connected experience.

340B is now part of Omnicell's inventory optimization services. We continue to further integrate the solution to provide our customers better visibility into ordering, procurement, and medication analytics at an enterprise level.

We now have a robust portfolio that we believe is uniquely positioned to support pharmacy care across the entire care continuum.

Now, let's walk through a few of our recent wins that we believe highlight the power of our offerings.

First, a New York health system with four hospitals plans to convert its automated dispensing system footprint across its four-hospital system to Omnicell's XT cabinets, while also upgrading to Central Pharmacy Dispensing Service, in an effort to support enhanced patient safety and dispensing accuracy. Combining these offerings is anticipated to drive visibility and efficiency for dispensing medications across the health system.

We find that health systems are choosing Central Pharmacy Dispensing Service to optimize pharmacy labor and workflows through robotics and optimization tools that are intended to help reduce the amount of time pharmacists spend on drug distribution tasks. This technology is designed to support a variety of health system pharmacy settings, as evidenced by being chosen to support central pharmacy operations for a comprehensive academic health system in Iowa, as well as a southern California-based, not-for-profit health system.

Our Specialty Pharmacy Services also continue to gain market traction as health systems seem to be recognizing the value of launching an entity-owned specialty pharmacy operation. In the first quarter, a major Illinois health system and a Texas-based medical center engaged Omnicell to establish new specialty pharmacy programs, citing our strong infrastructure and expertise in delivering speed to market for clinical and revenue goals as key drivers for their decisions.

As we continue building strong relationships in the retail pharmacy market, we're also excited to announce that a large national chain has signed a 5-year agreement to implement EnlivenHealth's advanced technology solutions in order to increase patient medication adherence.

As Randall mentioned earlier, on April 20th, we were pleased to join the Long Island University (LIU) College of Pharmacy and Health Sciences for the grand opening of the Center for Innovative Medication Management. Omnicell is proud of the strategic alliance we have established with LIU to launch an immersive pharmacy technology and analytics experience that should provide the next generation of pharmacy leaders early access and exposure to evolving aspects of pharmacy technology.

To conclude, we believe we've made significant strides this past quarter, and we are confident we are well positioned for the future.

I'll now turn it over to Peter. Peter?

Peter Kuipers:

Thank you, Scott. As we navigate through the ongoing macroeconomic challenges, I am pleased with the results we delivered for the first quarter of 2023, which exceeded our guidance ranges. Our first quarter performance was driven by strong execution, disciplined cost management and revenue timing.
I am proud of our approximately 3,800 Omnicell team members that have continued to deliver for our customers, particularly in this challenging macroeconomic environment.

Turning now to our financial results.

Our first quarter 2023, Total GAAP revenues were $291 million, a decrease of $7 million or (2%) over the prior quarter and a decrease of $28 million or (9%) over first quarter 2022. The year-over-year decrease reflects lower point-of-care revenues as a result of ongoing health systems capital budget constraints. Services revenues were $105 million, an increase of 12% over first quarter 2022, underscoring that our digital transformation strategy is working.

Total revenues in the quarter were $8 million above the top end of our previously disclosed first quarter 2023 guidance range, primarily due to timing of revenue mostly within advanced services and certain other favorable items in the quarter.

Non-GAAP gross margin for first quarter 2023 was 44.8%, a decrease of 50 basis points from the prior quarter, primarily due to lower revenue volume leverage. As we noted on our February 2023 earnings call, we expect to see the full benefit of recent cost actions as we move into the second quarter of 2023 and volume leverage begins to return by the fourth quarter of 2023 as revenue is projected to grow throughout the year.

A full reconciliation of our GAAP to non-GAAP results is included in our first quarter 2023 earnings press release and is posted on our Investor Relations website.

Our first quarter 2023 earnings per share in accordance with GAAP were a loss of ($0.33) per share compared to a loss of ($0.64) per share in the prior quarter and income of $0.17 per share in the first quarter of 2022. Our first quarter 2023 GAAP earnings per share includes the impact of $5 million for severance related expenses and the impact of $8 million for the impairment and abandonment charges of operating lease right-of-use and other assets that we continue to rationalize our office space as part of our effort to align with our broader hybrid work strategy and to further reduce cost.

Our first quarter 2023 non-GAAP earnings per share were $0.39 per share compared $0.33 per share in the prior quarter and $0.83 per share in the same period last year.

First quarter non-GAAP EBITDA was $27 million, an increase of $1 million compared to the previous quarter and decrease of $24 million when compared to the same period last year.

First quarter 2023 non-GAAP EBITDA and non-GAAP earnings per share exceeded our expectations due to revenue timing, favorable product and services mix, expense timing, and solid execution.

At the end of the first quarter of 2023, our cash balance was $340 million, up from $330 million as of December 31, 2022.

As of March 31, 2023, we had $500 million of availability under our revolving credit facility. The amount of credit availability is dependent on certain financial covenants such as total leverage ratio and secured net leveraged ratio.

Free cash flow during the first quarter of 2023 was $1 million use of cash as a result of timing of cash collections and restructuring related employee compensation payments. We expect free cash flow levels to turn positive as we progress through the year.

In terms of accounts receivable, days sales outstanding for the first quarter of 2023 was 102 days, an increase of 9 days over the prior quarter, primarily due to the timing of invoicing within the quarter.

Inventories as of March 31, 2023, were $141 million, a decrease of $6 million from the prior quarter reflecting strong inventory management. This is in part due to the strong efforts of our team as they continue to execute and make progress on our global supply chain process improvements and inventory management initiatives.

Now moving on to our full-year and second quarter 2023 guidance. As Randall mentioned earlier, we remain focused on taking what we believe is a cautious approach to managing the business.
We are pleased to reaffirm our full-year 2023 guidance for Bookings, Revenues, Non-GAAP EBITDA and Non-GAAP EPS reflecting our view of a healthy backlog and our expectations for sequential revenue growth from the first half to the second half of the year and prudent cost management. As we noted earlier in the call, our solid first quarter performance was primarily driven by the timing impact of revenue, and expense within the year, and we expect to continue executing through the uncertain macroeconomic environment as we progress through the year.

Given the ongoing macroeconomic uncertainty, we are managing expenses in a manner that we believe is prudent while continuing to invest in innovation. As noted on the February 2023 earnings call, a majority of the approximately $50 million of anticipated annual Operating Expense savings expected to be derived from the recent reductions-in-force and other expense containment efforts is from functions included in SG&A. The expected 2023 operating expense annual savings will be largely offset by the impact of year over year inflation in employee salaries and increases in expected performance-based compensation, vendor cost increases and investments in R&D.

We expect non-GAAP operating expenses in total to be flat to down year-over-year with non-GAAP SG&A down, modestly offset by a slight increase in non-GAAP R&D, which reflects our focus on cost savings while continuing investment in our growth agenda.

For the full year 2023, we are assuming an effective blended tax rate of approximately 6% in our non-GAAP earnings per share guidance.

For the second quarter of 2023, we are providing the following guidance.

We expect total second quarter 2023 revenues to be between $278 million and $288 million with product revenues to be between $181 million and $186 million, and service revenues to be between $97 million and $102 million. The second quarter revenues guidance reflects a modest decrease from the first quarter performance due to the timing shift of revenues into the first quarter and non-recurring items which benefited the first quarter of 2023. We expect sequential revenue growth from the first half to the second half of the year.

We expect second quarter 2023 non-GAAP EBITDA to be between $22 million and $28 million. And we expect second quarter 2023 non-GAAP earnings per share to be between $0.25 per share and $0.35 per share.

In summary, we are pleased with our results for the first quarter of 2023 and believe we are executing well in what continues to be a challenging macroeconomic environment. We remain confident in the opportunities we see ahead as we aim to deliver long-term value for all of our stakeholders. We look forward to updating you on our progress in the coming quarters.

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

QUESTIONS & ANSWERS:

Operator: (Operator Instructions) Your first question comes from the line of Stan Berenshteyn from Wells Fargo.

Stan Berenshteyn: First, I'd like to maybe start with your point-of-care XT product line. It seems like you're still kind of in the same replacement cycle end-of-life products.

I'm just wondering if we're thinking about demand from end-of-life upgrades over the next couple of years, we just think about that cohort of just end-of-life. Do you expect any choppiness in that demand over the next couple of years that maybe could create demand surges or demand slowdowns from these upgrades?

Peter Kuipers: Stan, this is Peter. So for the grid cycle for the XT Series, we are in the second half of the (inaudible) cycle. We have some choppiness during the pandemic and demand for bookings, but we expect, going forward, a relatively stable continuation of the (inaudible) cycle.

Stan Berenshteyn: Okay. And then maybe a quick follow-up here. So you've implemented cost cuts. It seems like you're still doing that. But going forward, is there any change in your philosophy in terms of how you're going to be adding headcount going forward? Are you planning to rely more on up to 99 workforce as opposed to full time? Any type of insight you can give us there?

Randall Lipps: Well, I think we, of course, are cautious about adding permanent headcount as we move forward. We want to be careful about that. But I think we have used some flexible workforces as we add on for demand, particularly in the implementation area. We'll continue to use those where they fit best.

But I think for the most part, we're not seeing a big increase in our workforce for this year.

Operator: Your next question comes from the line of Scott Schoenhaus from KeyBanc.

Scott Schoenhaus: Congrats on the strong quarter. So you had really nice growth in services revenue this quarter. Can you talk about what the biggest contribution was? Was it mostly from the XR2 robot?

Peter Kuipers: Scott, it's Peter. Well, a variety of home drivers really in the services, both the plant services, not necessarily specifically only the XR2 robots or CPDS as we market it now.

Scott Seidelmann: I think as I mentioned -- this is Scott. As I've mentioned in my script, we're seeing very nice demand from health systems regarding setting up and operating in-house specialty pharmacy. And that's been driving some nice growth for our specialty pharmacy service.

Scott Schoenhaus: Great. And then just as a follow-up, what are you seeing in your EnlivenHealth platform? Are you seeing any areas of strength or weaknesses versus last quarter or prior expectations?

Scott Seidelmann: Sure. It's Scott again. I think we are. We're very enthusiastic about Enliven and the demand there. The general thesis is that as health care shifts outside of hospital to the home, in the importance of managing the total cost of care, the pharmacist test to get much more engaged. And they're going to need tools regarding digital engagement. And they're going to need tools around medical billing.

And the Enliven platform is very uniquely positioned with a full complement of those tools to really enable pharmacists to deliver care in that type of setting. So we're really excited about the demand there.

Operator: Your next question comes from the line of Matt Hewitt from Craig-Hallum.

Matt Hewitt: Congratulations on the strong start to the year. Maybe first up on the specialty services side. Could you update us on the pipeline for the specialty pharma and kind of where things sit with the 340B opportunity?

Scott Seidelmann: Sure. Matt, it's Scott Seidelmann. Yes. So we closed the ReCept acquisition at the very end of 2021 and spent 2022 really focused on integrating that acquisition. We rebranded the product or the platform as Omnicell Specialty Service.

And in addition to the back-office types of things around integration, the real key there was integrating it into our go-to-market and channel function because the real demand is coming from health systems and hospitals that, given some of the changes that manufacturers have put in place regarding use of contract pharmacies, that's created a nice tailwind of demand for hospitals and health systems to want to stand up and operate specialty pharmacies.

The challenge for them is doing so is a very different skill set and it's difficult to do. So it's a natural fit for us given the sort of comprehensive nature of the medication management infrastructure that we provide to offer that as a service. And so we really got that integrated in '22. And now we're seeing a really healthy growth in top of the funnel pipeline of demand. So we're really excited there.

Matt Hewitt: Great. And then maybe a follow-up. Regarding the large retail win, congratulations on that. So it's a 5-year agreement. Maybe walk us through the process, the courting, if you will, with that customer? And is this more of a hunting license? Or is this entire chain going to be adopting the platform?

Scott Seidelmann: Yes. In general, EnlivenHealth -- and I'll talk generally with Enliven, and those relationships are not hunting licenses. These are Enliven as a SaaS platform that has various modules.

And the business model for that is, generally speaking, a free to the modules, x dollars per store per month like a very traditional SaaS.

And so when a customer enters into that level of contract, they're committing for utilization of the platform across X number of stores. And in this particular case, it is a commitment to deploy some of the modules across the breadth of their stores.

Operator: Your next question comes from the line of Jessica Tassan from Piper Sandler.

Jessica Tassan: Congratulations on the quarter. So I think first off, we were just interested -- if you could help us understand the implied sequential decline in adjusted EBITDA margin. Is that conservatism? Or what's driving that 50 basis points or so of sequential margin degradation?

Peter Kuipers: Yes. Thank you, Jess, for the question. So like we said in the prepared remarks, it's mostly timing on revenue and expense within the year. So looking at the total of the first quarter and the second quarter combined from revenue, that is mostly revenue timing.

On a profitability basis, about 2/3 -- about 60% to 2/3 of the favorable EBITDA, also revenue timing within the year, and a big part of that favorable revenue time came from a lease buyout, which flows through at 100% margin to EBITDA. As you know, we think we have a lease portfolio in point-of-care, mostly with the government. And from time to time, we see buyout or renewals of these leases. And the remaining capability was in defense services and higher technical services revenue. So from a total revenue perspective, yes, there is a decline from the first quarter to the second quarter guide. But the vast, vast majority of that is revenue timing.

Jessica Tassan: Okay. That makes a lot of sense. And then just a quick follow-up would be in light of the macro backdrop, what's your confidence in just the ability to book and implement new product sales within the year? What we're trying to understand is just how to get comfortable with the slightly lower coverage ratio of short-term products backlog relative to forward products revenue guidance in 2023 versus 2022.

Randall Lipps: Yes. Yes. So I think one of the things that we've seen in the profile of our customer base is a steep reduction and temporary nursing health or contract nursing health to moving back to more full-time permanent nursing.

So we've seen some of the pressures in labor come off. We've seen a slight increase in utilization activity, mostly in elective and less COVID-related utilization. So it's more like a pre-pandemic profile, getting closer to that. And because of that, we think that the ability to schedule and secure those slots and timing with customers has improved and has given us a much better sense that the backlog we have can be scheduled and customers can compete meet those dates.

And I think last year, at the height of that, customers just didn't have the people even to be on site when to receive the equipment and assist in the installation in doing their part. And for the most part, we've seen that dissipate as well as customers agreeing and making their firm commitments on our plans.

Operator: Your next question comes from the line of Stephanie Davis from SVB.

Stephanie Davis: I was hoping you can give us some updates from the field. I think we've been getting some mixed data points this earnings sees around hospitals (inaudible). Are we seeing frozen budgets start to saw as all these labor headwinds begin to ease? Or is it still many quarters away just given their priorities?

Peter Kuipers: Well, I think it's slow, incrementally improving. You see some people, particularly the public providers, maybe a little ahead of the game. But we really feel that there's small incremental improvements.

The market has stabilized. But there's still uncertainties. I think some of the indicators and some of the research we're looking at, at the end of the year, we see stronger commitments to spending more for capital. But I would say it's a pretty slow process, with small increments every month. And everything helps, but no major shifts or changes.

Stephanie Davis: I understood. With that in mind, -- is there an opportunity outside of retail pharmacies for EnlivenHealth to become much bigger, just given engagement in outpatient foot traffic are now becoming just that much more important for the hospitals?

Scott Seidelmann: This is Scott Seidelmann. Look, I think you're seeing, in general, a significant shift from -- of patient care and some of the lower acuity settings and health systems and hospitals to the home. And I think there are a lot of folks in health care and constituents that are engaging around that.

And I think given the importance of medication management and more importantly, the impact of taking the right meds, taking them correctly, et cetera, on managing health care, but more importantly, managing downstream spend. I think the pharmacist is going to get increasingly important in sort of this next evolution of health care, which is why you've seen some of the acquisitions you've seen recently with the larger public retail pharmacies.

And so Enliven is an incredibly well positioned to enable pharmacists to transform and start to provide different types of care, and that -- the participants there could be retail pharmacies, it can be hospitals, conveyors, et cetera. So again, early days, but we feel excited about where the business is positioned.

Operator: Your next question comes from the line of Allen Lutz from Bank of America.

Allen Lutz: One for Peter. EBITDA exceeded the guide by more than $15 million at the midpoint. I guess how much of the EBITDA contribution was from lease buyouts in 1Q? And then how much was from timing?

Peter Kuipers: Yes. So we consider the vast majority of the revenue exceed to be timing in the year. So from time to time, we do have lease buyout. So we're contemplating that in the full year. So that is timing as well. I would say, on the EBITDA side, about 60% of the EBITDA exceed is driven by revenue timing and the remaining 40% is driven mostly by expense timing.

Allen Lutz: Great. And then one for Scott. Scott, you talked about building relationships with retail pharmacies. And the services business had a really good sequential quarter, especially versus where the guide was. Can you talk about what part of Enliven is resonating the most with retail pharmacies? Basically, is there a specific solution that you guys are leading with to get your foot in the door?

Scott Seidelmann: Sure. Sure. Sure. So patient engagement in general, sort of how do these retail pharmacies engage patients outside. And they're really sort of focused on the chronic patients, the polymed. And so simply using a telephone to contact them is not the most efficient way, particularly given, and I'm sure you experience it, you go to any retail pharmacy and now the pharmacist has a 2-hour lunch break, et cetera.

So anything that a pharmacy can do ultimately to provide more leverage to its pharmacists to actually start to engage patients, to make sure they're on the right meds, to make sure they're following up, making sure that they're getting -- they're following through med adherence regimens and they're on the right meds, et cetera. So that really resonates.

And also increasingly, I would say that pharmacists in many states now is starting to provide different types of care. And now what you're doing is you're really talking about medical billing. And so that's really a greenfield opportunity, and that's exciting because they're really -- today, the retail pharmacies don't have great solutions for rev cycle for pharmacy.

Operator: Your next question comes from the line of David Larsen from BTIG.

David Larsen: Can you talk a little bit about your expectation for inflation trends in 2023? I think you had $18 million of semiconductors and inventory at 12/31. Is that enough to get you through the year? And then I think there was like a $26 million inflation impact in '22. What sort of headwind might there be in '23? And how are you thinking about that?

Peter Kuipers: Yes. Thank you, Dave, for the question. So the two parts there, right? The $18 million of semiconductor inventory (inaudible) previously will cover most of the year for '23. So we feel very confident in the ability to have semiconductors on hand for motion connected devices.

From an inflation perspective, what we said in earlier earnings calls is that we do expect the pricing impact on the year from a financial perspective to exceed the inflation. And we're tracking -- we tracked that as well, slightly favorable in the quarter on a net basis.

David Larsen: Okay. Great. And then you've mentioned a couple of times on the call, revenue timing. How much revenue impact was there in 1Q from, I guess, this timing lease buyout activity? And then related to that, how is your backlog trending as we head into like almost midyear? Is your -- I guess what I'm asking is did you pull a significant amount of revenue out of the backlog? Or is your backlog and your bookings continuing to increase on a sequential basis as we progress through the year?

Peter Kuipers: Yes. So thanks, David. So we see it, if you look at the first, the top end of the revenue guide for the first quarter, we exceeded revenue by $8 million. Roughly half of that is the lease buyout, and the other half is revenue -- other revenue timing capability. So the lease buyout does not come out of backlog, technical services and defense services revenue timing, and most of that also does not come out of backlog.

David Larsen: Okay. So the quality of the top line to you was actually high. Okay. And just my last question. 9% reduction in force, but your OpEx are expected to remain sort of flat from '22 to '23. I mean it seems a little bit unusual to me. I mean just any more color there would be very helpful. I would expect your OpEx to decline by a pretty significant amount.

Peter Kuipers: Yes. The underlying -- as the risk impact, as the cost comes off, if you will, we see that impact in the second quarter -- from the first quarter to the second quarter. The second smaller is that we announced in February last quarter. Also that cost is coming off roughly in the middle of the second quarter.

So we see definitely see the step down in operating expenses going from the first quarter to the second quarter and from the second quarter going through the third quarter. An offset, though, we have is the inflation that we have ourselves for our own employee costs for payroll. And then we're modestly investing in R&D as we discussed prior as well to support our innovating in that.

Operator: Your final question comes from the line of Anne Samuel from JPMorgan.

Anne Samuel: I had maybe one follow-up on the prior inflation question. You had spoken previously to pricing as a key inflation offset. So I was just hoping maybe you could speak to how much pricing contributed to margin performance in the quarter or how much it's offsetting?

Peter Kuipers: Yes. So the first quarter inflationary impact is slightly lower than the pricing impact for the quarter. And in the second quarter, the pricing impact will exceed inflationary impact that we see. They're on the crossover point right now.

Anne Samuel: Okay. That's very helpful. And then you spoke to the guide embedding a second half sequential increase. I was just hoping you could maybe touch on how much of that is maybe just easier compares versus an assumption for underlying demand improvement?

Peter Kuipers: Yes, as we talked about in the prepared remarks, we have assumed that we have seen in the fourth quarter and the first quarter and so far in the second quarter, relatively stable demand environment. So as we look at the revenue growth that we see from the first half to the second half, the vast majority of that is already in backlog.

And then plus and also, of course, what we see in the pipeline as far as bookings and further on in the sale stages. So it's fairly steady to make that as said as well.

Operator: There are no further questions at this time. Mr. Randall Lipps, I turn the call back over to you.

Randall Lipps: Thank you for joining us for the call today. And it's been an interesting last two years.

I want to really thank our employees for working hard getting us through these times and arriving to a new year and a new go forward. And really looking forward to continuing to work with all of you as we move forward.

But I'd be remiss not to thank Peter Kuipers, for the many years of great service and value add he has done for this company over his tenure to make us from a kind of 1-horsepower company to an enterprise go-to-market powerhouse.

So thank you, Peter. And best of luck in your next adventure. Cheers.

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