Omnicell Fourth Quarter and Year End 2023 Financial Results
February 8, 2024 – 8:30am ET

Kathleen Nemeth:

Good morning and welcome to the Omnicell fourth quarter and full year 2023 financial results conference call. On the call with me today are Randall Lipps, Omnicell Chairman, President, CEO, and Founder, and Nchacha Etta, 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, strategy, objectives, goals, expectations, cost savings actions, holistic review of the business, or market or company 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 morning 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?

Randall Lipps:

Good morning, and thank you all for joining us.

Today, I will walk through our high-level performance for the fourth quarter and fiscal 2023, including some key customer wins. Nchacha will also provide an update on the current demand environment and our Q1 and full-year 2024 outlook.

Beginning with our results, we delivered overall 2023 financial results roughly in line with the original guidance we provided in February 2023. However, bookings for full year 2023 were down 19% from the prior year and missed our original guidance.

For the fourth quarter, total GAAP revenues were $259 million, down 13% from the prior year. Total non-GAAP EBITDA for the fourth quarter was $24 million above our fourth quarter guidance due to strong expense management, versus $26 million for the prior year. GAAP earnings per share were a loss of $0.32 per share versus a loss of $0.64 for the prior year.

Let me be clear – we do not view our recent performance as acceptable. Although we have taken various actions to improve our performance, we intend to take further action.

For example, over the past few years we launched a number of Advanced Services that are gaining traction with customers and beginning to scale. We also previously announced a heightened focus on managing costs, including an approximate 7% reduction in our workforce announced last quarter. These already-announced cost actions are expected to result in $50 million of savings on an annualized basis by the end of 2024.

But, we recognize we have more to do. Our results tell us there is a need for a thoughtful evaluation of where we can potentially make further changes to improve – from our operations and go-to-market initiatives, to our product portfolio. Accordingly, we have decided to undertake a holistic review of the business, with the assistance of an outside consultant, in an effort to determine how we can best optimize our operations and investments.

Omnicell's strength has been demonstrated repeatedly over the years, and we believe our core Point-of-Care business remains critical to health systems' ability to safely and efficiently manage medication across the continuum of care. We intend to continue to evolve as a company to improve our performance and deliver returns to our shareholders. We are moving forward with this work with determination and urgency. We will continue to transform the pharmacy care delivery model and advance the industry vision of the Autonomous Pharmacy, however, we are committed to ensuring we deliver strong returns for shareholders as we work to achieve this mission. I look forward to updating you on our progress.

With that, I'd like to share some perspective on what we're seeing broadly across the healthcare market landscape.

Industry-wide headwinds impacting hospitals and health systems seemed to persist in 2023, but as we move into 2024, we are seeing some encouraging signs of stabilization. Industry research indicates that 2024 CapEx budgets could increase year-over-year. In turn, some forecasts are predicting that health systems will start moving forward with long-delayed capital projects in 2024. However, we believe challenges may persist across the industry, including continued high labor and operating costs – and therefore we will continue to take what we believe is a cautious approach to managing our business.

We continue to believe that Omnicell is an essential part of the solution for the industry. We think we are uniquely positioned to capture incremental market share as hospital cost pressures alleviate and the macroeconomic environment improves. As I mentioned, our lower year-over-year bookings create challenges for 2024 and we expect revenue and non-GAAP EBITDA profit to decline from 2023. However, as we work to transform the pharmacy care delivery model through a combination of automation, intelligence, and technology-enabled services, we believe that the solutions we are able to deliver to customers are more important than ever.

The total addressable market for medication management remains large. Omnicell has successfully increased our installed base of Point of Care connected devices through market share gains over the previous three years. We are very enthusiastic about, and encouraged by, the opportunities to deliver product and service enhancements within the XT installed base. We recently launched the XT console upgrade, which is designed to enhance data and network security and improve nursing efficiency and overall user experience, for our XT cabinets, and showcased this solution at ASHP's 2023 midyear meeting in December. The XT console upgrade is part of a broader strategy toward a planned XT product refresh. We are investing in the XT platform to bring a multi-year initiative that provides key products and services to drive medication management outcomes. This year, our innovation pipeline related to the XT platform is anticipated to begin to provide key product enhancements and services designed to drive improved medication management outcomes. Our XT fleet of products are focused on delivering outcomes health systems are asking us for related to patient safety and efficiencies. As I mentioned, our innovation pipeline is very strong within Point of Care and we believe we are beginning to see signs of stabilization in 2024. We are very excited about these initiatives because they will amplify what our current customers have already purchased.

Now turning to some important customer wins during the quarter.

Health systems continue to find value in long-term collaboration with Omnicell, as evidenced by two multi-year sole source agreements. This includes an Illinois-based health system, which has expanded a multi-year sole source agreement to convert the automated dispensing cabinet footprint across multiple locations to Omnicell's XT Automated Dispensing System. Standardizing their technology strategy with Omnicell solutions should position this health system well for future expansion.

Most recently, in January, we were pleased to participate in the grand opening of Tennessee-based Ballad Health's new Consolidated Distribution Center, which will support medication distribution for all Ballad Health hospitals across the Appalachian Highlands region. This new facility is anchored by our central pharmacy dispensing solutions which includes 3 XR2 robots, along with Omnicell carousels and packagers, which are intended to help Ballad Health optimize inventory management and allow pharmacy staff to focus on higher value tasks. Trish Tanner, VP and Chief Pharmacy Officer for Ballad Health, has long been an advocate of technology-driven pharmacy care as a member of the Autonomous Pharmacy Advisory Board. During the event, she commented "It's not just about technology. It's about advancing patient care, streamlining operations, and embracing a future where our healthcare professionals can devote more time to what truly matters – the well-being of our patients." We could not agree more with this sentiment and are proud to be leading the effort to enable our customers to get closer to achieving the industry vision of the Autonomous Pharmacy.

We also continue to take steps to enhance our corporate governance with the recent election of Eileen Voynick to the Board of Directors. Eileen is a widely respected leader with significant experience in the software, technology, and healthcare industries, with a track record creating value for shareholders, accelerating growth, driving operational excellence, and developing global businesses. We are thrilled to have her join the board. Welcome Eileen.

Let me be clear. We have hard work ahead of us, but we are taking the steps we believe are necessary to strengthen our financial performance, accelerate profitable growth, and drive shareholder value. We remain confident in Omnicell's long-term opportunities and continue to believe the company is uniquely positioned to transform the pharmacy care delivery model and ultimately help enable our customers achieve better outcomes and increase their ROI.

With that I will hand it over to Nchacha to discuss results in more detail. Nchacha?

Nchacha Etta:

Thanks Randall and thank you all for being here. Today, we will discuss our full year 2023 financial performance, the current demand environment, and our Q1 and full-year 2024 outlook.

Over the last three quarters, we have taken a hard look at our business and products, along with our go-to-market strategy and have given a lot of thought to how we can strengthen and refine certain processes. As Randall mentioned, to better understand the opportunities in front of us and ways we can strengthen our financial performance, we have decided to undertake a comprehensive review of the business and engage a consultant to assist in looking at everything from growth opportunities and further operational improvements to productivity enhancements and refinements in our product portfolio. During 2024, we also intend to reevaluate the financial and key performance metrics we report, including Bookings and Backlog, and will be considering potential new metrics we may be able to share in an effort to provide additional transparency and information to our stockholders. We look forward to updating you on our progress.

With that, let me get into results for the fourth quarter and full-year 2023, as well as our outlook for 2024.

For our fourth quarter 2023, Total GAAP revenues were $259 million, slightly above the mid-point of the guidance range we provided during our third quarter 2023 earnings call. Total revenues in the quarter were down 13% compared to fourth quarter 2022, reflecting lower point-of-care revenues primarily as a result of ongoing healthcare systems' capital budget and labor constraints. Services revenues were $113 million, an increase of 12% versus the fourth quarter 2022, primarily driven by growth in Technical Services, as a result of strong execution, growth in the installed base, and decisive pricing actions.

Non-GAAP gross margin for the fourth quarter 2023 was 43.6%, a decrease of 210 basis points from the prior quarter. Compared to the third quarter 2023, non-GAAP product gross margin decreased 450 basis points while non-GAAP service gross margin expanded modestly. The decrease in product gross margin is primarily based on the impact of the lower revenue and mix of products within the quarter.

A full reconciliation of our GAAP to non-GAAP results are included in our fourth quarter 2023, and third quarter 2023, earnings press releases, which are posted on our Investor Relations website.

Our fourth quarter 2023 earnings per share in accordance with GAAP were a loss of $0.32 compared to earnings of $0.12 per share in the prior quarter and a loss of $0.64 per share in fourth quarter 2022. Our fourth quarter 2023 GAAP earnings per share include $10 million of severance-related expenses associated with our 2023 cost savings plan.

Our fourth quarter 2023 non-GAAP earnings per share were $0.33 compared to $0.62 per share in the prior quarter and $0.33 per share in the same period last year.

Our fourth quarter 2023 non-GAAP EBITDA was $24 million, a decrease of $17 million compared to the previous quarter, which reflects the impact of lower product revenue in the fourth quarter partially offset by cost savings actions taken in the quarter.

Our fourth quarter 2023 non-GAAP EBITDA and non-GAAP earnings per share exceeded the guidance range we provided during our third quarter earnings call due to strong cost management across the organization.

Turning now to review our full year 2023 results.

Bookings for full year 2023 were $854 million compared to our original full year 2023 guidance of $1B to $1.1B provided in February 2023 and $1.054 billion for the full year 2022, a decrease of 19% from the prior year. 2023 bookings were lower than original full year guidance, primarily driven by lower-than-expected orders for our Advanced Services, particularly our tech-enabled services which include CPDS and IVCS. Additionally, our Point of Care bookings, including XT cabinets, were lower than original expectations as our health system customers continued to delay capital budget decisions and XT cabinet bookings continued to moderate as a result of timing in our XT upgrade cycle. In summary, the majority of the lower-than-expected bookings in 2023 was a result of lower demand for CPDS and IVCS, and other Advanced Services.

Our total backlog was $1.143 billion as of December 31, 2023, compared to $1.215 billion as of December 31, 2022.

Product backlog includes Connected Devices such as our XT-Series automated dispensing systems and the product portion of our Central Pharmacy Dispense Service and IV Compounding Service. Product backlog as of December 31, 2023 was $611 million, of which $378 million is Short-Term product backlog which we expect to convert to revenue within twelve months. Product backlog decreased $186 million over the prior year as a result of lower 2023 bookings.

Advanced Services backlog includes only the services portion of our Advanced Services multi-year contracts, which have a stated minimum commitment within the agreement. While we partner closely with our customers when providing Advanced Services and a majority of our Advanced Services are provided under multi-year contracts, only a portion of those contracts have stated minimum commitments. Advanced Services backlog as of December 31, 2023 was $532 million, of which $72 million is Short-Term Advanced Services backlog, which is expected to convert to revenue within 12 months. Advanced Services backlog increased $113 million, or 27%, over the prior year.

Our full-year 2023 GAAP revenues were $1.147 billion, a decrease of $149 million or 11% from 2022. The decrease in revenue over the prior year reflects the impact of lower bookings as I previously outlined. Our 2023 product revenues were $709 million, and our 2023 service revenues were $439 million. Within the full-year 2023 service revenues, Technical Services revenues were $226 million and Advanced Services revenues were $213 million. 2023 Advanced Services Revenues increased 14% over the prior year.

Our full year 2023 earnings per share in accordance with GAAP were a loss of $0.45 per share. Our full year 2023 non-GAAP earnings per share were $1.91 per share, a decrease of $1.09 per share from 2022.

For full year 2023 we delivered non-GAAP EBITDA of $138 million, a decrease of $55 million from 2022, which is above the revised 2023 guidance range we provided in third quarter 2023.

The year-over-year decrease in EPS and EBITDA was mostly driven by lower revenues during the year partially offset by cost savings actions including the benefit from cost savings plans we announced in November 2022 and November 2023.

Although our full year 2023 Bookings and Revenues were lower than expected when we provided the original guidance in February 2023, we are pleased with the results of the cost savings plan that we announced in November 2023. Together with other factors, including ongoing cost savings initiatives implemented throughout the year, the implementation of the 2023 cost savings plan drove non-GAAP EPS and EBITDA to be above the original non-GAAP EPS and EBITDA guidance. However, we believe there is more work to be done on this front, and as I mentioned, we are actively working to identify opportunities to further streamline costs. We believe the favorable profitability during the year demonstrates our commitment to taking actions designed to bolster the continued profitability of our business during this challenging customer and product period.

At the end of fourth quarter 2023, our cash balance was $468 million, up $21 million from $447 million as of September 30, 2023. Our full year non-GAAP free cash flow was $126 million compared to $17 million for the prior year, which includes the benefit of reductions in accounts receivable and inventory during the year reflecting strong working capital management.

As we communicated in our November 2023 earnings call, we continue to be mindful of the upcoming 2025 maturity of our convertible senior notes and are considering various options to maintain strategic flexibility for our company and in an effort to minimize potential dilution for our stockholders. In the meantime, we believe we are in a very good position with the current convertible senior notes, which have a 0.25% coupon interest rate. In short, we remain confident in our capital structure and our ability to support the ongoing execution of our growth strategy.

In terms of accounts receivable, days sales outstanding for fourth quarter 2023 were 90 days, an increase of 6 days over the prior quarter and a reduction of 3 days compared to fourth quarter 2022.

Inventories as of December 31, 2023 were $110 million, a decrease of $37 million from December 31, 2022. Our global supply chain team continues to make great progress managing inventory levels.

Now moving to our 2024 full-year and first quarter guidance.

We would like to start by commenting on the current demand environment we are seeing within Point of Care. We are encouraged by opportunities to offer new and innovative product enhancements on a larger installed base, including the XT console upgrade Randall noted in his opening remarks. We believe that with these new innovations, we should see a modest increase in Point of Care Product Bookings in 2024. Our core franchise is strong, our channel is a durable source of future opportunities, and we are excited by our innovation pipeline. Based on these expectations, we expect our full year 2024 Bookings to range between $750 million to $875 million.

We expect our full year 2024 Total Revenues to range between $1.045 billion to $1.120 billion. We expect product revenues to range between $605 million to $650 million. We expect service revenues to range between $440 million and $470 million. We expect service revenues from Advanced Services to range between $220 million and $235 million. We also expect service revenues from Technical Services to range between $220 million and $235 million.

The revenue guidance reflects our expectations for the continued impact of a challenging environment for our health system customers and timing of our XT product life cycle. At the mid-point, the full year 2024 Revenue guidance implies an expected year -over -year product revenue decline, partially offset by a modest increase in Advanced Services Revenue when compared to 2023. As we have shared in the past, Advanced Services provides a stable recurring revenue stream and for a majority of our services we have multi-year contractual partnerships with our health system and retail customers. As we continue to book new orders, the increase in the install base will continue to contribute to Advanced Services Revenue growth.

Please refer to our fourth quarter 2023 earnings release published on our Investor Relations website for a summary of the full year 2024 revenue guidance components.

We expect full year 2024 non-GAAP EBITDA to range between $90 million and $120 million.

We expect full year 2024 non-GAAP earnings per share to be between $0.90 and $1.40 per share. For full year 2024, we are assuming an effective blended tax rate of approximately 19% in our non-GAAP earnings pear share guidance.

The full year 2024 non-GAAP EBITDA and non-GAAP earnings per share guidance includes the expected impact of a year over year Gross Margin % decrease as a result of the lower Point of Care revenue partially offset by the benefit of the recently implemented cost savings plan.

We continue to expect approximately $50 million of annualized cost savings as a result of the cost actions announced in November 2023, of which around 75% is expected to be in Operating Expenses. A majority of the benefit from the cost actions is anticipated to be realized beginning in the first quarter of 2024 with a smaller portion of the savings expected as we progress through the year. As a reminder, the cost actions are expected to be partially offset by year-over-year inflation, as well as lower gross margin due to anticipated product mix.

For first quarter 2024, we are providing the following guidance. We expect total first quarter 2024 revenues to be between $232 million and $242 million, with product revenues to be between $128 million and $133 million and service revenues to be between $104 million and $109 million. We expect first quarter 2024 non-GAAP EBITDA to be between a loss of $2 million and earnings of $4 million, and we expect first quarter 2024 non-GAAP earnings per share to be between a loss of $0.10 per share and breakeven per share.

In summary, we continue to execute against our long-term growth strategy and navigate a challenging macroeconomic environment. We are seeing challenges for our customers, including the impact of the macroeconomic environment and labor challenges, and we expect these headwinds to continue into 2024.

However, we are confident that the approach we are taking to managing the business should position Omnicell to deliver our commitments over the long term. The team has built a strong foundation from which we expect to continue our momentum in transforming the pharmacy care delivery model and are taking actions intended to improve our performance.

We remain focused on driving value for our stockholders as we look to execute on our strategy and work to capture the opportunities we see ahead of us. We continue to endeavor to drive long-term profitable growth and success at Omnicell.

I want to conclude by thanking our employees for their continued hard work and commitment to Omnicell.

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. Your line is now live.

Stan Berenshteyn: Maybe a couple on the bookings guidance. First, Nchacha, if I heard you correctly, you said point-of-care product bookings is expected to increase in 2024? And if that's the case, can you help us understand what's driving the decrease in overall bookings guidance for the year?

Nchacha Etta: Thanks, Stan, for the question. We are continuing to see our customers be more cautious as they consider implementing new workflows that may stress (inaudible) and IT staff, which potentially impact the timing of contracting and implementing new capital and software projects.

While we are expecting a modest improvement in demand for our point-of-care solutions as a result of new innovations and services, we still expect moderation of sales of our XT cabinet based on where we are currently in the XT (inaudible) cycle. However, in Advanced Services, we continue to work with our customers to navigate the complex regulatory environment for our IV robotics.

Please keep in mind that, however, there is a lot of interest in IV services, which is quite strong, and we believe the long-term trends remain favorable.

Stan Berenshteyn: And -- sorry, go ahead.

Nchacha Etta: No, I'm saying, we just expect our full year bookings to again be between the range of $750 million and $875 million, but we're very excited about our innovation within the XT platform.

Stan Berenshteyn: Okay. So what about on Advanced Services? Are the bookings for Advanced Services expected to be positive or negative for the year?

Nchacha Etta: As I mentioned earlier, we continue to see our customers navigate complex regulatory environment within our IV robotics.

Stan Berenshteyn: Okay. And so you're saying that point of care is seeing modest increase in demand, but XT sales are expected to decline. So on a net basis, our product bookings, just to be clear, our product bookings overall expected to be negative in 2024 or positive?

Nchacha Etta: Slightly positive.

Stan Berenshteyn: Okay. So that would imply Advanced Services has to be negative, right, to get the overall bookings guidance negative?

Nchacha Etta: That's correct.

Stan Berenshteyn: Okay. I appreciate that. And then just in terms of the guidance range, it's pretty wide, $125 million. Can you just walk us through what factors are (technical difficulty) your guidance range?

Randall Lipps: Right. We provide a very reasonable guidance that we believe is what we think we can achieve for the year. Yes. And I think as we introduce new innovation throughout this year, and this is a big innovation year for us, the uptake on that innovation and adoption by our customers is -- and that's why we see the lift in product bookings and how fast it can be implemented is -- it's varied. So we're just at the beginning of the first phase of the XT upgrade cycle, which means every XT customer is in play now with an offering.

And as we continue to innovate, we'll have to see how those new products -- how quickly they can uptake. And this is a big year at the beginning of the cycle of these new XT products and platform that will, well, get a lot of customer attention, it's just do we have enough time this year to get it in the pipeline and get it sold and then eventually, when does it revenue?

Operator: Your next question comes from Anne Samuel with JPMorgan.

Anne Samuel: I was hoping maybe in the Advanced Services business, can you parse out maybe what some of those key challenges are? Is it still issues around hiring the pharmacy technicians? Or is it something broader within the industry backdrop around demand?

Randall Lipps: Well, I think IV, a lot of interest in demand is just making our way to the regulatory environment is by state. It's not just federal, it's by state. So to achieve that, you have to take the proper steps to get there. So that's the biggest dampener there. And for CPDS, it's really a lot of our customers are looking at where to deploy robotics.

Is it in a consolidated service center, like Ballad? Or is it in a large hospital? And so these strategies that the customers are looking at are slightly changing from what they have been in the past. And so they're not ready to dive into new innovation until they sort of get their big hospital network strategy built on how they're going to dispense medication across a broad group of hospitals and clinics. And because of that, I think we're in a lot of discussions, but they're moving pretty slow.

Anne Samuel: That's really helpful. And then maybe just one more on the bookings. Can you just remind us of the timeline of converting bookings into revenue? How long it takes? If we were to start to see pickup in the macro and maybe some improvement in your bookings, how long would it take for us to see that translate into revenue?

Randall Lipps: Well, it's a good question because this is one of the things Nchacha discussed about coming up with new metrics because bookings can be confusing. But the easiest thing is to look at product. Product generally is 12 to 18 months for installation, maybe shorter than 12 months in many cases. So that's a key driver for the business or the near-term part of the business.

Bookings in Advanced Services or a multitude different monetization of the stream over either 3, 5, even 10 years. And so it kind of confuses when those backlog dollars will hit the P&L. But they're generally longer than 12 months and three to five years. So it's not the same impact. But the key for us and the way to look at our P&L is we gave guidance on Advanced Services this year for the revenue.

So that is the revenue piece of the Advanced Services. The product backlog then is monetized in 6, 12, maybe as much as 18 months. So that's more of the near-term revenue. So you think the advanced service product revenue and the product revenue, and that steers you pretty close to how the business works.

Operator: Your next question comes from Scott Schoenhaus with KeyBanc.

Scott Schoenhaus: The product bookings or the product guidance for revenue and bookings. So are you assuming any revenue contribution this year from that new XT Series console that you talked about as a growth opportunity? And then secondly, on Advanced Services, you talked about the regulatory environment pressuring Advanced Services demand for the IVX. But are you also seeing any slowdown in maybe the retail side in live and health?

Randall Lipps: Well, I think live and health is a different business model, mostly SaaS. We did have some churn in the business, but we're not necessarily seeing slowdown in interest or the value that the product line brings. We are seeing -- we believe that Advanced Services for IV is certainly a bigger impact. If IV were where we would want it to be, it would be probably riding the ship on the advanced service side.

Scott Schoenhaus: And then your guidance on the product side for revenue, does it assume any contribution from the new console.

Randall Lipps: Small amount in the back half of the year, yes. But it's follow up

Kathleen Nemeth: Thank you, Scott. Next question, please.

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

Allen Lutz: One for Randy or Nchacha. On the strategic review, trying to get a sense of where this is focused. Is it more on the operational cost structure? Could it result in the divestiture of assets? And just can you elaborate a little bit more on the scope here of basically everything on the table.

And then trying to understand the timing here? Is this something where we should expect a resolution in 2024?

Randall Lipps: It's just a holistic operational and go-to-market review, right? I mean we've got a lot of great products we've either launched or acquired over the last several years, and it's just time to do a review on those. And it's been a long time since Omnicell has had this type of year-end decline. So it just makes sense to do this review.

Nchacha Etta: Yes. I'll just add to that. Our results tell us that there is a need significant and thoughtful evaluation of where we can make changes to improve our performance from operations to go-to-market initiatives as well as our overall product portfolio. And while the cost savings that we've taken already on the way, we need to evaluate opportunities for additional actions that will enhance value creation for our shareholders.

Allen Lutz: Great. And then on the product bookings, curious -- a follow-up to some other questions here. I'm curious if the driver -- just to kind of break down some of the drivers around the expectation for higher bookings growth from the product side in 2024. Would you say what's -- as we think about changes to hospital budgets that you're seeing, the new XT console upgrade I'm just curious, are those the two things that are providing the greater confidence here as we go through 2024. I'm just curious what you're seeing today as it relates to your conversations with hospitals.

Randall Lipps: Yes, definitely, the macro environment has improved over time and still some headwinds there. But the XT product line, which is the point-of-care product line is a big contributor of Watson product, upgrading the cycle of the XT line is something we did before, right? We went from G3 to G4 with a console upgrade. Now we've got the XT console that's going to be upgraded to the next version, which is a natural thing for customers to do. It's a playbook that we've run before.

So we're really confident that this will resonate with customers, extend and their investment they made in the XT product line to bring to more value, provide more security, some of these keyboards and screens are 7, 8 years old, they need to be replaced. So there's a lot of logic there for customers and a little bit more willingness we see for them to invest. And this is not just a pharmacy piece. It's something that will help nursing which is a very sensitive area of our providers these days.

Operator: Your next question comes from Matt Hewitt with Craig-Hallum Capital Group.

Matthew Hewitt: Maybe a couple on the new console upgrade. And Randy, thanks for explaining, but it sounds like it's like the G4. When I think back over a couple of your prior upgrade cycles, you had an external driver that helped kind of expedite the process. I think at one point, it was the EHR meaningful use. You guys were the only ones that had approval for that.

And so that helped drive adoption of a new cabinet. And then at one point, it was the Windows 2000 setting. What do you see as a driver for this new console upgrade? Is it on the cybersecurity side? Is there something else that could help externally kind of drive customers to adopt this new platform?

Randall Lipps: Yes. In itself, it definitely allows you to access the latest operating systems, which, of course, everybody is concerned about -- and so it is more secure. It's also more efficient for nurses to use it. There's some efficiency enhancements. -- as well is going to be a platform, which we will continue to innovate on that will allow them access to these new innovations.

You'll have to have the new console to access these additional innovations as we go along. And probably the biggest driver is that if you made an investment in XT you want to be able to lengthen the life of that frame.

And in order to do that, you have to do the console upgrade because we're not going to allow the continued use of an older piece of equipment when it gets out of date. And so to get that refresh from the frame, you've got to upgrade the console. So it's something that they're used to. It's something that we've done over the years. They understand -- and we've had a lot of discussions and pipeline on it.

So it's sort of just very, very early returns. I'd say we're pretty pleased with how it's going, right, or it's expected to go.

Matthew Hewitt: That's great. And then maybe a similar question or related question. With it just being a software upgrade, should that result in a shorter sales cycle unlike when you're ripping and replacing the full cabinet, because this is just software, does that result in a shorter sales cycle or shorter implementation cycle and therefore, maybe help a little bit sooner?

Randall Lipps: Yes, let me just speak clearly. It is a hardware console. It's like the interaction screen and keyboard to use. But it's a fairly simple exchange. Less than an hour to pull out the old and put in the new and then it has the new software, and it's ready to go.

So it's a little bit simpler to make the sale and a little bit simpler to revenue as well. because you're not doing a forklift of a major product line. You're just upgrading and enhancing the one that's already there with a little bit of hardware and a lot of software.

Operator: Your next question comes from David Larsen from BTIG.

David Larsen: Can you talk about your own sort of cost inflation trends along the lines of like steel and freight and your own labor? And then I think you're implementing some price increases for your base to help offset that? How are those being received by your customers? And how far along are we in that process?

Nchacha Etta: So we continue to monitor our supply chain risk and the geopolitical environment and the impact that has on our business. And inflation has normalized in recent quarters, but as we take pricing actions, we believe that this will be well received by our vendors.

David Larsen: Okay. And then with the XT sort of upgrade, Randy, I think we had been talking about like being maybe 70% or more of the way through sort of this full XT upgrade process on previous calls. I think what I'm hearing from you now is that it's a full reset. Everybody is going to have to go through this new XT upgrade for this new console, can you talk a little bit about the pricing for that, please? Like how much of a lift should we expect to see per customer

Randall Lipps: Well, just the console alone, and we're looking at an expanded portfolio to take to the customer, which we will announce throughout the year, how this broader innovation is going to work. But it's about as these console upgrades generally are about a third of the price of the unit.

David Larsen: Okay. So it sounds like it will be actually very material, quite frankly, which is obviously a good thing. And then just my last one is for the 1Q revenue guide, that looks low. So I like how Nchacha beat the guide this quarter. That's great.

Are you being conservative with the 1Q revenue guide? Or what is causing the seasonality here? And I guess my concern is if you're not being conservative, then you're kind of expecting a pretty good lift in the back half of the year? Just any color there would be great.

Randall Lipps: Yes. Look, we provided a plan that we believe we can manage a company to, and we remain optimistic about our innovation within the XT platform, which includes console upgrade, and we expect a modest improvement in demand for our point of care as we go into 2024.

Operator: Your next question comes from Stephanie Davis with Barclays.

Stephanie Davis: I heard in the prepared remarks that you guys are talking about exiting against your long-term growth strategy. So I wanted to revisit that. I know the Analyst Day last year, you talked a lot about moving from more of a services and software play away from just hardware alone. Advanced Services was part of that. Where are you in that transformation? And is that still kind of the long-term target.

Randall Lipps: Yes. Obviously, Advanced Services is very key, but we'll always have product as part of our business model. And a big portion of that model over the past few years, which generated a lot of growth and a lot of revenue has been the point of care. And so that is impacting our model more than we'd like, obviously, right now. But to get our model back in balance, we need to be able to have those product revenues particularly from point of care start to drive our growth and increased earnings. And -- but there's a lot of ways we can offer those products.

They don't have to be as a product sale alone. We don't really want to be doing product sales alone. We want to do those product sales enhanced with services around them. But -- so it's really key for us to move from selling products to really helping our customers run the day-to-day operations in their medication processes so they can achieve success. But it does include the offering and the sale of products either embedded in a service or sold as a service surrounded by services.

So I don't know if that answers your question directly, but it's the same. It's -- we're moving forward toward managing our customers' businesses day-to-day with these enhanced services and revenues that are driving that can be in the form of traditional product revenues, but always adding on Advanced Services to get the results and the outcomes.

Stephanie Davis: No. That's helpful, that's helpful. And as you go through the strategic review, you kind of shake that is catch on one business but not, are there any incremental end market like the retail pharmacy side of the house that might be more compelling to get into, given some of the headwinds in hospital?

Randall Lipps: Yes. I think there's always in the clinics and outpatient, there's a lot of growth there and concerns there that there aren't quite the tool sets that they have on the inpatient side. So a lot of our customers want us to help them figure those out. And certainly, those kind of markets are in our view and either investing or make or buy. So absolutely, those make a lot of sense to proceed in.

Operator: Your next question comes from Bill Sutherland with the Benchmark Company.

Bill Sutherland: Randy, you just mentioned make or buy. I was actually going to ask you what your -- any thoughts on the capital deployment side and particularly with the cash building nicely.

Randall Lipps: Yes. I'll let Nchacha come in on the refinancing of the debt, but I should have said that we probably won't be looking at acquisitions until we get sort of the debt side of it addressed here. And that's not too far off in the distant future. I don't know, Nchacha, if want to say anything else about that.

Nchacha Etta: Yes. We continue to be mindful of the upcoming 2025 much already of the convertible senior notes and we are considering various options to maintain strategic flexibility for our company and in an effort to minimize any potential dilution to our stockholders.

Bill Sutherland: Got it. Nchacha, the quarterly cadence, particularly on earnings, non-GAAP earnings from the Q1 guidance for the full year, quite a lift. Is it going to be kind of a -- should we think of it kind of ratably improving? Or is it more back half loaded?

Nchacha Etta: I'll say it back half loaded to a certain extent.

Bill Sutherland: Okay. And then, Randy, you said not too long ago in a conference that the regulatory headwinds, which are state by state on IVX, you kind of thought that most of the important states, at least would work through during the course of this year. I think that's what you said. Is that the case, so that we can really expect IVX to be taking off in '25?

Randall Lipps: We'll have to see how it goes, but I think I think '25 is going to be a much better year for IV just because we'll get through some of those states. Some of the things that impacted the IV is what drugs you can mix on site and how long the stability was. And so our original thesis for some of our sites where we were making proposals the ROIs were as high. So we had to go back and reformulate those and then get hospitals to get engaged on those again. So I think we'll have worked through most of that by the end of this year.

Operator: Your last question comes from Jessica Tassan with Piper Sandler.

Jessica Tassan: I thought the new deck was really helpful. Slide 14, especially. So I wanted to just get kind of clarity on the enhancement of the XP cycle via console versus the upgrade cycle. I guess, what's the thought process on launching the new console during the end of the XP cycle as opposed to just introducing the new console and cabinet kind of bundled together as a new product cycle entirely?

Randall Lipps: Well, this has just been our tradition, and it's also been part of our brand is that if you buy a frame from us, it's good for 10 years, but it includes an upgrade of the console about halfway through to get new enhancements and really replacement of the old hardware or the interface console. So customers kind of expect it, and it generates good revenue for us, and it extends the life of their asset. It makes sense for them to purchase and it keeps customers engaged with us as we move on to product transitions and product rollouts of new products and services. So I would say half our customers in the last, I don't know, three years have just installed our XT. So it's not the timing to come up with a new piece of hardware total frame at this point.

And so this would be the next logical move for us in our go-to-market. As well historically, this makes a lot of sense. And that's probably the reason we've kind of had this dip on -- as we tailed off in the XT and we're taking off on the console upgrades is we probably had some of those XT cabinet sales were pulled in through the pandemic process. And so it really created a slack in the rope.

And now that we're getting the console going, which is what people expect about this time. It should help us even out and move forward on a more consistent basis to drive revenue and profit.

Jessica Tassan: Okay. Got it. That's helpful. So the customers who have already implemented the XT, if not paid for the console yet, but they've agreed extensively or implicitly to upgrading the console whenever it gets released. Is that fair?

And is this kind of an incremental market share driver or a way to drive revenue on the existing XT base?

Randall Lipps: This is all for the XT base, and it's quite large for us, right, because of our footprint that we've gained over the last three or four years. So this is a sale into our captured customers XT base that we have today.

Jessica Tassan: Okay. Got it. And then I just wanted to quickly follow up on your commentary about the bookings miss in '23 versus the preliminary guide, so about $150 million at the midpoint. If we imagine that the majority of that is attributable to a miss in central dispensing and the IV compounding robot, it just suggests that there were pretty significant expectations for those two products in the '23 bookings guide. Have you guys thought about or changed your philosophy around guidance for those new products in '24. Just kind of increase the level of conservatism given that they are new products with?

Randall Lipps: Yes. That's a great point. And I think that you see that in our bookings guide that is lower and it reflects those conclusions you just had. So I think that's implied in there. Yes.

Operator: There are no further questions at this time.

We apologize for the technical difficulties during today's conference. I will now turn the call back over to Randall Lipps for any closing remarks.

Randall Lipps: Well, thanks for joining us today. We've got a lot to do in '24, but we're really excited about our innovation road path that we believe is really going to drive growth in earnings over the long term. We really have stepped up our focus on our go-to-market on our innovation consistently even quarter-to-quarter as we move forward.

So look for seeing these new innovations as they come out and how they fit into our road map and what they mean to customers and what they mean to our revenue and earnings. It's really -- in a way, it's really exciting to get to the next phase, which is the upgrade phase and even more rollout of our XT and advanced service lines.

I also want to thank the Omnicell employees for working extremely hard as we continue to want to deliver great value for our customers and for each other and get our company going back to growth and back to profitability.

Thanks, everyone. Cheers.

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