March, 31, 2017

Omnicell, Inc.: OMCL

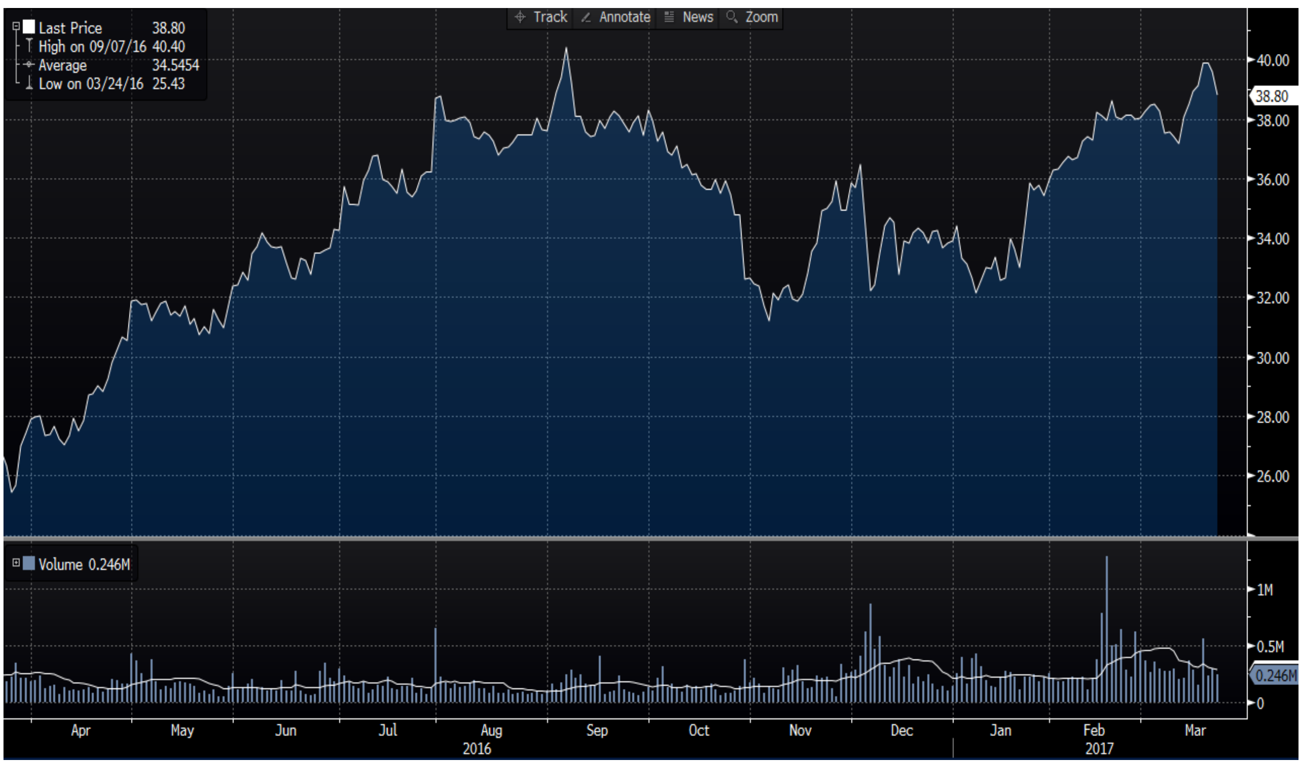
Joseph Carey

Sector: Technology
Industry: Health Care Software
Current Price: $40.65
Target Price: $48.06

Company Description: Omnicell, Inc. provides healthcare facilities with machines and systems to automate tasks such as providing medications to patients as well as making the medicines themselves. Omnicell also makes mobile workstations that dispense medications in correct dosage and timing to best serve the patient and take the burden off of nurses. Parts of their services include inventory management, medication adherence, decision support, and remote servicing capabilities.

Long

Current Price:	$40.65
Target Price:	$48.06
Market Cap:	1.43B
Average Volume:	246,000
D/E Ratio:	0.59
ROIC:	7.4%
EBITA Margin:	9.1%



Thesis: This upcoming year Omnicell will lower their operating costs and thus increasing margins. This is based on their recent acquisitions and integration of these models and systems into their product line. The continual backlog growth and XT product line will increase revenues this upcoming year as well. EBITA margin will increase and ROIC will increase, creating significant value for Omnicell. I would suggest buying this stock based on its vertical integration strategy that will lower costs, thus growing and creating value in the long run.

Catalysts::

- **Short Term (within the year):** Production Ramp up of XT series
- **Mid Term (1-2 years):** Implementation of XT series with Backlog sales continual increase, as well as further operating cost decreases
- **Long Term (3+):** Further M&A activity to promote revenue growth and market expansion

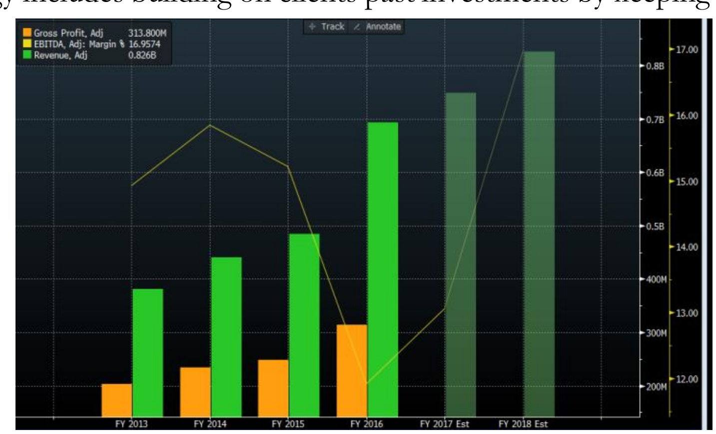
Product Descriptions:

Omnicell offers a complete product line to hospitals and other medical facilities that ranges from physically producing medication to packaging and dispensing patient specific medications. The IV solutions offered include both non-hazardous and hazardous compounding that is safer, more cost effective and quicker than

manual compounding. In this product market, Omnicell offers the cheapest ones out of the industry, allowing customer base to get access to this technology as cost effectively as possible. They also have a complete pharmacy replacement system that makes inventory management, medication preparation, and security much more fluent and efficient. Their medical dispensing systems have recently been upgraded to their new XT enterprise systems. This system makes the nurses job much easier, eliminating the guess work of medication adherence as well as eliminating the need for narcotic counts because of single dose dispensing. These unique products fill a special gap that patients need from hospitals and in home. On average 11% of hospital admissions with an annual cost of $105 Billion, comes from medication non-adherence. In the hospital setting, medication errors kill at least one person a day, and injuries 1.3 million people annually. These products fill that need and reduce errors by at least 50%, and this is just the beginning. As Omnicell grows and systems get stronger, the elimination of errors is soon to come and that is their sole mission.

Growth Strategy:

Omnicell, Inc. has a vertical integration strategy in place to develop a complete system, unlike any of its competitors. By combining all aspects together under a single system, health care facilities can reduce costs and improve efficiency. Omnicell is the only company to offer a complete system beginning with making medications to dispensing it, with different operations that can adapt to meet customers needs whether it be a hospital or in-home care. Part of their growth strategy includes building on clients past investments by keeping prior systems and slowly shifting to the new intuitively without total systems and product replacement, which reduces training time and improves smooth integration when new products are introduced. This process helps Omnicell be so successful with their systems integration and really helps in backlog numbers. Backlogs are revenue that is soon to be recognized from prospect clients that have shown a level of interest to consider them to be future clients in the near term. Their backlog also includes booked sales. The growth in client interest has grown substantially in the past years. In 2015 they had backlog of $205 million and by the end of 2016,



that backlog grew to $301 million. That 47% growth would have a substantial impact on revenue if only a small portion of the prospects become customers. In 2016, the conversion rate for these backlogs was 30%, so if that number is similarly replicated then we can see large growth from Omnicell. One key metric that must be mentioned and will create opportunity for Omnicell, is lower operating costs through their acquisitions by bringing a complete product to their customers. They are also condensing 2 offices, which will be totally shut down by the end of 2017. On top of expanding their product line and cognitive ability as a system, the operating cost reduction will boost profitability and allow further growth and expansion in future years.

2016 Acquisitions:

Omnicell has recently bought two companies that provide similar products, but will work in better conjunction in house for Omnicell. Their strategy, as mentioned above is to implement systems that cognitively work together with medical facilities has grown to include IV compounding, inventory management, pharmaceutical processing, and medication dispensing. In January, they acquired Aesynt, which is a leader in pharmaceutical automation and IV compounding solutions. Prior to the acquisition, Omnicell had no market exposure in this area, so the acquisition allowed expansion of their product line but more importantly, a major puzzle piece in their complete systems. They $275 million for this acquisition, with $75 million coming from cash reserves. The second acquisition came in the 4th quarter of 2016, closing the deal at the end of December with Ateb.

Ateb offers a patient-pharamacy relationship that includes medication synchronization to develop appointment based pharmacy visits and consultation. The idea behind this is to improve their newly developed relationship with Aesynt, but to help with patient medical adherence outside the health facilities. Ateb's products included systems that interactively help medication timing and blister packing, which is medications that are packaged together if they need to be taken together. Ateb was acquired using mostly cash for a total of $41 million. Through last years acquisitions, Omnicell has grown to offer the complete system that will help patients from the hospital to home with more accurate and easier medication process.

Profitability Margins:

Omnicell is on track to experience substantial revenue growth from client acquisition and product line diversity. Their LTM financial data is significantly skewed from multiple acquisitions in 2016, which has historically been shown to happen in the same manner in years prior. Last year they acquired two companies, one in the beginning of January and the other in the end of December. These acquisitions severely affected last year's financials so I believe we must look past it, and value the growth that is to come moving forward.

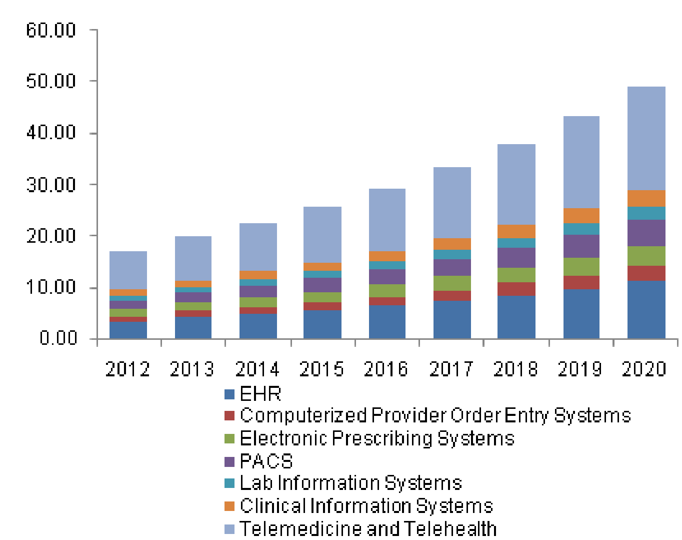
The EBITA margins trend upwards on years after acquisitions at a rate between 1 to 2%. While not significant, the growth in margin constitutes a lower cost model approach to be accepted because acquisition history showcases this trend, therefore we should use this modeling when valuing Omnicell. The company has been rapidly increasing revenue year after year, with an average of 18.7% historical growth, yet they were able to grow revenue by 42% last year. Estimates suggest 8-12% growth in 2017, but I believe this is low with their product scaling, backlog growth and plans to enter 3 new markets. Their margins getting larger will bring this company to the top of their competitors, because as of now they are averaging out to be in line with industry averages. Their EBITDA Growth last year was roughly 12%, which is on par with the industry, even though

Name (BICS Best Fit)	Ticker	Mkt Cap (USD)	EBITDA Gr Adj YoY:Y	EBITDA Mgn 3Yr Avg	OPM:Y	NI Mrgn Adj:Y
Median		2.18B	12.56%	14.25%	4.25%	3.09%
100) OMNICELL INC	OMCL US	1.49B	11.97%	14.33%	3.49%	2.35%
101) EVOLENT HEALTH INC - A	EVH US	1.44B	-53.82%	-30.49%	-22.93%	5.75%
102) QUALITY SYSTEMS INC	QSII US	947.80M	9.72%	16.33%	10.02%	6.72%
103) ALLSCRIPTS HEALTHCARE...	MDRX US	2.29B	13.16%	14.47%	4.78%	-1.00%
104) ATHENAHEALTH INC	ATHN US	4.43B	51.71%	14.18%	3.72%	2.68%
105) CERNER CORP	CERN US	19.49B	7.46%	31.20%	20.26%	14.15%
106) HUBSPOT INC	HUBS US	2.08B	14.43%	-23.63%	-16.48%	-16.81%
107) ENVESTNET INC	ENV US	1.37B	-0.34%	11.94%	-1.06%	-7.58%
108) CLONE ALGO TECHNOLOGI...	CATI US	--	--	--	--	--

significant SG&A expenses were incurred from expansion. Omnicell expanded their SG&A accounts for new market experts. The expense will be justified as they enter more of their target markets like India, Europe and South America and revenue growth follows. The EBITDA margin has beat the industry average in the last three years at 14.33%. Again, this is without reaping the benefits from their most recent acquisitions that are geared towards long term growth and significant operating costs reduction. When these cognitive pieces start to fluently work together, they will be the front runner of their competition, and others will be in a race to try and match their results. Another note is that Omnicell is historically a debt free company, but in 2016 they took on $245 million of low interest variable debt. This obviously impacts their net income margin, but they don't have long term plans to continue to use debt because historically they expand using strictly cash.

Industry Outlook:

Omnicell is classified under the Information Technology sector, however they are strictly tied to the Health Care industry with their product line and services. The forward outlook for 2017 and years after is rather still uncertain at this point. The Trump administration, as of last week, failed to get the Affordable Care Act replaced with his team's proposal. This was a rather big blow to the market, but a bit settling for the Health Care industry as it can continue to move forward with no immediate change in policy. Omnicell uses the reform to their advantage though, because patient needs and hospital standards always rise with reform separate from the actual coverage that is usually mostly addressed by new administrations. With the reform comes higher costs for our medical facilities in the form of increased regulation and higher staffing needs. Omnicell's units can work proficiently within the standards as well as aiding staff, reducing costs and helping precision in hospitals. I believe looking forward, regardless of administration health care reform, that the Health Care industry will continue to expand. Forecasts on average expect a CAGR of 15.9% until 2021. This is because of increasing medical ailments that require more attention or are never seen before which will need new technology to address, as well as the constant



demand from hospitals to improve from regulatory authority that requires them to look for external help to increase precision as cost effectively as possible. At the absolute worst, we can only see this industry stall in my opinion. General consensus in the market is overall uncertainty, but investors do prospect growth with a trend throughout the industry. In the graph, I believe it is worth mentioning that Omnicell has large market share in the Clinical IS, Electronic Prescribing Systems, Lab IS and systems that work in line with EHR, so they are going to capture significant growth moving forward.

Ownership Summary:

Omnicell is predominately controlled by Investment Advisors at major firms like BlackRock. This stock is not heavily followed by the market as can be told by average volume, but that is all the reason to buy now. This company is taking all the right steps to increase market share and become the leading company in the industry. Corporate insider trading has not been significant to mention any activity other than few individuals converting

Compare Current Stats Against 02/26/17

Ownership Type	02/26/17	Curr	Change
11) Investment Advisor	90.05	89.36	-0.69
12) Individual	2.84	3.09	+0.25
13) Pension Fund	2.16	2.41	+0.25
14) Insurance Company	1.43	1.55	+0.12
15) Hedge Fund Manager	1.38	1.32	-0.06
16) Sovereign Wealth Fund	0.80	0.80	0.00
17) Bank	0.72	0.80	+0.08
18) Government	0.37	0.41	+0.04
19) Brokerage	0.16	0.18	+0.02
20) Endowment	0.06	0.07	+0.01
21) Other	0.00	0.00	0.00

options in November. The analysts that do follow the stock all have buy ratings with target prices ranging from $45 to $55 dollars by the end of 2017. The performance historically and management decisions has helped gain a positive sentiment on the stock appreciation potential. Like mentioned before, before this stock blows up, it is a great value well not heavily followed. This industry is in need of a company like Omnicell, and looking forward they will fill that need.

Conclusion:

Omnicell is currently a good investment to make. They have growth potential that will surpass the industry expectations of 16% CAGR, because they have the proprietary complete system, that is being showcased all over the world and integrated into hospitals daily. The potential upside of the company significantly overweighs any downside risk there is. The revenue growth, even if it matches expectations, will create significant value creation from significantly reduced operating costs. I believe estimates are low and that their first quarter earnings will surprise the market. As the year progresses, the implementation of the XT systems from backlog sales and new market entry, they will expand much faster than expected and their complete system will uniquely make them preferred over their competitors. This industry is becoming heavily regulated and medication errors are the cause of billions of wasted dollars. Omnicell is addressing that issue seriously and taking the correct steps to intuitively help medical staff with their jobs and boost hospitals reputations. Omnicell will lower their operating costs and grow significantly in the next few years, and with that the stock price will appreciate so now is the time to buy.

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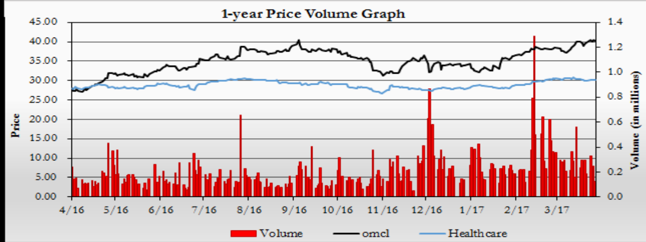
Omnicell, Inc. (omcl)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Joseph Carey	Current Price:	$40.65	Intrinsic Value	$39.10	Target 1 year Return: 18.24%
4/2/2017	Divident Yield:	0.0%	Target Price	$48.06	Probability of Price Increase: 86.6%

1-year Price Volume Graph



Description

Omnicell, Inc. provides automation and business analytics software solutions for medication and supply management in healthcare worldwide.

General Information

Sector	Healthcare
Industry	Health Care Technology
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.85%
Effective Tax rate	38%
Effective Operating Tax rate	15%

Market Data

Market Capitalization	$1,502.16
Daily volume (mil)	0.22
Shares outstanding (mil)	36.95
Diluted shares outstanding (mil)	36.86
% shares held by institutions	98%
% shares held by investments Managers	88%
% shares held by hedge funds	2%
% shares held by insiders	3.37%
Short interest	10.78%
Days to cover short interest	13.24
52 week high	$41.15
52-week low	$26.46
Levered Beta	0.00
Volatility	27.35%

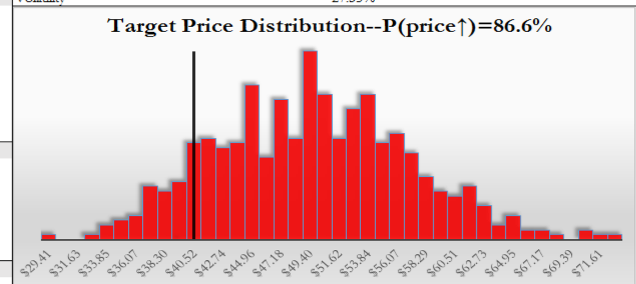
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	1.06%	-38.48%
3/31/2016	1.20%	-19.08%
6/30/2016	0.16%	-31.98%
9/30/2016	-3.37%	-35.86%
12/31/2016	-7.91%	-81.68%
Mean	-1.77%	-41.42%
Standard error	1.7%	10.6%

Peers

Quality Systems, Inc.
athenahealth, Inc.
Allscripts Healthcare Solutions, Inc.
Computer Programs and Systems, Inc.
Vocera Communications, Inc.
Medidata Solutions, Inc.
Cerner Corporation
HealthStream, Inc.

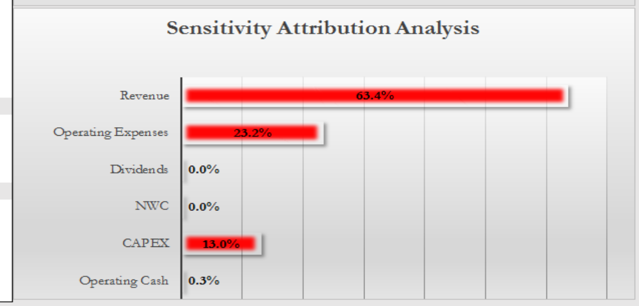
Target Price Distribution--P(price↑)=86.6%



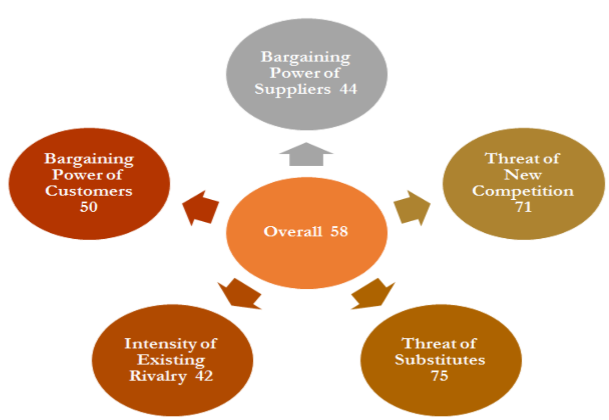
Management	Position	Total compensations growth	Total return to shareholders
Lipps, Randall	Founder, Executive Chairman,	11.87% per annum over 5y	3.27% per annum over 5y
Kuipers, Peter	Chief Financial Officer and	N/M	0% per annum over 0y
Johnston, Daniel	Chief Legal & Administrative	6.35% per annum over 5y	3.27% per annum over 5y
Ngo, Nhat	Executive Vice President of	7.13% per annum over 5y	3.27% per annum over 5y
Drew, J.	President of North American	13.71% per annum over 5y	3.27% per annum over 5y
Seim, Robin	President of Global Automati	13.25% per annum over 5y	3.27% per annum over 5y

Profitability	omcl (LTM)	omcl (5 years historical average)	Industry (LTM)
ROIC	22.9%	43.69%	13.15%
NOPAT Margin	19%	17.48%	14.1%
Revenue/Invested Capital	1.20	2.50	0.93
ROE	21.1%	22.27%	13.50%
Adjusted net margin	18%	17.21%	13.8%
Revenue/Adjusted Book Value	1.17	1.29	0.98
Invested Funds	**omcl (LTM)**	**omcl (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	5.2%	13.4%	8%
Estimated Operating Cash/Total Capital	2.7%	2.9%	N/A
Non-cash working Capital/Total Capital	8.5%	8.2%	10%
Invested Capital/Total Capital	97.4%	89.5%	90%
Capital Structure	**omcl (LTM)**	**omcl (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.25	0.04	0.03
Cost of Existing Debt	9.62%	9.08%	1.32%
Estimated Cost of new Borrowing	3.63%	4.43%	1.32%
CGFS Risk Rating	BB	CCC	CC
Unlevered Beta (LTM)	0.00		0.94
WACC	16.04%	15.51%	10.34%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	42.9%	19.0%	1.43
12/31/2017	6.9%	5.8%	0.31
12/31/2018	8.4%	8.0%	0.46
12/31/2019	10.0%	10.8%	0.69
12/31/2020	10.5%	11.6%	0.83
12/31/2021	11.0%	12.4%	1.00
12/31/2022	11.5%	13.3%	1.21
12/31/2023	9.1%	14.0%	1.41
12/31/2024	5.0%	14.5%	1.55
12/31/2025	3.0%	14.9%	1.67
12/31/2026	2.0%	15.2%	1.81
Continuing Period	4.0%	15.9%	2.06

Period	Invested Capital	Net Claims	Price per share
Base Year	$129.64	$340.29	$37.82
12/31/2017	$362.74	$245.50	$46.31
12/31/2018	$423.29	$132.38	$55.61
12/31/2019	$489.68	-$20.88	$65.45
12/31/2020	$576.19	-$186.62	$75.72
12/31/2021	$1,013.36	-$369.94	$86.40
12/31/2022	$1,033.61	-$576.75	$97.51
12/31/2023	$1,065.21	-$806.81	$108.91
12/31/2024	$1,087.04	-$1,093.74	$121.26
12/31/2025	$1,114.10	-$1,363.85	$132.44
12/31/2026	$1,145.34	-$1,643.45	$143.34
Continuing Period			