Owens & Minor Reports 7.4% Revenue Growth in 2nd Quarter 2006; Plans Significant Acquisition in Acute-Care Sector

RICHMOND, Va.--(BUSINESS WIRE)--July 19, 2006--Owens & Minor (NYSE:OMI) reported revenue of $1.30 billion for the second quarter ended June 30, 2006, an improvement of 7.4% compared to revenue of $1.21 billion in the second quarter last year. Earnings for the quarter include a pre-tax charge of approximately $11.4 million, or $0.17 per diluted common share, related to the early retirement of debt, as the company refinanced $200 million in debt at a more favorable rate. Second quarter earnings also include the pre-tax negative impact of $1.2 million, or $0.02 per diluted share, resulting from the expensing of equity-based compensation associated with the implementation of a new accounting standard. Consequently, earnings per diluted common share (EPS) for the quarter were $0.26, compared to $0.40 in the prior year second quarter, while net income for the quarter was $10.5 million, compared to $16.0 million in the same period last year.

"During the quarter, we achieved our goals through strong sales growth, while continuing to drive efficiency and productivity in the core business," said Craig R. Smith, president & chief executive officer of Owens & Minor. "Our recent performance has put us in an excellent position, as we prepare to bring on new business from the acquisition of McKesson's acute-care distribution unit."

Other Second Quarter Results

Operating earnings for the second quarter of 2006 were 2.4% of revenue, unchanged from second quarter last year. Gross margin for the quarter was 10.9% of revenue, improved from 10.6% in the same period last year. Selling, general and administrative expenses (SG&A) were 8.1% of revenue, compared to 7.9% of revenue in last year's second quarter. Gross margin and SG&A results were higher as a result of growth in the company's direct-to-consumer business, which has a higher gross margin and expense profile than the acute-care distribution business.

Asset Management

The company reported continuing strong asset management, resulting in operating cash flow of $20.4 million for the second quarter of 2006. Second quarter days sales outstanding (DSO) were 24.9, compared to DSO of 24.8 last year. For the quarter, inventory turns were 10.1 compared to turns of 10.7 for the second quarter last year.

Year-to-Date Results

For the six months ended June 30, 2006, revenue improved 6.6% to $2.56 billion, compared to revenue of $2.40 billion in the comparable period of 2005. Net income for the first half of 2006 was $27.0 million, compared to $31.9 million in the first six months of 2005. Year-to-date, diluted EPS was $0.67 compared to $0.80 in the first six months of last year. As described above, year-to-date pre-tax earnings results reflect the impact of an $11.4 million, or $0.17 per diluted common share, charge resulting from the company's early retirement of debt. Year-to-date pre-tax earnings also include the expensing of equity-based compensation associated with the implementation of a new accounting standard ($1.6 million) and expenses resulting from the company's first-quarter move to its new headquarters ($0.9 million), for an impact of approximately $0.04 per diluted common share.

Year-to-date, operating earnings were 2.4% of revenue, compared to 2.4% in the first half of 2005. Gross margin for the first half of 2006 was 10.8% of revenue, improved from gross margin of 10.6% in the first six months of 2005. SG&A was 8.0% of revenue compared to SG&A of 7.9% last year. Gross margin and SG&A results were both higher as a result of growth in the company's direct-to-consumer business. Year-to-date, cash flow from operations was $42.1 million.

Acute-Care Acquisition Update

On July 10, Owens & Minor signed a definitive agreement to acquire certain assets of the acute-care medical and surgical supply distribution business of McKesson Medical-Surgical, a business unit of McKesson Corporation, for approximately $170 million. The acquisition, which is expected to generate at least $800 million in incremental annual revenue for Owens & Minor, includes net inventory valued at approximately $130 million, acute-care customer contracts, and certain leased distribution centers and acute-care field organization employees, including an experienced acute-care sales force. Subject to various closing conditions and approval from federal regulatory agencies, the transaction is expected to close in the fall. The two companies also signed a fee-for-service transition-services agreement, under which Owens & Minor will compensate McKesson for providing distribution and support services on behalf of Owens & Minor during the six-month customer conversion plan. The company expects to provide additional information on the transition plan subsequent to the close of the transaction. On July 18, 2006, Owens & Minor filed its premerger notification for federal review of the transaction under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The company anticipates that the federal review will take a minimum of 30 days.

"We are very excited about this pending acquisition. Truly, this is a unique opportunity and a great strategic fit for Owens & Minor, as it will add scale and talent to our business," said Smith. "For our new acute-care customers, we look forward to demonstrating our expertise in managing the healthcare supply chain and introducing them to our value-added products and services. Owens & Minor and McKesson have committed to a transition plan aimed at an accelerated, but orderly, transfer of the business. Naturally, we expect to incur increased costs during the transition period, but we view this as an essential investment in assuring the successful conversion of these important customer relationships."

2006 Outlook

The company anticipates that it will report revenue growth in the 6 to 8% range, and diluted EPS in a range of $1.75 to $1.80, excluding an $11.4 million second-quarter charge resulting from the company's early retirement of debt.

The outlook also excludes the expected revenues, as well as the expected dilutive EPS effect, during the transition period of the pending acquisition of the McKesson acute-care business. The company anticipates that the impact to earnings will be in a range of $10 to $15 million before taxes over the course of the six-month transition period, with greater dilution at the beginning of the period. Following the transition period, the company expects the transaction to be accretive.

Quarterly Highlights

Owens & Minor Completed Public Offering of $200 million of 6.35% Senior Notes

In April, the company completed a successful public offering of $200 million in 6.35% Senior Notes due 2016. The net proceeds, together with available cash, were used to purchase the company's then-outstanding $200 million of 8 1/2% Senior Subordinated Notes due 2011. Owens & Minor was assigned an investment grade rating by both Standard & Poor's and Fitch Ratings for these new notes.

Owens & Minor Signed 5-Year Agreement with Novation

During the quarter, Owens & Minor signed a five-year agreement with Novation, the healthcare contracting services company for the 2,500 members of VHA Inc., and the University HealthSystem Consortium (UHC), for distribution of medical and surgical supplies to acute-care provider members. The new contract, effective from September 1, 2006 through August 31, 2011, extends a long-term relationship between Owens & Minor and Novation.

Access Acquired Key Diabetes Supply Co.

On June 30, 2006, Access Diabetic Supply, Owens & Minor's direct-to-consumer supply company, acquired Key Diabetes Supply Co., a small, Michigan-based, direct-to-consumer diabetes supply company. The acquisition will add to Access' growing customer base, now estimated at 136,000 customers.

Cleveland Clinic Health System Chooses QSight™ Clinical Inventory Management Solution

The Cleveland Clinic Health System (CCHS), ranked the third best hospital in the nation by U.S. News & World Report in 2006, signed a multi-year agreement to implement Owens & Minor's innovative QSight™ clinical-inventory management solution throughout its hospitals in Cleveland and Florida. Under the new three-year agreement, Cleveland Clinic will use QSight™, a Web-based solution, to manage an estimated $50 million of inventory in at least 30 key hospital areas, including operating rooms and other clinical areas such as cardiology, radiology and endoscopy.

Safe Harbor Statement

Except for the historical information contained herein, the matters discussed in this press release, and particularly in the above "outlook" section, may constitute forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected. These include the rate at which new business can be converted to the company, intense competitive pressures within the industry, the success of the company's strategic initiatives, changes in customer order patterns, pricing pressures, changes in government funding to hospitals and other healthcare providers, loss of major customers, Medicare reimbursement rates and other factors discussed from time to time in the reports filed by the company with the Securities and Exchange Commission. The company assumes no obligation to update information contained in this release.

Owens & Minor, Inc., (NYSE: OMI) a FORTUNE 500 company headquartered in Richmond, Virginia, is the leading distributor of national name-brand medical and surgical supplies and a healthcare supply chain management company. With a diverse product and service offering and distribution centers throughout the United States, the company serves hospitals, integrated healthcare systems, alternate care locations, group purchasing organizations, the federal government and consumers. Owens & Minor provides technology and consulting programs that enable healthcare providers to maximize efficiency and cost-effectiveness in materials purchasing, improve inventory management and streamline logistics across the entire medical supply chain--from origin of product to patient bedside. The company also has established itself as a leader in the development and use of technology. For news releases, or for more information about Owens & Minor, visit the company Web site at www.owens-minor.com.

Conference Call and Webcast Information: The second quarter 2006 conference call is scheduled for Thursday, July 20, 2006 at 8:30 a.m. Eastern Time. The telephone number for the conference call is: 800-901-5241; with access code is "Owens & Minor." A playback of the call will be available for five business days at 888-286-8010 with access code #29735579. The conference call will also be Webcast at www.owens-minor.com under the Investor Relations section.