

Owens & Minor: A Turnaround Play in the Works

Oct, 26th, 2025

Owens & Minor is undergoing a massive transformation in its operations that will be responsible for transforming it from a highly leveraged, insolvent business into a high margin, high moat business. Once the market prices in this significant change, the stock should enjoy a healthy and overdue ride upwards.

Owens & Minor 101:

Owens & Minor (OMI) is a U.S.-based healthcare logistics and medical supply company that's been around for more than 140 years, originally starting as a small Richmond, Virginia pharmacy and evolving into a major distributor of medical products. Today, it operates primarily through its Patient Direct business, after agreeing to sell its Products & Healthcare Services, which delivers home medical equipment and supplies to millions of patients across the country. The company acts as a key middleman between manufacturers, insurers, and patients, managing product delivery, insurance billing, and compliance. After years of low-margin hospital distribution and heavy debt from past acquisitions, OMI is now undergoing a major transformation, selling off its legacy distribution arm to focus entirely on the higher-margin home health segment and paying down debt to stabilize its balance sheet.

Owens & Minor today is not the same company it was five years ago, and in many ways that's the entire point of the investment. The business is now cleanly split between its Patient Direct, a higher-margin, home-care medical equipment and supplies segment and what its Products & Healthcare Services division, the legacy low-margin distribution and manufacturing business that defined OMI's history for decades. The Patient Direct segment is now the continuing operation, the one you actually own when you buy the stock, and the one management is reshaping into a pure-play home-care platform. Products & Healthcare Services, meanwhile, has already been classified as discontinued operations and marked for sale, closing the chapter on the old OMI that sold gloves and surgical kits to hospitals. That divestiture, once completed, will finalize the transformation from a logistics-heavy distributor into a streamlined healthcare-at-home operator with cleaner accounting, better margins, and a balance sheet that finally makes sense.

The Products & Healthcare Services division, which handled low-margin hospital distribution and manufacturing, has been officially moved to discontinued operations. The sale proceeds, expected to be around \$375 million, will be directed entirely toward debt reduction, helping OMI move toward its stated 2–3x EBITDA leverage target. The sale also comes with an additional \$150 million in tax assets and a 5% retained ownership stake, which together help offset near-term tax obligations and preserve optionality. Once that deal closes, OMI will no longer be a mixed manufacturer-distributor but a focused service company tied to secular growth in

home healthcare. It's the kind of portfolio simplification that takes time to execute but pays back in valuation multiples once investors believe the overhang of insolvency risk has been lifted.

Owens & Minor Announces Definitive Agreement to Divest Products & Healthcare Services Segment to Platinum Equity for \$375mm in Cash and a Retained Equity Stake

October 7, 2025

The Patient Direct business, which now represents essentially all of OMI's continuing operations, generated \$681.9 million in revenue during the second quarter of 2025. Growth was modest at only around 3% YoY, but healthy figures given how transitional the year has been. Beneath that top line sits \$96.6 million in adjusted EBITDA, a 14.2% margin, which shows that the underlying business is structurally far more profitable than the legacy segment ever was.

Additionally, after considering the \$59 million in D&A reported, we can assume that OMI generated \$37 million in EBIT, or operating profit, this quarter. However, the non-adjusted numbers tell a noisier story, a reported operating loss of -\$39.7 million for the quarter, but that's almost entirely the result of one-time items, including roughly \$80 million in termination costs from the canceled Rotech acquisition. Remove that, and the adjusted operating margin lands around 8–9%, right in line with historical normalized performance. For the full year, management expects \$2.76–\$2.82 billion in revenue and \$376–\$382 million in adjusted EBITDA, which, if achieved, would confirm that Patient Direct can grow mid-single digits while sustaining mid-teens margins.

Considering that the company had an adjusted EBIT margin of around 5.4% (\$682 million in revenue, \$37 million in EBIT), we can project that for the rest of the year. Given the guidance of revenue of around 2.7 billion for the year, this would yield around \$146 million in EBIT for the year.

Similarly, operating cash flow for the quarter came in at about \$38 million, and after accounting for capex, free cash flow settled near -\$30 million, but buried within that figure is roughly \$98 million in one-time cash charges tied to the terminated Rotech acquisition, which means that, when you strip out those extraordinary costs and look at the core business as it actually operates, free cash flow would have been closer to \$68 million, a level that better reflects the underlying earnings power that's been masked by the noise of one-off events.

Owens & Minor spikes \$1.36B Rotech buyout over regulatory barriers

The companies scrapped the merger because securing FTC clearance “proved unviable in terms of time, expense and opportunity.”

Published June 6, 2025

Underneath that segment-level data sits an impressively diversified product mix that speaks to how entrenched OMI has become in home-based chronic care. The Patient Direct business serves roughly 3 million patients annually and covers nearly every high-frequency, long-duration supply category in the space: diabetes supplies (~28% of revenue, or \$378 million), sleep-apnea therapy and CPAP devices (~27%, or \$363 million), home respiratory care (~16%, or \$218 million), ostomy (~8%, or \$101 million), wound care (~7%, or \$89 million), urology (~4%, or \$57 million), and an assortment of other daily-use products and medical equipment (~11%, or \$144 million).

Home Medical Equipment Market

The home medical equipment market has become one of the most structurally supported segments in American healthcare. It sits at the intersection of several megatrends that are transforming the way care is delivered, especially the ones of aging demographics, rising chronic disease prevalence and rapid advances in portable technology. These are not discretionary products, and they serve long-term, recurring patient needs that persist regardless of economic cycles.

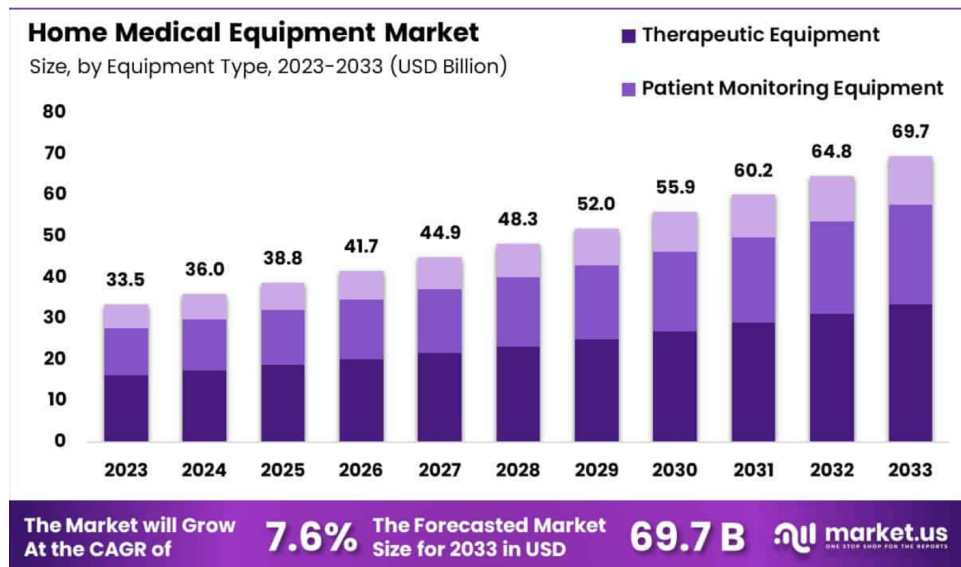
Roughly 40% of U.S. adults live with at least one chronic condition, and about 12% have five or more. Diseases such as diabetes, sleep apnea, and cardiovascular and mobility disorders create continuous demand for home-based therapies that can sustain quality of life outside institutional care. By 2030, one in five Americans will be aged 65 or older, about 71 million people, many of whom will face mobility challenges, respiratory issues, or chronic conditions that make frequent hospital visits impractical. As a result, care is shifting to the home not only because it is more comfortable and preferred by patients, but because it is far cheaper for insurers and providers.

Technological innovation adds a further push. Devices that once required hospital infrastructure are now compact, connected, and easier to manage remotely. The proliferation of telehealth, wearable monitoring, and connected care platforms means patients can be continuously observed, while physicians and insurers can verify adherence and outcomes.

Reimbursement policies have followed technology, expanding coverage for durable medical equipment (DME) and home-based therapies. Hospitals are incentivized to

discharge patients earlier, and Medicare and private payers are increasingly reimbursing for home use of devices once limited to clinical settings.

In size terms, the market is vast and steadily expanding. Estimates vary by definition, but the U.S. durable medical equipment market was valued at roughly \$70 billion in 2024, growing at about 5.6% annually.



In terms of specific treatments that OMI provides to these diseases, diabetes is one of the largest, accounting for about 28% of OMI's Patient Direct revenue while sleep apnea and other respiratory disorders represent another 27%. Home respiratory therapy adds another 16% and wound-care products together make up roughly 14%,

Each of these conditions embodies the structural logic of the home-care model: long duration, predictable recurrence, and payer reimbursement from the government that favors scale and reliability. Patients with diabetes require constant supply refills and device replacements, meaning that OMI will have a steady stream of income for the foreseeable future. Manufacturers want distributors who can guarantee national coverage, handle regulatory complexity, and interface seamlessly with insurers, while patients and providers want quick delivery, low hassle, and guaranteed insurance processing.

OMI, as we will see in the next section, has a strong presence in the market and one that is extremely hard to be replaced by an upcoming competitor. In a growing market with basically unstoppable tailwinds, product resilience is a key advantage a player like OMI can have that will make sure they thrive.

A silent moat

Owens & Minor's logistics network is the invisible skeleton of the business. Unlike a retailer or a manufacturer, OMI's value isn't in any single product but in its ability to

move high-value, highly regulated medical goods through a time-sensitive, vast supply chain at scale. This is what allows the company to exist as the connective tissue of the U.S. healthcare infrastructure, rather than as just another distributor.

In practical terms, the company operates over 300 distribution centers and service locations across the United States, with a physical footprint that allows it to reach roughly 90% of the U.S. population within four hours. This matters profoundly in healthcare, where timing is literally a matter of life or death. A delay in delivering an oxygen concentrator or a sleep-apnea machine isn't an inconvenience, it's a medical event.

That four-hour window is OMI's version of Amazon Prime, but for patients who can't breathe without the delivery.

The moat here is not just logistical capacity, it's *integration depth*. OMI's logistics are embedded within payer systems, clinical workflows, and insurance pre-approvals. Whenever a patient goes to the hospital or their physician, the patient is not the one to put in the order with OMI, the doctor or the hospital is. OMI has a large and long lasting network of people that buy and recommend their products and, perhaps most importantly, have a history of being pre-approved by insurers or medicaid, meaning that buyers prefer buying OMI and making sure they'll get reimbursed.

That integration creates high switching costs. If a payer were to replace Owens & Minor with a different supplier, it would mean retraining staff, reconfiguring billing interfaces, renegotiating contracts, and, most painfully, migrating thousands of patient accounts and device serial numbers into a new compliance system. For a hospital or insurer already running on razor-thin margins, that's an unacceptable operational risk. So they stay not because OMI's brand is glamorous, but because the friction of leaving is enormous.

On a more strategic level, logistics scale gives Owens & Minor an almost *utility-like* role in the healthcare supply chain. Hospitals, nursing facilities, and home-care providers rely on OMI's distribution backbone in the same way retail relies on FedEx or UPS. It's invisible when it works but catastrophic when it doesn't which makes it indispensable. This is the subtle economic moat of distribution. It's rarely glamorous, but it's nearly impossible to replicate because replication requires not just warehouses and trucks, but decades of regulatory credibility, payer connectivity, IT integration, and patient data systems, all under high-compliant oversight.

Moreover, OMI's scale in the Patient Direct business specifically compounds over time. Every new payer contract adds incremental patient volume with minimal marginal cost, because the network is already in place. This network effect strengthens with density, as more patients in a given region rely on OMI, its delivery routes get shorter, cheaper, and faster, while competitors face rising per-unit costs. That's why even though margins in distribution look thin (mid-single digits), returns

on *incremental* invested capital can be very high once the fixed infrastructure is built and paid for. The economics resemble a toll road — once the road exists, every new car (or in this case, every new patient shipment) is almost pure contribution margin.

In short, Owens & Minor's logistics network is its moat. It's not glamorous, but it's foundational. Having a nationwide system of distribution, compliance, and reimbursement that no new entrant can replicate without years of capital burn, regulatory approvals, and payer integration.

Its deep integrations with the healthcare system in the US makes it virtually impossible for buyers to stop buying from OMI overnight, and the non-cyclical nature of their business guarantees that they will be around regardless of economic condition. Its ability to seamlessly integrate new patients to its network, as we predict will happen as the US population gets older and sicker, will further allow OMI to grow faster and faster at cheaper and cheaper marginal costs, allowing them to naturally keep and expand their margins over long periods of time.

Current Narrative: Is the pessimism justified?

Owens & Minor is down -57% year to date and a staggering -78% in the past 5 years, with a -80%+ drop from the highs the stock enjoyed a few years. My goal here is to find out two things:

Why is the market pessimistic?

Does it make sense?

Market Summary > Owens & Minor Inc

5.51 USD

+ Follow

-19.61 (-78.07%) ↓ past 5 years

Closed: Oct 24, 5:50 PM EDT • Disclaimer

After hours 5.40 -0.11 (2.00%)

1D | 5D | 1M | 6M | YTD | 1Y | **5Y** | Max



5.51 USD

+ Follow

-7.34 (-57.12%) ↓ year to date

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After hours 5.40 -0.11 (2.00%)

1D 5D 1M 6M YTD 1Y 5Y Max



Owens & Minor's balance sheet remains the single biggest constraint on both valuation and investor confidence, because while management has made clear progress toward simplification and management has stated that the overwhelming majority of the proceeds from divestitures will go into repaying debt, leverage hasn't yet been solved and as long as a problem as big as this is here, caution will follow, especially as investors are uncertain of the company's turnaround execution. Will it sustain or will it collapse under its own weight?

As of Q2 2025, OMI reported roughly \$2 billion in net debt, which against their midpoint 2025E Patient Direct adjusted EBITDA guidance of ~\$380 million implies nearly 5x leverage, an uncomfortable level for a company in the middle of a divestiture, particularly one that just spent two years digesting costly acquisitions and paying fees for a failed deal (Rotech termination fees of 100M)

The market continues to treat OMI as a credit story masquerading as an equity, meaning equity value will only re-rate when cash actually arrives and the debt burden visibly declines.

However, the entire risk analysis just changed, because earlier this month the company moved to enter into a definitive agreement with Platinum equity. Under the terms announced October 7 2025, Owens & Minor will receive \$375 million in cash at closing, retain a 5% equity stake in the business and preserve more than \$150 million in tax attributes. The proceeds are earmarked 100% for debt reduction, which means net debt falls from roughly \$1.9 billion toward \$1.5 billion

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Even though debt is still incredibly high, the company has gained an incredible life-line, especially when looking at the maturity dates of debt.

As of June 30, 2025, future principal payments due under our debt agreements or anticipated to be repaid within twelve months, excluding other, were as follows:

Year	
2025 (remainder)	\$ 383,000
2026	—
2027	135,000
2028	—
2029	932,904
2030	552,189

As shown in their last 10-Q, the company has a massive pile of debt outstanding for 2025 of \$383 million. With \$375 million in proceeds, this debt pile is almost reduced to zero right away, allowing the company to pay the other 8 million from their current cash reserves or revolver. Most of their debt is due payable in 2029 and 2030, with zero debt to be paid in 2026. This means that the company will have around 4 years to restructure, improve operations and completely focus on their patient direct business, which does tend to present higher profit margins and lower fixed costs.

Still, execution risk remains large. The divestiture must close on schedule and the company must prove to investors that it will be able to operate as a pure play patient direct business. However, I believe that the risk-reward analysis is now heavily positively skewed.

Even if the deal stalls a little longer, it should be relatively easy for the company to renegotiate its debt given that they have a legal binding agreement to receive basically the full amount in cash pretty soon. Additionally, the company has been operating its patient direct business for a very long time and it has grown to the second biggest in the market and has developed a strong moat in the industry, so I don't believe the operational risks of the new company are credible to the point of dragging the stock down this much this fast.

The narrative around that should change very soon, and once it does the market will quickly re-rate the company and the stock should grow quickly.

However, there are two extra pieces of the narrative that are not as significant or as catastrophic as the debt situation that do amount to some selling pressure: stranded costs and government reliance.

After selling its low-margin distribution arm, OMI is left with corporate overhead that no longer has revenue to support it, what management calls stranded costs. These include IT, HR, and logistics expenses that were once shared across divisions. While management pegs them at roughly \$11 million, they could temporarily rise and take longer to unwind, likely closer to \$80–100 million annually if not addressed quickly. The timing of these reductions will decide whether the post-divestiture company can

actually expand margins and generate free cash flow. If they linger, they'll blunt much of the benefit of becoming a "leaner" business. These costs if not dealt with correctly can melt through the patient direct rich cash flows and basically undo all the progress they made with the divestiture and the focus on a more efficient market segment. However, management is very aware that this is a large risk and, according to them, the costs shouldn't be that high. Hopefully they're not wrong.

Still, every company that goes through a divestiture process goes through this stranded cost problem and it doesn't make the market see the strategic shift as a terrible thing per-se. I believe that the benefits of having a leaner business, focused on their biggest economic moat and competitive advantage that enjoys higher profit margins very much outweigh the potential risks of having lower margins for a little while.

Additionally, another problem is that nearly 45% of OMI's Patient Direct revenue comes from Medicare and Medicaid reimbursements, meaning profitability depends heavily on government policy. Any tightening of coverage rules could slow patient onboarding and squeeze margins. Broader CMS proposals for 2026 could also expand competitive bidding and add new compliance burdens. While OMI's national scale offers some buffer, its exposure to government programs keeps growth fragile and margins sensitive to policy changes.

A point that brings me significant comfort in investing in the company is the management compensation structure. In a moment of such a monumental turnaround, the company's management has to have their eye on the ball and have their interests aligned with the success of their work.

Finally, their executive compensation, which is key for making the people in charge interested in making the company succeed in the long run, is deliberately structured so that a minimal portion is simply salary and the lion's share is tied directly to company performance, meaning executives only truly win when shareholders do. According to the 2024 Proxy Statement, the CEO's base salary accounts for roughly **10–11%** of his total target compensation, while about **89%** is performance-based, with the long-term equity component (half PSUs, half RSUs) tied to three-year cumulative metrics plus relative TSR. The annual cash incentive focuses on adjusted operating income (60%), revenue (20%) and cost/efficiency programmes (20%). This mix ensures that management's financial incentive is not merely for showing up or executing mediocre results, but for driving sustained profitable growth, enhancing cash generation, and delivering shareholder value—exactly the alignment required in a company undergoing transformation and rebuilding credibility with the market.

In other words, for the first time in years, the leadership team's financial success is explicitly tied to improving returns for shareholders, not just surviving the quarter.

Valuation

The first thing I want to do to value OMI is to analyze it through a reverse DCF and have an idea of how much growth the market is pricing into the company for the foreseeable future.

Current stock price	\$5.51	OMI			
Shares outstanding (million)	77				
Desired return (discount rate)	11%				
Terminal Growth rate	2%				
Adj. FCF (Q2, annualized) (million)	272.00				
Growth rate year 1-10	-3.65%				
Cash flow estimates					
	Year 1	Year 2	Year 3	Year 4	Year 5
FCF	272.00	262.07	252.51	243.29	234.41
Growth		-3.65%	-3.65%	-3.65%	-3.65%
Discounted FCFs					
	Year 1	Year 2	Year 3	Year 4	Year 5
FCF	272.00	262.07	252.51	243.29	234.41
Present value	245.05	212.70	184.63	160.26	139.11
Sum discounted CFs	941.75				
Terminal value					
TV	2,604.55				
Present Value TV	1,545.68				
Total equity value					
EV	2,487.43				
Net Debt	\$ 2,060.00				
Market Cap	\$ 427.43				
Value per share					
Intrinsic Value	5.55				
Upside/downside	0.74%				

As of today, the market is expecting a growth of -3.65% in FCF for the next 5 years. Considering the company's strong positioning in the home medical equipment market and considering its now 100% focus on the patient direct business, which is one with greater margins and scalability, I believe that is extremely overpessimistic. Not to mention this analysis doesn't take into account a multiple expansion that the company should have when they solve their liquidity and debt problem. Today it is trading for less than 2x FCF, once this problem is out of the way, there is no justifying keeping this multiple this low.

In terms of valuation, we can assume that the patient direct's revenue will be the only one driving the top line for the firm once they sell the other division. For yearly revenue, I annualized Q2's revenue as a basis.

Assuming 2% annual revenue growth over the next five years is intentionally conservative, almost understated, given the backdrop. The home medical equipment market that OMI operates in is expected to grow closer to 5% per year, driven by aging demographics, rising chronic illness, and the steady migration of care from

hospitals into homes. With its national footprint, insurer relationships, and ability to reach 90% of the U.S. population within a few hours, OMI is positioned to capture that growth better than almost anyone else in the space. A 2% forecast simply leaves room for short-term friction from stranded costs and contract resets, but in reality, this is a company sitting directly in the path of a multi-year tailwind that's still only beginning to accelerate.

Owens & Minor's margin should hover around 10%, because its economics have nothing to do with the razor-thin, 1–2% distribution margins the company is leaving behind. Peers like AdaptHealth and Lincare already show what this looks like, running with EBITDA margins between 12% and 15% and operating margins near 10%, proving that scale and service quality translate directly into profitability. This quarter's margin should be representative of what is to come for the company and we should expect margins to keep around this 10% mark.

In the short term, stranded costs from the divestiture will drag Patient Direct's margins down to roughly 6%, but that hit is temporary; once those costs are stripped out and the integration work is done, margins should rebound to around 10% and then expand slowly, about 0.3% per year, as pricing power improves, cost discipline compounds, and operational leverage kicks in across its national delivery network.

In terms of multiple, it is reasonable to expect that the company should be trading at at least 10x EBIT, on the very low end. The stock can easily be trading at around 11-12x EBIT, especially given the business' revitalized operations and higher margins as well as when compared to competitors like AdaptHealth (currently at 11x). Most importantly, however, is the fact that the stock follows a multiple expansion into the low double digits after the company finalizes the divestiture of its division and manages to pay off a significant portion of debt, making investors confident that they will be solvent for the foreseeable future.

The stock is trading at less than 2x FCF and this will make zero sense once investors are confident on the company's ability to pay off debt.

• OMI LTM Total Enterprise Value / EBIT: Mean: 18,23x High: 52,83x Low: 7,58x Last: 8,37x



• OMI LTM Total Enterprise Value / EBIT: Mean: 10,22x High: 13,78x Low: 7,94x Last: 8,37x



	Revenue (M)	Revenue Growth	EBIT margin		
Y0	\$2.728,00	2%	10,0%	Company	OMI
Y1	\$2.782,56	2%	6,0%	Rev. Growth Change	
y2	\$2.838,21	2%	10,0%	Future EV	R\$ 3.283,01
y3	\$2.894,98	2%	10,3%	Net Debt	2070
y4	\$2.952,87	2%	10,6%	Current mkt cap (m)	R\$ 425,62
y5	\$3.011,93	2%	10,9%	Future Mkt Cap(m)	R\$ 1.213,01
				Multiple	10
Y5 EBIT	\$328,30				
				return (CAGR)	23,30%

Inputs						
Current stock price		\$5.51	OMI			
Shares outstanding (million) (Y10)		77				
WACC		10%				
Revenue Growth change		0				
Margin Growth		0.30%				
Cash flow estimates						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	2,728.00	2,782.56	2,838.21	2,894.98	2,952.87	3,011.93
Revenue Growth	N/A	2%	2.0%	2.0%	2.0%	2.0%
FCF Margin	4.00%	4.3%	4.6%	4.9%	5.2%	5.5%
FCF		119.65	130.56	141.85	153.55	165.66
Discounted FCFs						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
FCF		119.65	130.56	141.85	153.55	165.66
Present value		108.77	107.90	106.58	104.88	102.86
Sum discounted FCFs		530.98				
Terminal value						
TV (at 6x FCF)		993.94				
Present TV		617.16				
Present Value of EV		1,148.14				
Total equity value						
Total equity value		1,148.14				
Value per share						
Intrinsic Value		14.91				
CAGR		22.03%				

All these assumptions lead me to believe that OMI offers a great risk-return profile and will likely outperform the market over the next months. I expect a CAGR of around 22% for the stock over the next few years, mainly boosted by the high margins of the patient direct segment, which the market seems to not really appreciate, and by a multiple expansion following a successful divestiture, paying off of debt and operational excellence.

I will continue to add to this position in my portfolio if the status quo keeps the same and I look forward to seeing their earnings soon as I analyze how they will actually perform as a patient direct pure business.