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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Another Record Qtr and Yr. But 2014 Could Dwarf Last Yrs Numbers

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (04/03/14)	$1.76
Target Price	**$4.00**

OUTLOOK

The scalability inherent in OPRX's business model is starting to crank up. 2013 saw 149% revenue growth on just 28% increase in op expenses. Coupon distributions quintupled from 2012 to 2013 and mgmt. expects a doubling from 2013 levels in 2014. We think revenue can increase another 73% in 2014 with only modest increase in expenses. Company was cash flow positive every qtr since Q2 2013 and we have no reason to believe this will not only continue but cash flow will significantly increase. OPRX recently took out Vicis preferred, added $3M to their balance sheet and reduced fully-dilutive shares o/s by ~20%.

On top of the ability to scale with just their current installed base, we see several other near-term catalysts to drive revenue in 2014 and beyond. We are maintaining our Outperform rating. Target has moved from $3.50 to $4.00.

SUMMARY DATA

52-Week High	**$2.12**
52-Week Low	**$0.86**
One-Year Return (%)	**24.09**
Beta	**2.09**
Average Daily Volume (sh)	**48,620**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$40**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**176**
P/E using 2014 Estimate	**25.1**
P/E using 2015 Estimate	**12.6**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Growth**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	669 A	1104 A	1373 A	1811 A	4,957 A
2014	1920 E	1886 E	2084 E	2674 E	8,564 E
2015					16,705 E
2016					25,397 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013					$0.01 A
2014	$0.01 E	$0.01 E	$0.02 E	$0.03 E	$0.07 E
2015					$0.14 E
2016					$0.20 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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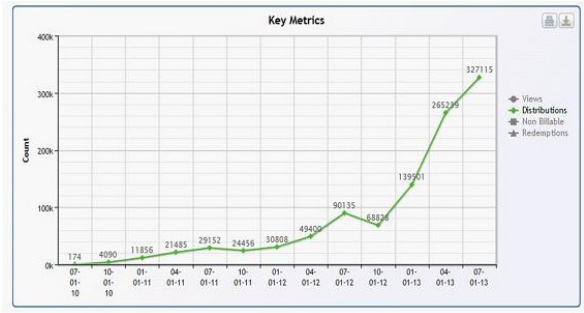
2013 Results: Deja Vue: Record Revenue, Record Distributions. Strong 2014 Guidance

OptimizeRx reported financial results for the fourth quarter and year ending 12/31/2013. Q4 revenue came in at $1.8 million, as expected following the company's pre-announcement in late January. Revenue continues to set new records, posting yoy growth of 141% and besting the previous record of $1.4M in Q3 by 32%. Coupon distributions, at approximately 480k in Q4, were also at an all-time high.

SampleMD Core eCoupon Business Usage Metrics
Jan 2010 –Sept 2013



SOURCE: OptimizeRx

For the full-year 2013 revenue came in at $5.0M, up 149% from the $2.0M generated in 2012 with coupon redemptions more than quintupling over that same period. We think the difference between the 1.5x revenue growth and ~5.0x coupon redemptions growth relates at least in part to a higher % of set-up revenue being booked in 2012 – which we view as a positive indication that the scalable core business (i.e. - coupons) is now almost exclusively driving the top line. Another indication that coupon redemptions have increased as a % of total revenue is that revenue share expense (which relates only to coupon redemptions and not set-up fees) was just 6% of revenue (per the restated 2012 income statement) in 2012 but 36% of revenue in 2013.

In February 2014 OPRX announced an accounting change. OPRX had previously been using cash accounting methods to recognize revenue share payments. In February the company announced that they will now be recording this expense as it occurs (accrual accounting). Revenue share is also now being recorded in a COGS line where previously it was being captured in operating expenses. While the change has no effect on historical or estimated future revenues, it does not allow for below the line (op expenses, op income, net income, EPS, shares o/s) quarterly comparisons to year-earlier periods in the absence of filed 10-Q restatements. As such we do not provide below the line comparisons for the Q4 period.

The restatement is available for the full-year 2012. Operating expenses were $3.0M in 2013, compared to $2.3M in 2012. The scalability in the business has become quite evident as revenue grew 149% from 2012 to 2013 but operating expenses increased by only 28%. We also note that excluding a one-time expense in 2013 related to Shad Stastney's departure, operating expense growth would have been closer to 20%.

This leverage effect that is inherent in the business model is expected to be even more pronounced throughout 2014 – management indicated on the Q4 call that they believe that they can double the number of transactions in 2014 (we would expect this would translate into a much higher multiple of growth in net income). We currently model revenue growth of 73% and net income of $2.1M in 2014. Our numbers have come down slightly since our last update as they now include a ~10% royalty to LDM related to the settlement agreement in February 2014 between OPRX and LDM.

2013 net income and EPS were $216k and $0.01, up from ($455)k and ($0.03) in 2012.

Along with consistent revenue growth and increasing distribution numbers, OPRX has generated positive cash flow from operations the last three consecutive quarters as well as for the full year 2013. Ex-changes in working capital, cash flow from operations was $441k in Q2, $331k in Q3, $113 in Q4 and $828k for the full year. Free cash flow in 2013 was $727k. Given our current estimates of revenue and expenses in 2014, we think OPRX could generate as much as 3x or more of this amount of cash in 2014.

Cash Position, Balance Sheet Firmed Up
OPRX exited 2013 with $1.1M in cash and equivalents. Subsequent to year-end the company completed a $10M common stock sale (8.33M shares @ $1.20) which will be used to redeem all OPRX securities held by Vicis Capital. In January Vicis agreed to reduce the price of the redemption option from $9M to $6M.

The buyout takes out 35 preferred "A" shares (convertible into 3.5M common shares), 30M preferred "B" shares (convertible into 3M common shares), and common shares and warrants held by Vicis. The net effect will be a reduction of just over 7M dilutive shares outstanding. OPRX will also be relieved of $650k in annual preferred dividends, which had been paid with common stock. Net of ~$970k in placement fees, OPRX will also add about $3M in cash to their balance sheet from this capital raise.

2014 Catalysts
On the Q4 call management provided some general operational expectations for 2014 including increasing the number of network doctors and brands by approximately 35% and to double the number of transactions from the ~1.2M generated in 2013. We see that goal as reasonable and attainable, particularly given that there are several initiatives that are either relatively new and will make a greater contribution in the current year or will make their initial introduction sometime during 2014 and are expected to add to the momentum from 2013. This is on top of the ability to scale just from the current installed base. Near-term catalysts include;

- **SampleMD 2.0:** OPRX has been working on their next generation platform for several quarters and is now in the early stages of roll-out. The 2.0 platform incorporates updated architecture and allows for several advantages over the legacy system including significantly increased speed, ease of integration with partner platforms, additional capacity and overall enhanced functionality
- **RepOnCall functionality:** OPRX has talked about functionality that will allow a doctor to be able to live chat with a drug manufacturer and/or schedule meetings with drug reps (eVITEREP). In January they announced a partnership with Grey Healthcare which now allows this enhancement to become functional. This could be an attractive enhancement particularly for OPRX's pharma partners as it essentially allows a rep direct contact (i.e. – sampling) to the physician in a current environment where it has become ever more difficult for pharma reps to get face (or ear) time with physicians. And from the physicians standpoint, he can initiate the dialogue when it's most convenient instead of being bothered by cold calls
- **LDM:** OPRX settled the lawsuit by LDM. With LDM agreeing to drop the suit in return for payment from OPRX of $400k plus the greater of $0.37 per coupon distributed or 10% of the related revenue. Importantly the companies are now again working together. LDM provides prescription management programs touching prescribers, EHRs and pharmacies. The agreement affords OPRX the ability to leverage LDM's communications and contacts to promote at the pharmacy level, thereby giving them an additional distribution channel and allowing them to offer coupons and discounts at the time a patient fills a prescription. And with patient education expected to be a high-growth area, LDM offers the opportunity for OPRX to become a more integral part of that business
- **EHR business:** OPRX launched their EHR consulting business in September 2013 and recently noted that that had engagements with three companies including Eli Lilly and Astellas. While the EHR business likely contributed little in the way of revenue in 2013 and is not likely to be overly meaningful in 2014, management is clearly focused on building this out as a complement to the current core ecouponing business and indicated on the Q4 call that they see real opportunity to do so. Management mentioned interest from potential clients during attendance of the recent Healthcare Information and Management Systems Society meeting – also noting that they are in process of signing some major agreements. So while we do not view the EHR business as a significant near-term catalyst, we believe it, coupled with the ecouponing business, could eventually evolve into an all-encompassing solutions-based service for pharma clients and be a meaningful revenue generator in the future
- **PDR:** incorporation of SampleMD into PDR's branded downloadable application could expand OPRX's distribution by up to as many as an additional 100k physicians. Integration had been targeted by year-end 2013 but is still ongoing. Management noted on the call that it is now close to completion
- **Beefed-up sales force:** OPRX will look to add headcount to supplement their sales efforts and recently brought on an ex-AstraZeneca executive to help oversee the global sales and marketing functions

Recent Operational Highlights

- **Integration Into Add'l Platforms**: SampleMD was first integrated into Allscripts' e-prescription system in late 2010. Since then OPRX has been very active in expanding the SampleMD footprint in additional e-prescription providers including NewCrop and DrFirst, two e-prescriber applications that adopted SampleMD since late 2011. In Q3 2012 integration of SampleMD with Allscripts' PRO EMR application was completed and went live. This afforded SampleMD potential access to an additional 25k physicians - the physicians have to opt-in which has been somewhat of a hindrance to capturing all the potential prescribers. Allscripts has agreed to make this an opt-out option instead which should increase utilization. The opt-out functionality should be implemented in December and fully phased in January 2014.

  OPRX has began integration with HealthTronics, the largest urology EMR in the U.S. which touches over 2,200 physicians. OPRX beta-launched the HealthTronics platform in mid-May 2013 with a small group of doctors and recently noted that the integration was completed during Q2 2013 and would take about two months to be fully phased in. OPRX notes that this partnership could be key for certain of their current promoted drugs including Cialis and VESIcare and in acquiring other brands for promotion through their system which have a large urology prescription base - including Viagra. The total urology base of physicians that OPRX's platform should touch, including those in HealthTronics, is estimated at about 8,000.

  OPRX is also in discussions with other eprescribing platforms and EMRs to further increase their distribution reach and customer base. They recently signed an agreement with Physicians Desk Reference (PDR) whereby SampleMD will be incorporated into a PDR-branded downloadable application in physician's offices. PDR has a significant user base and expands OPRX potential distribution by up to as many as an additional 100k physicians. Integration within the PDR application is expected to be completed during 2014.

- OPRX also had an agreement with LDM Group, which provides prescription management programs touching prescribers, EHRs and pharmacies. The relationship, however, had been somewhat contentious and after dropping an earlier lawsuit against OPRX (claiming patent infringement) after the two parties came to terms for resolution, LDM subsequently filed another lawsuit claiming OPRX violated the terms of the agreement. In February 2014 the two parties agreed to a settlement which includes OPRX making an upfront payment of $400k and will also pay LDM the greater of $0.37 per coupon distributed or 10% of the related revenue. With the lawsuit settled, the parties are now again working together. This affords OPRX the ability to leverage LDM's communications and contacts to promote at the pharmacy level, thereby giving them an additional distribution channel and allowing them to offer coupons and discounts at the time a patient fills a prescription. And with patient education expected to be a high-growth area, LDM offers the opportunity for OPRX to become a more integral part of that business

- **Medication Adherence Collaboration With DrFirst:** SampleMD was recently integrated into DrFirst's Patient Advisor as that platform's exclusive provider of electronic coupons. Patient Advisor is a medication adherence solution within DrFirst's e-prescribing system and includes value-added services from KRAMES Staywell, Adheris and now SampleMD. The system allows doctors insight into Rx fill rates of their patients to help inform them of patient compliance and is expected to increase medication adherence rates - which when not followed has shown to have a significant and direct adverse effect on patient health and health care costs (particularly for chronic diseases which are harder and more expensive to treat if not properly managed). Addressing these problems is at the forefront of recent healthcare reform measures focused on reducing healthcare costs and improving patient care and outcomes - which should increase demand for solutions such as Patient Advisor. KRAMES is one of the largest providers of health information and health management solutions. Adheris is the leading provider of direct-to-patient medication adherence programs. Together, this collaboration exposes OPRX to about 150 drug brands (including major brands such as Lipitor), increases distribution reach of SampleMD, and further bolsters its credibility from the relationships with DrFirst, KRAMES and Adheris, leaders in their respective areas.

- **SampleMD Enhancements:** OPRX has been working on their next generation platform for several quarters and is now in the early stages of roll-out. The 2.0 platform incorporates updated architecture and allows for several advantages over the legacy system including significantly increased speed, ease of integration with partner platforms, additional capacity and overall enhanced functionality. OPRX is also adding functionality to its platform. OPRX has talked about functionality that will allow a doctor to be able to live chat with a drug manufacturer and/or schedule meetings with drug reps (eVITEREP). In January 2014 they announced a partnership with Grey Healthcare which now allows this enhancement to become functional. This could be an attractive enhancement particularly for OPRX's pharma partners as it essentially allows a rep direct contact (i.e.

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- **OptimizEHR:** OptimizEHR launched in September 2013. The consulting business will look to leverage the contacts, client base and distribution reach already established through the SampleMD business by offering additional marketing and information-oriented services. OPRX has alluded to this type of offering in the past but with the recently consummated relationships with the likes of PDR and Krames-Staywell, prescribing and patient education information sources that will likely be part of the additional service offerings, and the advent of OptimizEHR moniker, this business line is now functional. After only about two months following the official launch OPRX landed engagements with three companies including Eli Lilly and Astellas, both of which OPRX had relationships via their SampleMD business. Leveraging these types of synergistic opportunities with SampleMD and EHR is a key strategy to build the businesses and solidify existing relationships which appears to be paying early dividends. And while the EHR business likely contributed little in the way of revenue in 2013 and is not likely to be overly meaningful in 2014, management is clearly focused on building this out as a complement to the current core ecouponing business and indicated on the Q4 2013 call that they see real opportunity to do so. Management mentioned interest from potential clients during attendance of the recent Healthcare Information and Management Systems Society meeting – also noting that they are in process of signing some major agreements. So while we do not view the EHR business as a significant near-term catalyst, we believe it, coupled with the ecouponing business, could eventually evolve into an all-encompassing solutions-based service for pharma clients and be a meaningful revenue generator in the future

- **Prescriber and Client Base / Drugs Promoted:** While management has not recently provided specifics numbers, the company has indicated that they continue to grow the number of pharmaceutical companies participating, the number of drugs being promoted and the number of physicians reached with SampleMD. We expect growth in all three of these areas during 2014. In fact on the Q4 call management noted that they hope to add 100k prescribers and increase the number of drugs promoted by 35% in 2014.

- **Patent Portfolio Beefed Up:** OPRX was recently awarded a patent covering electronically processing, displaying and distributing eligible prescription savings on medications. The company notes that they have also recently submitted and will be preparing additional IP filings.

Outlook / Valuation

Revenue was $1.1 million in the full year 2011, $2.0 million (+84% yoy) in 2012 and $5.0 million (+149%) in 2013. We currently model $8.6 million in revenue in 2014, implying 73% growth from 2013. This could be conservative given that management hopes to double the number of coupon transactions from 2013 to 2014.

Set-up fees (as opposed to voucher distributions) had been a meaningful portion of total revenue in the past but now distributions are accounting for ~90% of total revenue. We view this as a significant positive shift as the expectation is that sales should significantly ramp with growth in revenue from voucher printing - which should pick as SampleMD's distribution is further expanded, especially as it relates to Allscripts, DrFirst, NewCrop and other channels that could come online in the near future. Distribution numbers have accelerated very rapidly, including a 5x increase from 2012 to 2013. The additional functionality ("2.0", LDM, RepOnCall) and integration into new solutions (such as platforms and partnerships with Patient Advisor, HealthTronics, and PDR) should also increase awareness, increase value to the end user, increase the physician base and utilization, help to increase the number of drugs promoted, and expand opportunities for further growth. Complementary revenue sources, particularly from the EHR business could also begin to make a more meaningful contribution.

Sales are being handled by a small internal sales team which has helped keep operating expenses and cash burn to a minimum. While OPRX is bringing on additional sales headcount, OptimizeRx's cost base is relatively low and largely fixed - this coupled with what we model to be quickly ramping revenue, means sustainable profitability could materialize in short order. We think OPRX is now on the front end of sustainable profitability and cash flow generation. Q2, Q3 and Q4 were all and cash flow positive (ex changes in wc) as was the full year 2013. We look for OPRX to generate positive net income for the full current year. Both revenue and coupon distributions have shown sequential and yoy growth in at least seven of the last nine quarters.

We use a multiple of 2016 EPS to value OPRX. As there are no publicly traded direct competitors to OptimizeRx to use for comparable P/E multiples, we think it is appropriate to use the average valuations of a handful of indirect competitors to price OPRX. Our comparable base is represented by MDRX, MDAS, QSII, ~~ATHN~~ (outlier) and ESRX, all of which operate in the healthcare information technology space and most of which are involved to some extent in e-prescription services or EMR / EHR.

These four companies currently trade at an average of 19x analysts' estimated 2016 EPS. Applying this multiple to our 2016 EPS estimate of $0.20 values OptimizeRx at approximately $4.00 per share. We are maintaining our Outperform rating. Our price target has moved from $3.50/share to $4.00/share.

FINANCIAL MODEL

OptimizeRx Corporation

	2013 A	Q1E	Q2E	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Net Revenue	$4,957.0	$1,919.6	$1,886.2	$2,084.0	$2,674.0	$8,563.7	$16,705.4	$25,396.7	$30,418.0
YOY Growth	*149.0%*	*186.8%*	*70.8%*	*51.8%*	*47.7%*	*72.8%*	*95.1%*	*52.0%*	*19.8%*
SG&A	$2,974.0	$872.6	$892.6	$832.6	$822.6	$3,420.4	$4,100.0	$4,750.0	$5,650.0
% SG&A	*60.6%*	*45.5%*	*47.3%*	*40.0%*	*30.8%*	*39.9%*	*24.5%*	*18.7%*	*18.6%*
Operating Income	$215.6	$361.7	$318.3	$503.3	$888.8	$2,072.0	$6,340.9	$10,742.0	$12,600.8
Operating Margin	*4.3%*	*18.8%*	*16.9%*	*24.1%*	*33.2%*	*24.2%*	*38.0%*	*42.3%*	*41.4%*
Other income	$0.2	$0.1	$4.0	$4.0	$4.0	$12.1	$50.0	$100.0	$125.0
Pre-Tax Income	$215.8	$361.8	$322.3	$507.3	$892.8	$2,084.1	$6,390.9	$10,842.0	$12,725.8
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,220.65	$2,818.9	$3,525.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*19.1%*	*26.0%*	*27.7%*
Net Income	$215.8	$361.8	$322.3	$507.3	$892.8	$2,084.1	$5,170.2	$8,023.1	$9,200.8
Net Margin	*4.4%*	*18.8%*	*17.1%*	*24.3%*	*33.4%*	*24.3%*	*30.9%*	*31.6%*	*30.2%*
EPS	$0.01	$0.01	$0.01	$0.02	$0.03	$0.07	$0.14	$0.20	$0.22
YOY Growth	*-157.4%*	*-238.4%*	*3.8%*	*5339.0%*	*-1095.8%*	*358.3%*	*113.6%*	*39.7%*	
Diluted Shares O/S	14,713	35,500	29,400	29,500	29,600	31,000	36,000	40,000	42,000

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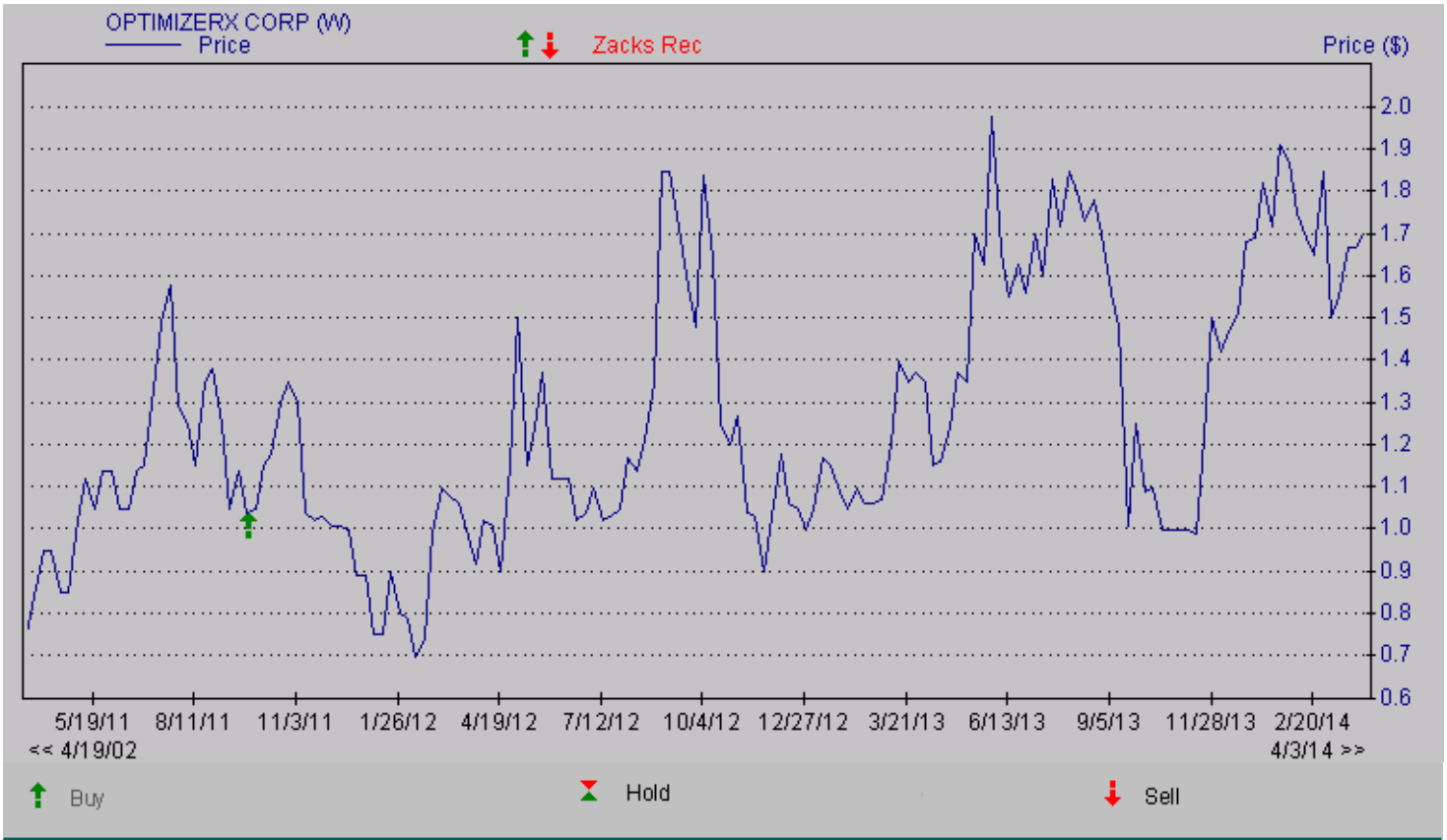

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 16.7%, Hold/Neutral- 75.0%, Sell/Underperform – 7.5%. Data is as of midnight on the business day immediately prior to this publication.