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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Q2 Shows Strong Revenue Growth. Progress On All Fronts

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (08/15/12)	$1.17
Target Price	**$5.00**

OUTLOOK

OptimizeRx's SampleMD software, which was integrated into Allscripts' e-prescription system in late 2010, affords prescribers seamless access to a universe of sample vouchers and prescription co-pay coupons. Allscripts, with ~100k prescribers using its system, is the largest e-prescriber provider. SampleMD provides pharmaceutical companies a novel way to promote their drugs. OPRX receives revenue from manufacturers for every coupon that is printed or redeemed. With the launch still in its infancy, revenue has been modest but is expected to ramp as the user base expands and utilization grows. Revenue up 42% in 1H 2012. Q3 could be first profitable quarter. Cash burn remains very modest.

We are maintaining our $5.00 price target and Outperform rating.

SUMMARY DATA

52-Week High	**$1.79**
52-Week Low	**$0.53**
One-Year Return (%)	**N/A**
Beta	**0.21**
Average Daily Volume (sh)	**5,595**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$17**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
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	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**6.9**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**N/A**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	$394 A	$200 A	$192 A	$326 A	$1,112 A
2012	$329 A	$515 A	$1022 E	$1504 E	$3,371 E
2013					$15,086 E
2014					$26,852 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.02 A	-$0.03 A	-$0.07 A	-$0.04 A	-$0.15 A
2012	-$0.02 A	-$0.01 A	$0.00 E	$0.02 E	$0.00 E
2013					$0.17 E
2014					$0.29 E

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

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WHAT'S NEW....

Q2 Results

OptimizeRx filed their 10-Q for the second quarter ending 6/30/2012 on 8/14/2012. Revenue came in slightly better than our estimate with net income and EPS handily beating our numbers due to much lower than anticipated operating expenses. Aside for updating our model for Q2 results, we have made no other changes to our financial projections and we are maintaining our Outperform rating and $5.00/share price target on OPRX.

OPRX notes in the 10-Q that they continue to make progress on various fronts, all of which are geared towards expanding their customer base and growing revenue. OPRX cites ongoing progress with bringing on new accounts (which is evidenced in the recent revenue growth), with integration of SampleMD into their partners' eprescription systems, enhancements to SampleMD, and in building awareness about their prescription drug couponing system via attendance at industry events and conferences.

Q2 revenue was $515k (+158% yoy), up from $329k (+57%) in Q1 and about 8% better than our $475k estimate. Operating expenses were $592k compared to our $917k estimate, marking the second straight quarter that they came in well below our numbers, mostly as a result of lower than modeled advertising expenses and professional/consulting fees.

Q2 net income and EPS were ($76k) and ($0.01), significantly ahead of our ($442k) and ($0.03), the difference mostly attributed to the beat on operating expenses. We continue to model Q3 as the first quarter that OPRX turns in a positive quarter.

We believe management has done an excellent job with not only growing revenue and making tangible progress on the operational front but also with cash management. OPRX exited Q2 with $528k in cash and equivalents, compared to $798k at the end of Q1. Cash used in operations in Q2 was $248k but stripping out changes in working capital, cash from operations was an inflow of $80k. Cash used in investing activities was $22k in Q2 and $56k through the first six months of 2012. The majority of cash used in investing activities relates to web development costs.

Operational Progress Continues On Several Fronts

- **Integration Into e-Prescription Platforms:** As a reminder 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 NewCorp and DrFirst, two e-prescriber applications that adopted SampleMD since late 2011. OPRX notes in the most recent 10-Q that during Q2 they completed the integration of SampleMD into the NewCorp platform and launched it with DrFirst. Allscripts has now committed to integrating SampleMD into the remainder of its electronic medical platforms including their PRO EMR by year-end 2012, which will significantly expand the reach of SampleMD. Our modeled ramping in revenue growth in 2H 2012 reflects the expansion of SampleMD to almost 100k prescribers by the current year-end.

- **SampleMD Enhancements:** OPRX has been working on certain enhancements to SampleMD including functionality for physicians to be able to schedule meetings with drug reps. As we indicated in our initiation report on OPRX, drug rep scheduling functionality could reduce the hassle physicians deal with heeding drug reps' sales calls at all points during the day and eliminate rep cold calling - potentially benefitting both the doctor and drug rep/drug companies. OPRX rolled out their eRep Scheduler application in a beta test to Louisiana's largest health system - OPRX notes in the 10-Q that they are "working with a major pharmaceutical manufacturer" in this pilot test. OPRX will test the application further and hopes to initiate a targeted launch in Q4 of this year. Other enhancements to their technology that the company is working on is functionality to allow prescribers to connect in real-time directly to manufacturers for inquiries about the products (drugs) as well as developing plug-and-play connectivity/integration allowing for SampleMD to work seamlessly with existing electronic platforms.

- **Marketing / Advertising:** OPRX recently hired a VP of Eastern Sales and beefed up their sales and marketing staff. The company attended some focused industry conferences, promoting the benefits of SampleMD to health systems and drug manufacturers. The company will continue to attend events and in Q2 attended the Marcus Evans Pharma Executive Summit, an invitation-only event of the top 150 pharmaceutical marketing and brand executives and the Pharma West conference. OPRX will also be a keynote presenter for the Allsripts ACE User conference in August. The company has also begun other marketing and awareness building initiatives designed around increasing visibility of OPRX and SampleMD.

OUTLOOK

Revenue was $1.1 million in the full year 2011 and $845k (+42%) through the first six months of 2012. Revenue to-date has been largely from set-up fees (voucher printing and redemption revenue has been minimal). The expectation is that sales should significantly ramp with growth in revenue from voucher printing and redemptions - which should pick as SampleMD's distribution is further expanded, especially as it relates to Allscripts' user base as well as other eprescriber systems, including NewCorp and DrFirst, both of which completed integration of SampleMD in Q2 2012. Sales are being handled by a small internal sales team which has helped keep operating expenses and cash burn to a minimum. OptimizeRx's cost base is relatively low and largely fixed - this coupled with what we model to be quickly ramping revenue, means profitability could materialize in short order (we model Q3 2012 to be the first quarter of profitability).

Revenue

Our revenue model is based on certain assumptions including the rate of growth in the number of subscribers using SampleMD, the number of drugs promoted through SampleMD and their respective aggregate prescription volumes, the number of voucher prints per physician and the rate of voucher redemptions. As SampleMD is still very much on the front of its roll-out, there is little to anchor on relative to any of these metrics which presents significant challenges in forecasting revenue.

Relative to the drugs that are being promoted through SampleMD, as OptimizeRx has not disclosed the names of these drugs, it is impossible to comfortably gauge related prescription volumes (i.e. - we do not know how if these are top-20 drugs or top-200 drugs). This makes it that much more difficult to forecast potential physician coupon print and patient redemption volumes - revenue from which is expected to account for the majority of net sales over the longer-term (we model it to account for almost 100% of revenue by 2014). And even if we did know which particular drugs were being promoted, until there's some available historical information related to print and redemption rates, revenue forecasting will be tricky.

With only limited information relative to revenue driver metrics and SampleMD still on the front end of commercialization we feel it is prudent to be conservative on our model inputs. The major inputs to our model along with our assumptions are:

- **SampleMD Users (i.e. - prescribers):** This stood at about 20k in late 2011. We look for this to grow to about 100k by year-end 2012, largely driven by deeper penetration of Allscripts' user base and the recent agreements with other e-prescribers.

- **Drugs Promoted:** This stood at about 46 drugs in late 2011. We model 65 drugs at the end of 2012. Our model assumes the 100-drug mark is reached around Q4 2014.

- **Voucher Prints Per Physician:** This, along with voucher redemption rates, are not only the most difficult to estimate, they are also likely the most influential driver of revenue (given that they have a significant multiplier / leverage effect). This metric could also be highly influenced by the number of drugs promoted and, more importantly, the prescription volumes (i.e. - popularity of the drug) of those particular drugs. Our model uses a potentially extremely conservative estimate relative to prints per physician. We assume initially this is only 1 coupon printed per day for every 50 physicians that have SampleMD - said another way, if 50 physicians have SampleMD, our model assumes only 1 coupon is printed among them each day. Even in later years our assumptions remain arguably very conservative. In 2014 we assume 1 coupon is printed per day for every 7 physicians. To emphasize how much leverage this metric has in our model, if we assume 1 coupon is printed

per day for every 5 physicians in 2014 (instead of our currently modeled 1 for every 7), our estimated 2014 net revenue figure moves from $27MM to $42MM.

- **Redemption Rate:** Management has indicated that voucher redemption rates (i.e. - the % of printed vouchers that are ultimately redeemed by a patient) are running at about 20%. We more conservatively model a static (i.e. - no improvement in later years) 10% redemption rate.

VALUATION

As the launch of SampleMD, OptimizeRx's flagship product, is still in its infancy, using P/E ratio based on a near-term EPS estimate would unfairly penalize valuation. Instead we think it is more appropriate to use our EPS estimate for 2014, at which time SampleMD should be fully commercialized and OptimizeRx's financials should more accurately reflect the earning power of the company.

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 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 five companies currently trade at an average of 16.1x analysts' estimated 2014 EPS. Applying this multiple to our 2014 EPS estimate of $0.29 values OptimizeRx at approximately $5.00 per share. We are maintaining our Outperform rating.

FINANCIAL MODEL

OptimizeRx Corporation

	2011 A	Q1A	Q2A	Q3E	Q4E	2012 E	2013 E	2014 E	2015 E
Revenue	$1,111.5	$329.4	$515.4	$1,022.0	$1,504.2	$3,371.0	$15,086.0	$26,852.6	$39,763.7
YOY Growth	*1464.1%*	*-16.4%*	*157.5%*	*433.4%*	*361.5%*	*203.3%*	*347.5%*	*78.0%*	*48.1%*
SG&A	$2,565.5	$630.3	$591.6	$989.0	$1,081.0	$3,292.0	$8,725.0	$11,770.0	$17,315.0
% SG&A	*230.8%*	*191.4%*	*114.8%*	*96.8%*	*71.9%*	*97.7%*	*57.8%*	*43.8%*	*43.5%*
Operating Income	($1,454.0)	($300.9)	($76.2)	$33.0	$423.2	$79.1	$6,361.0	$15,082.6	$22,448.7
Operating Margin	-	*-91.4%*	*-14.8%*	*3.2%*	*28.1%*	*2.3%*	*42.2%*	*56.2%*	*56.5%*
Other income	($667.0)	$0.2	$0.1	$0.0	$0.0	$0.0	$40.0	$75.0	$100.0
Pre-Tax Income	($2,120.9)	($300.7)	($76.1)	$33.0	$423.2	$79.1	$6,401.0	$15,157.6	$22,548.7
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$2,840.8	$7,892.1
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*18.7%*	*35.0%*
Net Income	($2,120.9)	($300.7)	($76.1)	$33.0	$423.2	$79.1	$6,401.0	$12,316.7	$14,656.7
Net Margin	-	*-91.3%*	*-14.8%*	*3.2%*	*28.1%*	*2.3%*	*42.4%*	*45.9%*	*36.9%*
EPS	($0.15)	($0.02)	($0.01)	$0.00	$0.02	$0.00	$0.17	$0.29	$0.32
YOY Growth	-					-	*3610.9%*	*74.1%*	*8.7%*
Diluted Shares O/S	13,922	14,192	14,192	19,240	22,050	17,419	38,000	42,000	46,000

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