August 18, 2014

Zacks Small-Cap Research

Brian Marckx, CFA
bmarckx@zacks.com
Ph. (312) 265-9474

scr.zacks.com
111 North Canal Street, Chicago, IL 60606

OptimizeRx Corp (OPRX-OTC)

OPRX: Double Digit Revenue Growth. Expect Revenue Acceleration With Resolution of Allscripts Issues

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (08/18/14)	$1.30
Target Price	**$3.50**

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 45% in 2014. 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.

SUMMARY DATA

52-Week High	**$2.12**
52-Week Low	**$0.86**
One-Year Return (%)	**-24.85**
Beta	**2.17**
Average Daily Volume (sh)	**76,289**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$30**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**275.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**130**
P/E using 2014 Estimate	**130.0**
P/E using 2015 Estimate	**10.8**
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	1317 A	1454 A	1744 E	2674 E	7,190 E
2015					15,943 E
2016					24,675 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013					$0.01 A
2014	-$0.04 A	-$0.00 A	$0.01 E	$0.03 E	$0.01 E
2015					$0.12 E
2016					$0.18 E

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

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

Q2 2014 Results: In-Line With Our Estimates. Allscripts Issue Being Resolved, Should Spark Even Greater Revenue…

OptimizeRx reported financial results for the second quarter ending June 30, 2014. Results came in largely in-line with our estimates with only a slight miss on both the top and bottom lines. Importantly, OPRX managed to turn in double-digit revenue growth on both a yoy and sequential comparison despite the lingering issue with Allscripts whereby their channel partner had certain privacy-related technology issues which negatively effected their coupon distributions - this issue also negatively impacted Q1 revenue (although OPRX did manage to turn in 97% yoy revenue growth in that period). On the call management noted that this issue has now been resolved and should not impact future revenue. Allscripts is also ironing out other issues - that being certain technical problems which further hindered coupon distributions and a delay with going live with the PRO platform, the latter which is expected to significantly expand OPRX Allscripts-related reach and which was expected to happen in Q2.

Despite these issues Q2 increased 32% yoy and 10% sequentially to $1.5M. With these Allscripts-related problems expected to be fully resolved, management expects meaningfully higher revenue in the second half of the year, particularly in Q4.

Q2 gross margin was 64%, in-line with our 63% estimate. Q2 operating expenses were $967k, also in-line with our $951k estimate. Q2 net income and EPS were ($53)k and ($0.00), compared to our $48k and $0.00 estimates.

OPRX continues to generate positive cash flow. Cash flow from operating activities was an outflow of $376k in Q2 and an outflow of $150k in 1H 2014, but ex-changes in working capital (a better reflection of the operating business), cash flow from operating activities was an inflow of $238k and $65k in the same respective periods.

2014 Catalysts

On the Q4 2013 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. On the Q1 2014 call management reiterated the transactions guidance . While we continue to expect significant growth in 2014, the slight hiccup in Q1 reduced our full year revenue estimate, which now stands at $7.2M. We continue to see 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 (which was expenses in Q1) 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 ~100k providers including 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 recently noted 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
- **Veterinary Channel:** in April OPRX launched VoucherDVM which targets the veterinary channel. Similar to SampleMD for the human healthcare market, VoucherDVM affords ecoupon distribution for pet manufacturers' products directly to veterinary offices. OPRX noted that they are now in discussions with vet-related EHR platforms. While we do not expect VoucherDVM to be a meaningful revenue contributor in the current year, we see it as another revenue generating opportunity over the long-term
- **Quest Diagnostics distribution:** the latest significant agreement that will expand SampleMD's distribution reach was signed in late March which calls for SampleMD to be integrated into Quest Diagnostics' eprescribing and EMR platforms. This could incrementally add to revenue in 2014 as integration is expected to be operational in Q2 or Q3 of this year.

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 $7.2 million in revenue in 2014, implying 45% growth from 2013. This could be conservative given that management continues to believe that they can 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. 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, PDR and Quest) 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 (as well as potentially with the veterinary channel) 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 2013 were all and cash flow positive (ex changes in wc) as was the full year 2013 and the first half of 2014. We continue to look for OPRX to generate positive net income for the full current year.

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 $0.18 values OptimizeRx at approximately $3.50 per share. We are maintaining our Outperform rating.

FINANCIAL MODEL

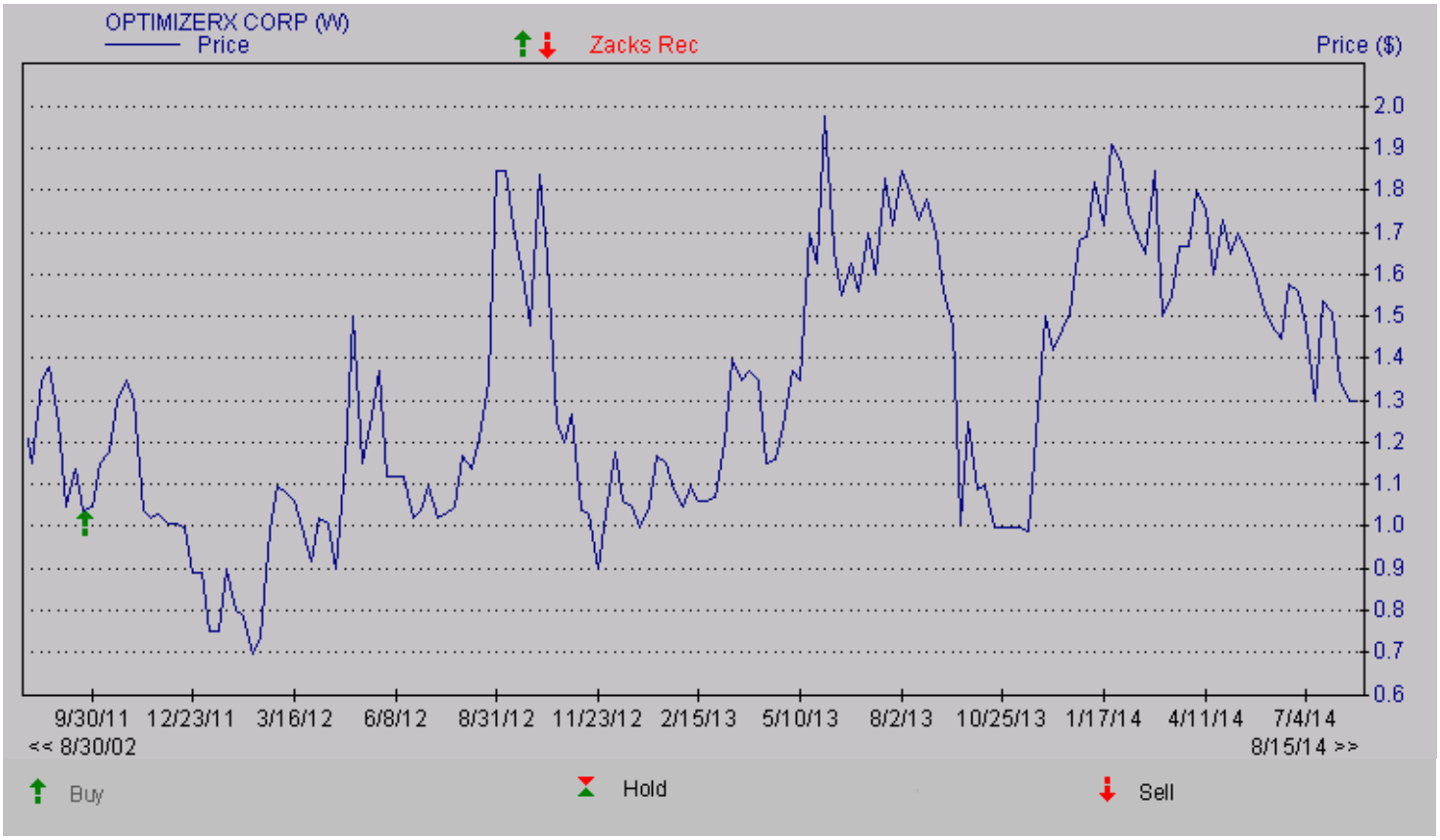
OptimizeRx Corporation

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Net Revenue	$4,957.0	$1,317.3	$1,454.2	$1,744.0	$2,674.0	$7,189.6	$15,942.5	$24,674.9	$29,773.4
YOY Growth	*149.0%*	*96.8%*	*31.7%*	*27.0%*	*47.7%*	*45.0%*	*121.7%*	*54.8%*	*20.7%*
SG&A	$2,974.0	$1,472.0	$967.1	$956.1	$957.1	$4,352.3	$4,675.0	$5,250.0	$6,025.0
% SG&A	*60.6%*	*111.7%*	*66.5%*	*54.8%*	*35.8%*	*60.5%*	*29.3%*	*21.3%*	*20.2%*
Operating Income	$215.6	($653.5)	($52.9)	$161.8	$754.3	$209.7	$5,289.1	$9,801.7	$11,839.0
Operating Margin	*4.3%*	*-49.6%*	*-3.6%*	*9.3%*	*28.2%*	*2.9%*	*33.2%*	*39.7%*	*39.8%*
Other income	$0.2	$0.1	$0.2	$4.0	$4.0	$8.3	$50.0	$100.0	$125.0
Pre-Tax Income	$215.8	($653.4)	($52.7)	$165.8	$758.3	$218.0	$5,339.1	$9,901.7	$11,964.0
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,019.76	$2,574.4	$3,314.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*19.1%*	*26.0%*	*27.7%*
Net Income	$215.8	($653.4)	($52.7)	$165.8	$758.3	$218.0	$4,319.3	$7,327.2	$8,650.0
Net Margin	*4.4%*	*-49.6%*	*-3.6%*	*9.5%*	*28.4%*	*3.0%*	*27.1%*	*29.7%*	*29.1%*
EPS	$0.01	($0.04)	($0.00)	$0.01	$0.03	$0.01	$0.12	$0.18	$0.21
YOY Growth	*-157.4%*	*148.3%*	*-121.5%*	*2049.4%*	*-945.8%*	*-36.7%*	*1192.3%*	*52.7%*	
Diluted Shares O/S	14,713	16,684	23,242	24,400	29,600	23,481	36,000	40,000	42,000

Brian Marckx, CFA

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brian Marckx, CFA, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1116 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
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- 17.0%, Hold/Neutral- 76.3%, Sell/Underperform – 5.8%. Data is as of midnight on the business day immediately prior to this publication.