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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Q4: Revenue Growth Continues, As Does Op Leverage. Cash Flow Positive!

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (03/13/13)	$1.30
Target Price	**$3.50**

OUTLOOK

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 and NewCrop. The additional functionality and integration into new solutions (such as Patient Advisor and others) 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. OPRX's business model is super scalable. OPRX was cash flow positive in Q4 and full-year 2012. Further revenue growth could mean earnings/EPS/cash flow really accelerate.
We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$1.97**
52-Week Low	**$0.80**
One-Year Return (%)	**28.71**
Beta	**0.37**
Average Daily Volume (sh)	**18,922**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$19**
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 2013 Estimate	**14.4**
P/E using 2014 Estimate	**8.7**
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)
2012	$329 A	$515 A	$453 A	$751 A	$2,049 A
2013	$818 E	$1053 E	$1285 E	$1539	$4,696 E
2014					$10,128 E
2015					$18,152 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.03 A
2013	$0.01 E	$0.02 E	$0.03 E	$0.03 E	$0.09 A
2014					$0.15 E
2015					$0.20 E

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

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WHAT'S NEW....

Q4 2012 Results

OptimizeRx filed their 10-K on March 12th. Q4 numbers came in very much in-line and actually slightly better than our estimate. Of particular significance is that revenue increased not only on a yoy comparison, but even more importantly, it was up on a sequential basis. Other meaningful highlights were continued and marked leverage in operating expenses, positive cash flow generation, and Q4 was the first profitable quarter for OPRX. While we think it's still on the early side to definitively assume that revenue will continue to show consistent sequential growth from here on out (particularly given that set-up fees, which may be more variable q-to-q, still likely account for a meaningful amount of sales at these relatively low levels), the recent trends suggest that inflection point may not be far off.

On the operational side, by all accounts OPRX continues to make further headway in expanding distribution and increasing the user base of SampleMD. Market trends, including a reduced level in conventional drug rep sampling, rapid growth of e-prescribing, and rising co-pays continue to set the stage for what we believe is potentially a perfect storm for OPRX. The company continues to add drugs and manufacturers to it's promoted line-up, partner with and integrate into additional e-prescribing and EHR platforms, and add functionality to SampleMD. OPRX also recently beefed up its IP, providing further patent protection, and brought on additional senior leadership to help guide the company's strategic growth initiatives.

Q4 revenue of $751k was up from $326k (+130% yoy) in Q4 2011, up from $453k (+66% sequentially) in Q3 2012 and about $37k (5%) better than our $714k estimate. OPRX did not disclose utilization/distribution volumes for the quarter but had in the recent past which clearly indicated this is trending higher. For the full year 2012 revenue was $2.05 million, up from $1.11 million (+84%) in 2011.

Operating expenses continue to remain relatively flat, despite the increase in revenue (i.e. - operating leverage is increasing) - which is exactly what we had hoped to see. Q4 operating expenses were $632k, up just 13% sequentially (compared to the 66% sequential revenue growth) and well below our $856k estimate. The revenue increase and operating leverage turned into positive net income in Q4. Net income and EPS were $119k and $0.01, compared to ($504k) and ($0.04) in Q4 2011 and better than our ($142k) and ($0.01) estimates. For the full year 2012 net income and EPS were ($364k) and ($0.03) compared to ($2.1) million and ($0.15) in 2011.

OPRX exited 2012 with $284k in cash and equivalents, flat from the end of Q3. Cash from operations was an inflow of $1.6k in Q4 but ex-changes in working capital, Q4 cash from operations was an inflow of $215k. For the full year 2012, ex-changes in working capital, cash from operations was an inflow of $100k.

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 integration of SampleMD with Allscripts' PRO EMR application was completed and went live. This will eventually afford SampleMD 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 - OPRX is now working with Allscripts to instead make this an opt-out option which should increase utilization and which they hope to have active in Q2 2013.

  In the last few months OPRX also began integration with HealthTronics, the largest urology EMR in the U.S. which touches over 2,200 physicians. 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.

  OPRX is also in discussions with other eprescribing platforms and EMRs to further increase their distribution reach and customer base. They just signed an agreement with Physicians Desk Reference (PDR) whereby SampleMD will be incorporated into a PDR-branded downloadable application in physician's offices. OPRX is also expanding beyond just prescribers and entered into an agreement with LDM Group, which provides

prescription management programs touching prescribers, EHRs and pharmacies. OPRX will be able 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.

- **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 certain enhancements to SampleMD including their eVITEREP functionality for physicians to be able to schedule meetings with drug reps. eVITEREP, which also allows the prescriber to live chat with a drug manufacturer, was launched in Q3. eVITEREP is expected to be a valuable feature as it can 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.

- **Client Base / Drugs Promoted:** OPRX continues to grow the number of pharmaceutical companies participating and drugs being promoted through SampleMD. OPRX notes that they have 20 pharmaceutical companies and manufacturers participating which encompasses many of the "majors" including Eli Lilly, Pfizer, and Roche, among others.

- **Shad Stasney Hired as CEO:** OPRX brought on Shad Stasney as their new Chairman and CEO. Shad has been an OPRX board member since 2009 and founded Vicis Capital (which had managed as much as $5 billion in assets at one point), which has provided significant financing to OPRX over the years.

- **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

Revenue was $1.1 million in the full year 2011 and $2.1 million (+84% yoy) in 2012. Set-up fees (as opposed to voucher distributions) have been a meaningful portion of total revenue to-date. 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 and NewCrop. The additional functionality and integration into new solutions (such as platforms and partnerships with Patient Advisor, HealthTronics, PDR and LDM) 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.

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.

Revenue

OPRX charges for set-ups (we estimate $25k each) and every time a coupon is distributed (printed or sent electronically - about $5 each). We forecast significant revenue growth and currently model 2015 revenue of

~$18MM. Given the massive scalability of OPRX's business model, we think they can generate meaningful positive net income in the current year.

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, and the number of voucher prints per physician. OPRX also expects to charge about $1k per month to drug manufacturers who want to see utilization data such as coupon prints and redemption metrics - we currently do not factor this into our model as we do not expect this to be a significant source of revenue. 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 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.

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 110k by year-end 2014.

- **Drugs Promoted:** This stood at about 46 drugs in late 2011. We model 95 drugs at the end of 2014. Our model assumes the 100-drug mark is reached around mid-2015.

- **Voucher Prints Per Physician:** This is not only the most difficult to estimate, it is 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 2015 we assume 1 coupon is printed per day for every 5.5 physicians. To emphasize how much leverage this metric has in our model, if we assume 1 coupon is printed per day for every 4 physicians in 2015 (instead of our currently modeled 1 for every 5.5), our estimated 2014 net revenue figure moves from $18MM to $27MM.

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 2015, 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 16.8x analysts' estimated 2015 EPS. Applying this multiple to our 2015 EPS estimate of $0.20 values OptimizeRx at approximately $3.50 per share. We are maintaining our Outperform rating. Our price target is $3.50/share.

FINANCIAL MODEL

OptimizeRx Corporation

	2012 A	Q1E	Q2E	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
Revenue	$2,048.7	$818.3	$1,053.2	$1,285.3	$1,539.4	$4,696.1	$10,127.9	$18,152.2	$25,493.6
YOY Growth	*84.3%*	*148.4%*	*104.3%*	*183.6%*	*105.1%*	*129.2%*	*115.7%*	*79.2%*	*40.4%*
SG&A	$2,413.0	$704.5	$747.1	$731.5	$882.5	$3,065.6	$4,668.9	$8,023.3	$9,203.2
% SG&A	*117.8%*	*86.1%*	*70.9%*	*56.9%*	*57.3%*	*60.6%*	*46.1%*	*44.2%*	*36.1%*
Operating Income	($364.3)	$113.8	$306.1	$553.8	$656.9	$1,630.5	$5,458.9	$10,128.9	$16,290.4
Operating Margin	*-17.8%*	*13.9%*	*29.1%*	*43.1%*	*42.7%*	*34.7%*	*53.9%*	*55.8%*	*63.9%*
Other income	$0.0	$0.5	$1.0	$1.5	$2.5	$5.5	$75.0	$100.0	$135.0
Pre-Tax Income	($364.3)	$114.3	$307.1	$555.3	$659.4	$1,636.0	$5,533.9	$10,228.9	$16,425.4
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,422.0	$4,927.6
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*13.9%*	*30.0%*
Net Income	($364.3)	$114.3	$307.1	$555.3	$659.4	$1,636.0	$5,533.9	$8,806.9	$11,497.8
Net Margin	*-17.8%*	*14.0%*	*29.2%*	*43.2%*	*42.8%*	*34.8%*	*54.6%*	*48.5%*	*45.1%*
EPS	($0.03)	$0.01	$0.02	$0.03	$0.03	$0.09	$0.15	$0.20	$0.24
YOY Growth	-					*-471.6%*	*53.5%*	*37.4%*	*19.7%*
Diluted Shares O/ S	14,264	14,950	16,751	18,015	19,240	17,239	38,000	44,000	48,000

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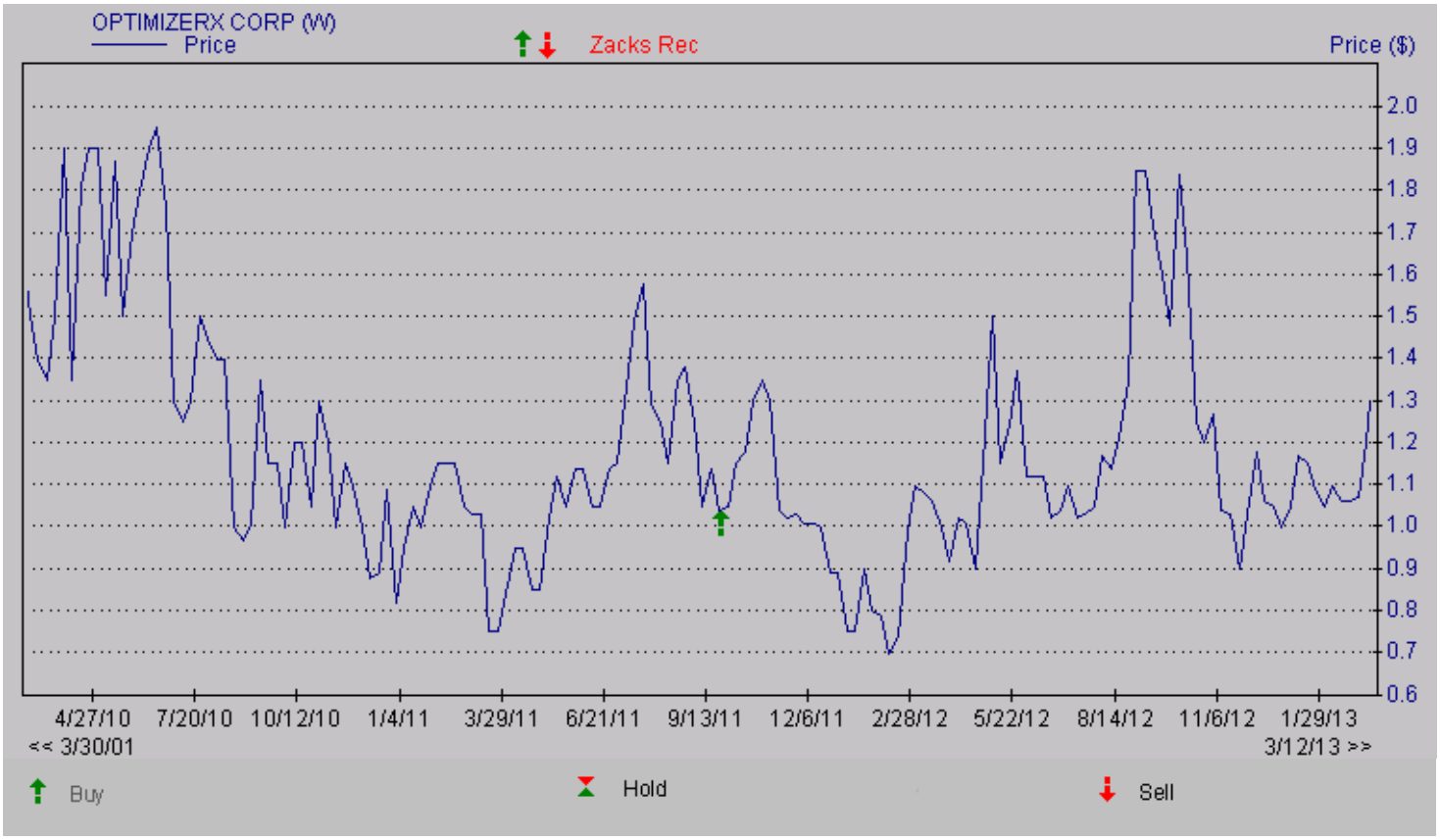

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