Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Q3: Strides In Operating Progress Overshadow Revenue Miss

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (11/19/12)	$1.01
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) 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 and even at the current revenue is almost cash flow break-even. Further revenue growth could mean earnings/EPS/cash flow really accelerate.

We are maintaining our Outperform rating. We have moved our price target from $5.00 to $3.50 mostly as a result of OPRX's change in their revenue model.

SUMMARY DATA

52-Week High	**$1.97**
52-Week Low	**$0.53**
One-Year Return (%)	**0.98**
Beta	**0.52**
Average Daily Volume (sh)	**17,988**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$14**
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	**11.2**
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	$453 A	$714 E	$2,012 E
2013					$8,184 E
2014					$14,656 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	-$0.01 A	-$0.01 E	-$0.04 E
2013					$0.09 E
2014					$0.20 E

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

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WHAT'S NEW....

Q3 Results

OptimizeRx filed their 10-Q for the third quarter ending 9/30/2012 on November 14th and also held a conference call. While revenue increased 137% yoy, it fell 12% sequentially and was about 50% lower than our estimate. While we had clearly overestimated the arrival of the inflection point in revenue growth, from an outlook perspective (even a near-term perspective), the "miss" on revenue is fairly immaterial given that revenue continues to grow yoy, the business and revenue models remain (mostly) intact, and several catalysts to growth are still on the front end and have yet to make even a modest contribution.

Despite the relatively disappointing sales number, there were some significant positive highlights. Specifically, operating expenses remain very low and came in almost 45% less than where we were pegging them (although on a % of revenue basis they were largely in-line with our number), coupon "distributions" (prints/e-deliveries) almost tripled yoy, and OPRX has made meaningful progress with increasing the functionality of SampleMD and broadening its distribution reach, both of which are integral to its growth strategy. Of particular significance is OPRX's collaboration with DrFirst, KRAMES Staywell, and Adheris, all leaders in their respective fields, which was penned in October and provides OptimizeRx not only with increased distribution but also the ability to leverage these relationships to help facilitate bringing on more promoted drugs and provides even greater credibility to SampleMD. Another important recent operational-related milestone was completion of the integration of SampleMD with Allscripts PRO EMR which is now completed and will eventually afford SampleMD access to an additional 25k prescribers.

Q3 revenue of $453k was up from $192k (+136% yoy) in Q3 2011, down from $515k (-12% sequentially) in Q2 2012 and about $569k (56%) lower than our $1.0 million estimate. Management provided utilization volumes for the first time this quarter. Distributions, or the number of coupons generated, increased to more than 89k, which is over three times as many generated in the same period 2011. While this was a little less than half of what we modeled (~194k), as it's still very early in the roll-out and on the front end of what we expect to be significant growth going forward, the difference in actual vs. modeled at this point is relatively meaningless. More important is that volumes are already increasing at a rapid rate and should continue to grow, facilitated by the recent operational progress including product enhancements, increased awareness, and partnership/collaboration agreements - most of which are still in their infancy and have yet to begin to make a meaningful contribution.

Operating expenses remained relatively flat in Q3 (and slightly down sequentially) at $559k and well below our $989k estimate. Management continues to keep a lid on expenses which meant net income and EPS of ($106)k and ($0.01) were only slightly below our $33k and $0.00 numbers despite the big miss on revenue. Importantly management continues to expect the business to be highly leverageable as revenue grows which, as we've noted in the past, means earnings, EPS and cash flow should ramp very quickly with only a modest increase in the top line.

OPRX exited Q3 with $283k in cash and equivalents, down from $528k at the end of Q2. Cash used in operations was $250k which included $170k pay-down in A/P in Q3. Ex-changes in working capital cash used in operations was $63k. It's worth highlighting that OPRX is already almost cash flow positive (they were cash flow positive in Q2 ex-changes in working capital) - again, they only need a very modest uptick in revenue to consistently generate positive cash flow.

Continued Operational Progress Should Benefit Future Periods

- **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 NewCrop and DrFirst, two e-prescriber applications that adopted SampleMD since late 2011. During Q2 OPRX completed the integration of SampleMD into the NewCrop platform and launched it with DrFirst. In Q3 integration of SampleMD with Allscripts' PRO EMR application was completed and went live. This will afford SampleMD access to an additional 25k physicians - the physicians have to opt-in but it's anticipated the vast majority will do so over the near-term.

- **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.

- **Medication Adherence Collaboration With DrFirst:** perhaps the biggest recent news was that SampleMD has been 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.

- **Marketing / Advertising:** OPRX recently hired a VP of Eastern Sales and beefed up their sales and marketing staff. The company continues to attend industry conferences, promoting the benefits of SampleMD to health systems and drug manufacturers. In Q2 they 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. In Q3 OPRX was a keynote presenter for the Allsripts ACE User conference. The company has also begun other marketing and awareness building initiatives designed around increasing visibility of OPRX and SampleMD. OPRX continues to look to expand their reach including partnering with other eprescribers and electronic medical record providers.

OUTLOOK

Revenue was $1.1 million in the full year 2011 and $1.3 million (+65% yoy) through the first six nine of 2012. Revenue to-date has been largely from set-up fees (voucher distributions has been minimal). 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) 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

One meaningful change to OPRX's revenue model is that, in contrast to their previous expectations, they are not charging every time a coupon is redeemed. We think this has mostly to do with adapting to customer expectations and what the market will bear. They still do charge for set-ups (we estimate $25k each) and every time a coupon is distributed (printed or sent electronically - about $5 each). We have since removed revenue estimates related to redemptions (which were expected to generate $25/apiece at a redemption rate of about 1 in 5 coupons generated). Removing the redemption contribution from our model has materially reduced our revenue estimates, particularly in our out-years. Despite this, we still forecast significant revenue growth and currently model 2014 revenue of $23MM (down from $40MM prior) and given the massive scalability of OPRX's business model, we still think they can generate meaningful positive net income in early 2013.

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 100k by year-end 2013.

- **Drugs Promoted:** This stood at about 46 drugs in late 2011. We model 75 drugs at the end of 2013. Our model assumes the 100-drug mark is reached around Q4 2014.

- **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 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 $23MM to $39MM.

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 17.2x analysts' estimated 2014 EPS. Applying this multiple to our 2014 EPS estimate of $0.20 values OptimizeRx at approximately $3.50 per share. We are maintaining our Outperform rating. Our price target has moved from $5.00 to $3.50.

FINANCIAL MODEL

OptimizeRx Corporation

	2011 A	Q1A	Q2A	Q3A	Q4E	2012 E	2013 E	2014 E	2015 E
Revenue	$1,111.5	$329.4	$515.4	$453.2	$714.1	$2,012.1	$8,184.2	$14,655.6	$22,282.2
YOY Growth	*1464.1%*	*-16.4%*	*157.5%*	*136.5%*	*119.1%*	*81.0%*	*306.8%*	*79.1%*	*52.0%*
SG&A	$2,565.5	$630.3	$591.6	$559.3	$856.0	$2,637.3	$4,959.6	$6,756.2	$9,848.7
% SG&A	*230.8%*	*191.4%*	*114.8%*	*123.4%*	*119.9%*	*131.1%*	*60.6%*	*46.1%*	*44.2%*
Operating Income	($1,454.0)	($300.9)	($76.2)	($106.2)	($141.9)	($625.2)	$3,224.6	$7,899.4	$12,433.5
Operating Margin	-	*-91.4%*	*-14.8%*	*-23.4%*	*-19.9%*	*-31.1%*	*39.4%*	*53.9%*	*55.8%*
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)	($106.2)	($141.9)	($625.2)	$3,264.6	$7,974.4	$12,533.5
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*35.0%*
Net Income	($2,120.9)	($300.7)	($76.1)	($106.2)	($141.9)	($625.2)	$3,264.6	$7,974.4	$12,533.5
Net Margin	-	*-91.3%*	*-14.8%*	*-23.4%*	*-19.9%*	*-31.1%*	*39.9%*	*54.4%*	*56.2%*
EPS	($0.15)	($0.02)	($0.01)	($0.01)	($0.01)	($0.04)	$0.09	$0.20	$0.27
YOY Growth	-					-	*-301.3%*	*126.0%*	*36.7%*
Diluted Shares O/ S	13,922	14,192	14,192	14,228	14,444	14,264	37,000	40,000	46,000

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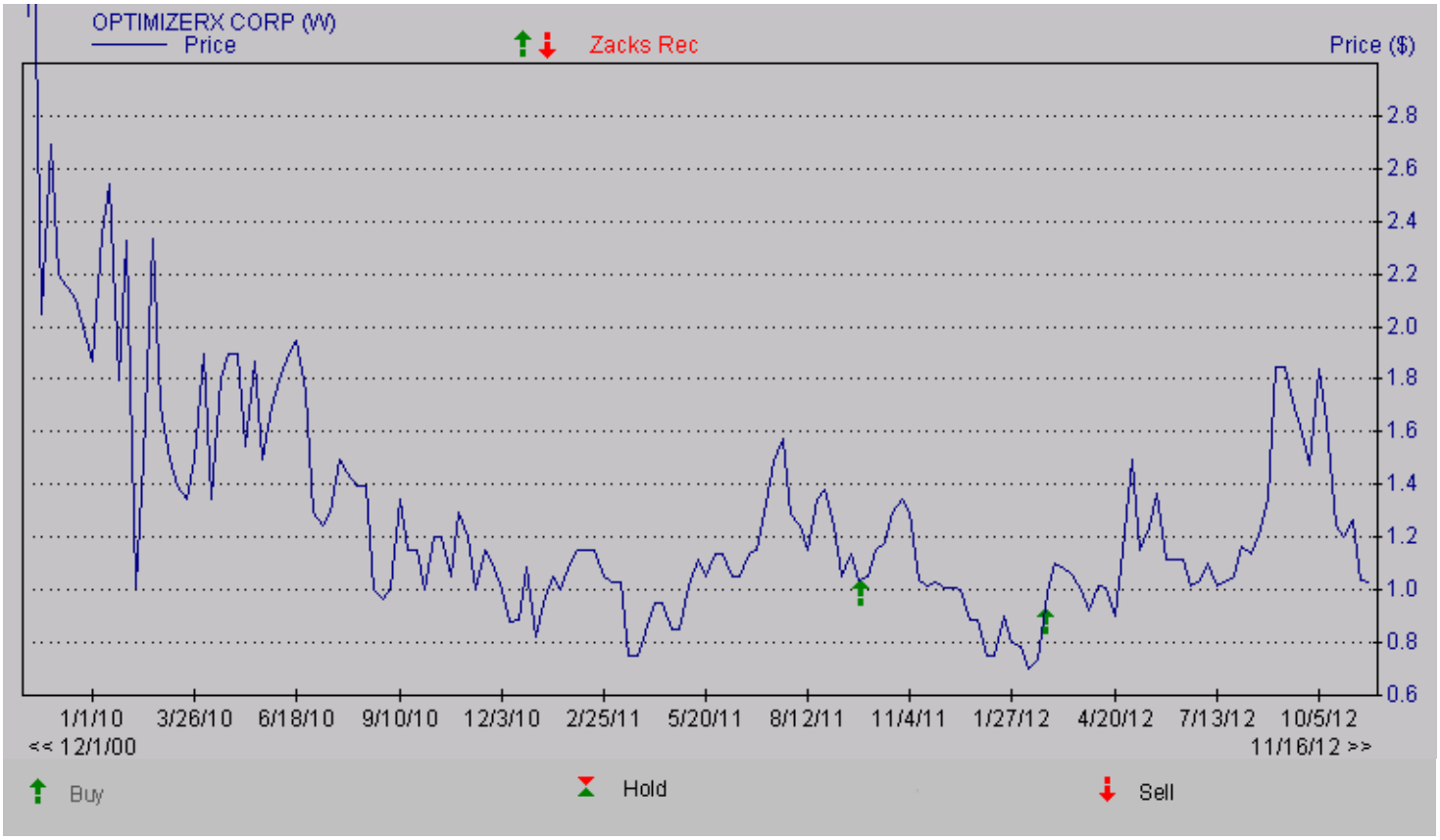

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