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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Big Jump in Distributions, Revenue. Positive Income, Cash Flow.

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 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, full-year 2012 and 1H 2013. Revenue up 110% in 1H 2013. Distribution growth numbers are very encouraging. Further revenue growth could mean earnings/EPS/cash flow really accelerate.
We are maintaining our Outperform rating.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (08/13/13)	$1.85
Target Price	**$3.50**

SUMMARY DATA

52-Week High	**$2.05**
52-Week Low	**$0.89**
One-Year Return (%)	**54.31**
Beta	**0.29**
Average Daily Volume (sh)	**11,627**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$26**
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 (%)	**423.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**46.3**
P/E using 2014 Estimate	**15.4**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	329 A	515 A	453 A	751 A	2,049 A
2013	669 A	1104 A	1201 E	1318 E	4,293 E
2014					8,354 E
2015					15,891 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 A	$0.01 A	$0.01 E	$0.01 E	$0.04 E
2014					$0.12 E
2015					$0.18 E

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

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WHAT'S NEW....

Q2 2013 Results: Big Jump In Distributions and Revenue. Positive Income and Cash Flow…

OptimizeRx filed their Q2 10-Q on August 12th. Q2 revenue came in at $1.1 million, as expected following the company's pre-announcement in mid-July. Both revenue and net income set all-time records, as did the number of coupon distributions in a single quarter.

Q2 revenue and net income of $1.1 million and $355k were both well ahead of our (prior to the pre-announcement) estimates of $768k and $22k. Actual coupon distributions in the quarter of 266k (~247k of which were paid distributions) were also materially better than our 228k estimate. EPS came in at $0.01 versus our $0.00 estimate.

Revenue continues to ramp nicely on strong growth in coupon distributions and expansion of OPRX's distribution platform. Revenue in Q2 and in the first half of 2013 increased on a yoy basis of 114% (from $515k in Q2 2012) and 110% (from $845k in 1H 2012) and has grown sequentially in five of the last seven quarters (with the two exceptions being contractions of less than 11%). As we noted in our prior update, while we still think that there may be some short-term variability, depending on timing/terms/length of couponing programs by OPRX's various pharma partners, the early numbers are very encouraging and continue to suggest that revenue could begin to ramp fairly substantially over the near-to-mid term. Q3 also appears to be off to a strong start - management noted on the call that they had just over 100k distributions in July. Importantly, the vast majority (90%+) of total revenue is coming from distributions (as opposed to set-up fees) - which will be the driver of revenue long term. Q2 numbers are also highlighting the leverage and scalability in the business model as OPRX kept operating expenses about flat (actually fell slightly) from Q1 while revenue jumped about 65% over the same period.

Along with consistent revenue growth and increasing distribution numbers, OPRX is also now generating positive cash flow - which we view as one of Holy Grails of building tangible value. Cash from operations in Q2 and 1H 2013 were $100k and $107k. Ex-changes in working capital these were $385k and $328k, respectively.

Along with increasing the number of drugs promoted and expanding relationships with existing and new pharma partners, OPRX has other irons in the fire which could spark additional revenue growth. The PDR relationship is expected to come online in Q4 and progress through integration into 2014 - this could increase their physician base (currently at about 100k) by more than 40k and the HealthTronics channel just came online and is expected to add over 2k physicians and bring on key urology drugs including Viagra as well as expand promotion for existing drugs including Cialis and VESIcare. On the Q2 call management also alluded to other revenue generating opportunities including expanding their product offerings which can be accessed through their installed base and other potential collaborations with their pharma partners - this could even potentially include investments in OPRX - which we think could be particularly compelling. Management expects to be able to talk more about this in the near future. We have yet to model these potential ancillary contributions - which could provide some upside to our numbers.

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 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 by the middle of this year.

  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 beta-launched the HealthTronics platform in mid-May with a small group of doctors and recently noted that the integration was completed during Q2. This should be fully phased in over the next two months. 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 by year-end 2013 with a greater contribution from this channel expected in 2014 when it should be fully phased in.

OPRX also had an agreement with LDM Group, which provides prescription management programs touching prescribers, EHRs and pharmacies. The agreement would have afforded OPRX 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. The relationship, however, has 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. The LDM channel is clearly on hold, at best, unless and until the two parties resolve the latest action.

- **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 2012. 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.

- **Other Offerings / Partnership Relationships:** On the Q2 call management also alluded to other revenue generating opportunities including expanding their product offerings which can be accessed through their installed base and other potential collaborations with their pharma partners - this could even potentially include investments in OPRX - which we think could be particularly compelling. Management expects to be able to talk more about this in the near future.

- **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 at least 20 pharmaceutical companies and manufacturers participating which encompasses many of the "majors" including Eli Lilly, Pfizer, and Roche, among others. They currently have about 65 drugs under promotion.

- **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) 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 and NewCrop. Initial distribution numbers and related growth that OPRX has provided are encouraging. The additional functionality 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 could also come onboard in the near future - on the Q2 call management talked about other revenue generating opportunities including expanding their product offerings which can be accessed through their installed base and other potential collaborations with their pharma partners - this could even potentially include investments in OPRX - which we think could be particularly compelling. Management expects to be able to talk more about this in the near future. As we have yet to model these potential ancillary contributions, this could provide some upside to our numbers.

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 sustainable profitability could materialize in short order. We think OPRX is now on the front end of sustainable profitability and cash flow generation. In fact Q2 2013 was not only profitable, it also generated $385k in operating cash flow - which, along with ramping revenue and distribution numbers, is highly encouraging.

Revenue

OPRX charges for set-ups (we estimate $25k each) and every time a coupon is distributed (printed or sent electronically - about $4 - $5 each). We forecast significant revenue growth and currently model 2015 revenue of ~$16MM. 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 65 drugs in mid-2013. 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 2015 net revenue figure moves from $16MM to $25MM.

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 18.7x analysts' estimated 2015 EPS. Applying this multiple to our 2015 EPS estimate of $0.18 values OptimizeRx at approximately $3.50 per share. We are maintaining our Outperform rating. Our price target is $3.50/share.

FINANCIAL MODEL

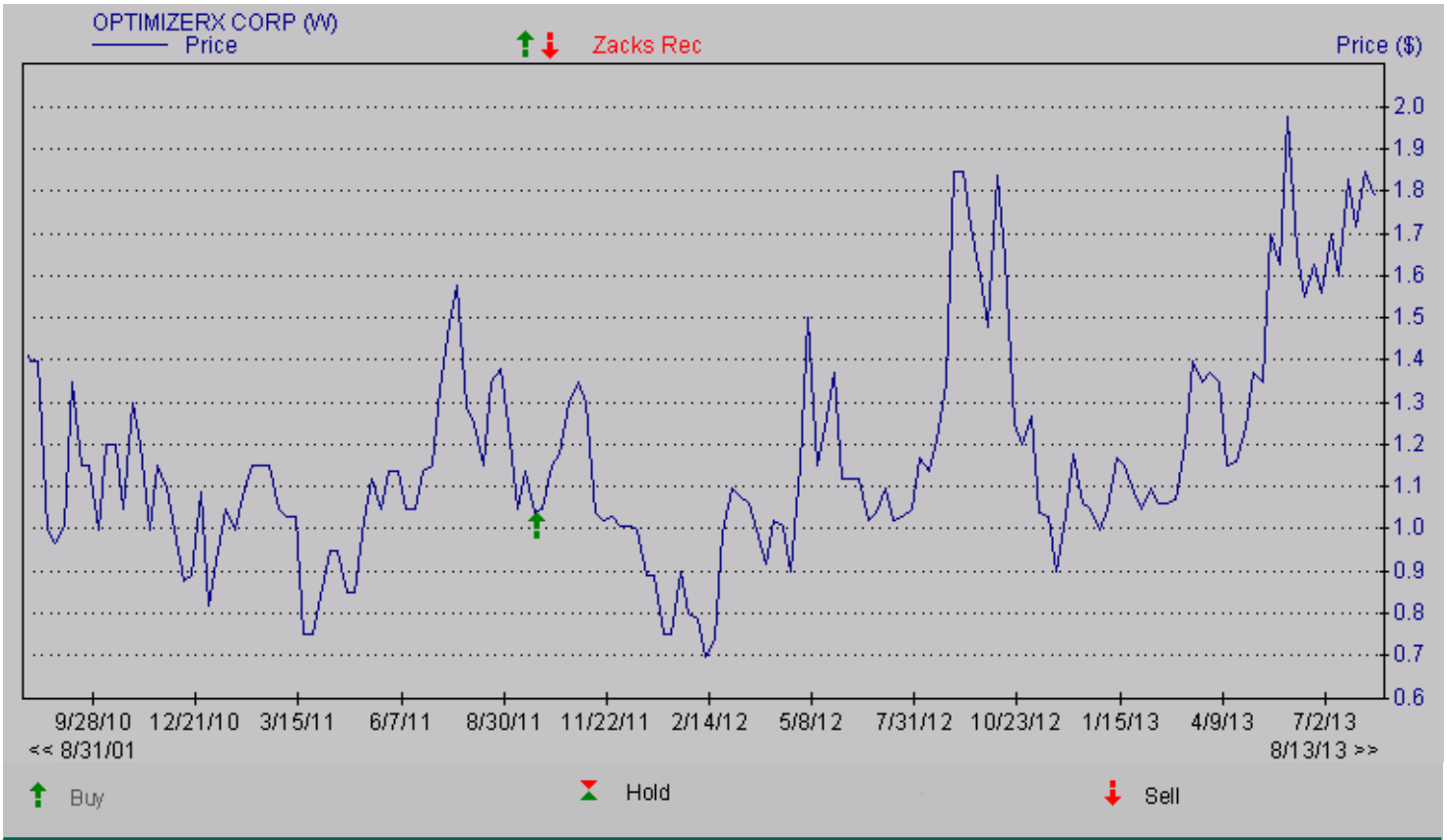
OptimizeRx Corporation

	2012 A	Q1A	Q2A	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
Revenue	$2,048.7	$669.3	$1,104.1	$1,200.7	$1,318.4	$4,292.5	$8,353.7	$15,891.2	$22,690.2
YOY Growth	*84.3%*	*103.2%*	*114.2%*	*165.0%*	*75.6%*	*109.5%*	*94.6%*	*90.2%*	*42.8%*
SG&A	$2,413.0	$774.2	$750.0	$805.6	$863.8	$3,193.6	$3,851.0	$7,023.9	$8,191.2
% SG&A	*117.8%*	*115.7%*	*67.9%*	*67.1%*	*65.5%*	*60.6%*	*46.1%*	*44.2%*	*36.1%*
Operating Income	($364.3)	($104.9)	$354.1	$395.1	$454.6	$1,098.9	$4,502.6	$8,867.3	$14,499.0
Operating Margin	*-17.8%*	*-15.7%*	*32.1%*	*32.9%*	*34.5%*	*25.6%*	*53.9%*	*55.8%*	*63.9%*
Other income	$0.0	$0.1	$1.0	$1.5	$2.5	$5.1	$75.0	$100.0	$135.0
Pre-Tax Income	($364.3)	($104.8)	$355.1	$396.6	$457.1	$1,104.0	$4,577.6	$8,967.3	$14,634.0
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,422.0	$4,390.2
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.9%*	*30.0%*
Net Income	($364.3)	($104.8)	$355.1	$396.6	$457.1	$1,104.0	$4,577.6	$7,545.3	$10,243.8
Net Margin	*-17.8%*	*-15.7%*	*32.2%*	*33.0%*	*34.7%*	*25.7%*	*54.8%*	*47.5%*	*45.1%*
EPS	($0.03)	($0.01)	$0.01	$0.01	$0.01	$0.04	$0.12	$0.18	$0.22
YOY Growth	*-*					*-249.6%*	*223.7%*	*41.8%*	*24.2%*
Diluted Shares O/ S	14,264	14,232	33,608	33,700	34,000	28,885	37,000	43,000	47,000

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