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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Coupon Distribution Numbers Encouraging

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (05/17/13)	$1.70
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	**$0.80**
One-Year Return (%)	**28.71**
Beta	**0.37**
Average Daily Volume (sh)	**18,111**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$24**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
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	**42.5**
P/E using 2014 Estimate	**14.2**
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	768 E	1020 E	1239 E	3,696 E
2014					7,966 E
2015					15,408 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	$0.00 E	$0.02 E	$0.02 E	$0.04 E
2014					$0.12 E
2015					$0.17 E

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

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WHAT'S NEW....

Q1 2013 Results

OptimizeRx filed their 10-Q for the first quarter ending March 31, 2013 on May 15th. Results remain largely in-line with our numbers. Revenue dipped slightly on a sequential basis and was marginally lower than our estimate but, importantly, the theme from management is that coupon distributions are increasing - even on a short-term comparable basis. OPRX disclosed recent coupon distribution metrics and the trend appears to be very encouraging. While there's still potential for some short-term variability, depending on timing/terms/length of couponing programs by OPRX's various pharma partners, the early numbers along with growth in OPRX's distribution platform suggest revenue could begin to ramp fairly substantially over the near-to-mid term.

Q1 revenue of $669k was up from $329k (+103% yoy) in Q1 2012, down from $751k (-11% sequentially) in Q4 2012 and about $149k (18%) lower than our $818k estimate. OPRX noted that there were 177k coupon distributions in Q1, including 85k in March. We were estimating just better than 200k distributions for Q1 so the actuals are coming in fairly close to our forecasts. Q2 is already off to a strong start as distributions significantly ticked up from March with almost 120k in April alone. Some of these distributions relate to legacy programs which OPRX does not get paid on - these legacy distributions accounted for ~25% - 30% of the total Q1 and April distributions. OPRX noted on the call that average revenue per paid distribution is ~$4.00+.

Operating expenses also remain generally in-line with our estimates. Op expense should be highly leverageable as revenue increases. Q1 operating expenses were $774k compared to our $ 705k estimate. Net income and EPS were ($105)k and ($0.01) compared to our $114k and $0.01 estimates.

OPRX exited the quarter with $261k in cash and equivalents, roughly flat from the end of Q4. Cash flow from operations was $7k, excluding changes in working capital this was ($57)k.

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 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 beta-launched the HealthTronics platform in mid-May with a small group of doctors - we expect this to continue rolling out over the next few quarters. Management noted on the Q1 call that they expect to be able to announce some major urology-related drugs which will be promoted through the HealthTronics network as well their other distribution channels which in total should touch about 8,000 urologists.

  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 touches has a significant user base and expands OPRX potential distribution by an additional 100k physicians.

  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.

- **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.

- **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. 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.

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 $4 - $5 each). We forecast significant revenue growth and currently model 2015 revenue of

~$15MM. 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 2015 net revenue figure moves from $15MM to $23MM.

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 $0.17 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	Q2E	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
Revenue	$2,048.7	$669.3	$768.2	$1,020.1	$1,238.8	$3,696.3	$7,965.8	$15,407.9	$22,127.3
YOY Growth	*84.3%*	*103.2%*	*49.0%*	*125.1%*	*65.0%*	*80.4%*	*115.5%*	*93.4%*	*43.6%*
SG&A	$2,413.0	$774.2	$747.1	$731.5	$882.5	$3,135.3	$3,672.2	$6,810.3	$7,988.0
% SG&A	*117.8%*	*115.7%*	*97.3%*	*71.7%*	*71.2%*	*60.6%*	*46.1%*	*44.2%*	*36.1%*
Operating Income	($364.3)	($104.9)	$21.1	$288.6	$356.3	$561.1	$4,293.6	$8,597.6	$14,139.4
Operating Margin	*-17.8%*	*-15.7%*	*2.7%*	*28.3%*	*28.8%*	*15.2%*	*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)	$22.1	$290.1	$358.8	$566.1	$4,368.6	$8,697.6	$14,274.4
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,422.0	$4,282.3
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*16.3%*	*30.0%*
Net Income	($364.3)	($104.8)	$22.1	$290.1	$358.8	$566.1	$4,368.6	$7,275.6	$9,992.0
Net Margin	*-17.8%*	*-15.7%*	*2.9%*	*28.4%*	*29.0%*	*15.3%*	*54.8%*	*47.2%*	*45.2%*
EPS	($0.03)	($0.01)	$0.00	$0.02	$0.02	$0.04	$0.12	$0.17	$0.22
YOY Growth	-					*-239.8%*	*239.7%*	*42.8%*	*25.4%*
Diluted Shares O/ S	14,264	14,232	14,400	16,751	18,015	15,850	36,000	42,000	46,000

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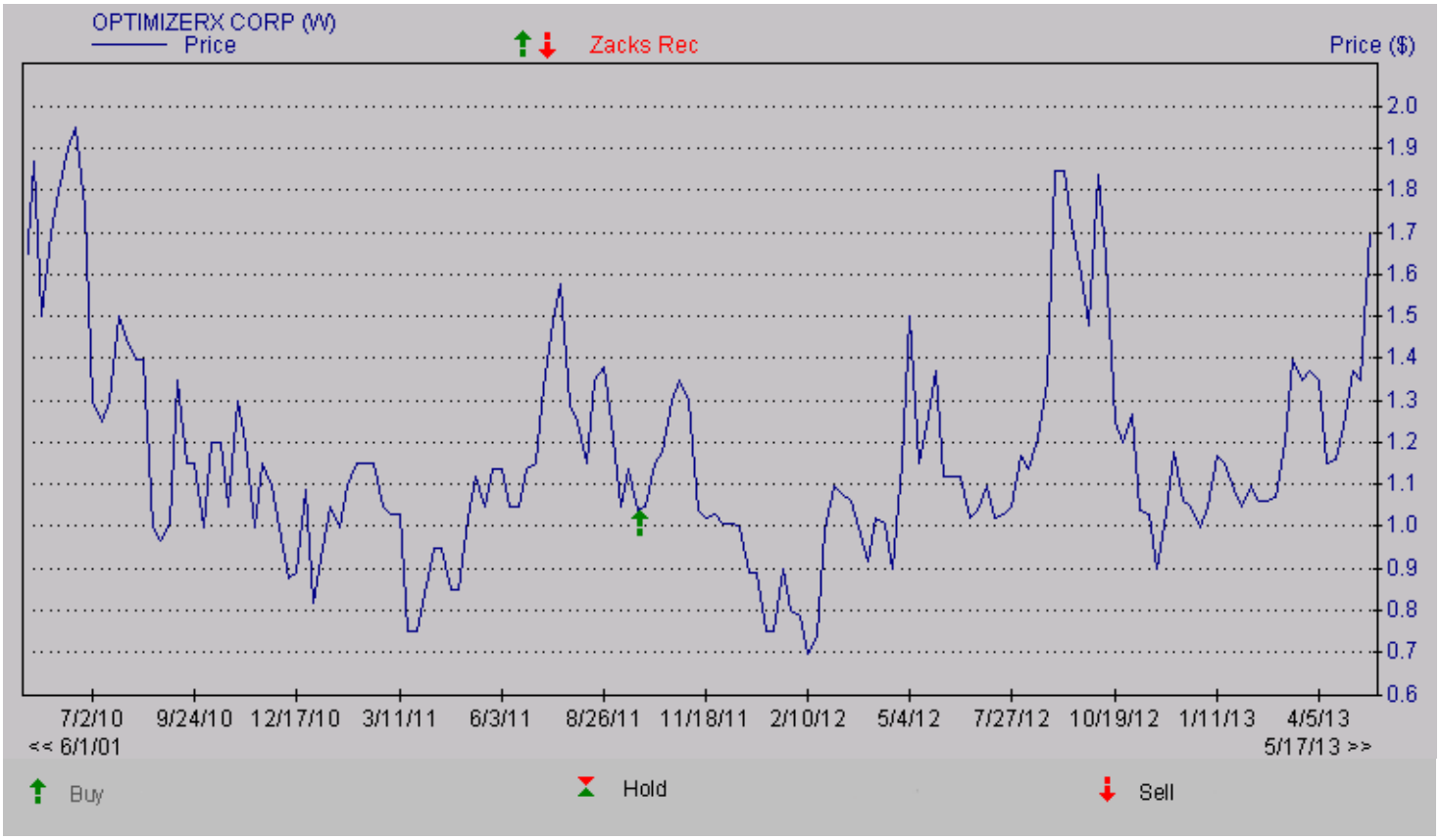

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