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OptimizeRX

Second Quarter 2018 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

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Harvey Poppel, PopTech LP

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PRESENTATION

Operator:

Good afternoon and thank you for joining us today to discuss OptimizeRX Second Quarter ended June 30, 2018. With us are the Company's Chief Executive Officer, William Febbo; Company President, Miriam Paramore; and Chief Financial Officer, Doug Baker. Following their remarks, we'll open the call to questions. Then before we conclude today's call, I'll provide some important cautions regarding the forward-looking statements made by Management during the call. I'd also like to remind everyone that today's call is being recorded and will be made available for telephone replay via instructions in today's press release in the Investor's Section of the Company's website.

Now, I'd like to turn the call over to OptimizeRX, CEO, Will Febbo. Please go ahead, sir.

William Febbo:

Thank you very much. Good afternoon, everyone, and thanks for joining us on the call today.

As you now have seen by today's earnings release, we made a lot of progress growing our digital health messaging platform. On the call today, we'll look to talk about our record quarter and the foundation we've been laying to support future growth and expansion. We saw growth and improvement across the board in Q2. We realized our seventh consecutive quarter revenue growth as compared to previous quarters and achieved profitability earlier than expected. Revenue was up to 78% from a year-ago quarter and 24% sequentially to a record 5.1 million. This was driven by strong client demand and continued increasing budget based on continued return on investment results. Our Digital Health Messaging revenue and expanding reach to physicians at point-of-care together continue to fuel our growth. In fact, we have already launched six new EHRs in 2018, exceeded most internal revenue goals, and we're only halfway through the year. Even with all this, we have only just begun to open this market.

As we have discussed, our platform starts to really show scale when we hit all three areas of growth, which is evident in our expanding margins. In fact, at 56.1 for the quarter, we surpassed our previously announced gross margin goal of 55%, and we expect to again exceed this goal in the second half of the year.

Now, I'd like to give you some additional perspective on this investment opportunity before we dive deeper into the numbers with Doug. I'd like to talk a little bit about why our platform of Digital Health Solutions has become so valuable to pharma manufacturers, as well as to doctors, and patients, and also why our position in the space is so large and growing. Let me just pose the question. Can you imagine spending billions of dollars on developing a drug and not being able to communicate or educate your clients, in this case physicians, on its clinical benefit and their patients on cost and adherence? This is precisely the predicament in which many pharma companies find themselves today. As we all know, the health care market has been undergoing many changes of late. What most people don't know, however, is it's becoming increasingly difficult for pharmaceutical companies, acting through their sales reps in the field, to get in front of physicians they want to reach. In fact, because of the Sunshine Act and similar reporting requirements, these days more than half the hospitals in the country don't even let the reps in the door. This is a huge problem in this space and our platforms squarely address it.

Physicians are also spending more than five hours a day interacting with the electronic health records through the EHR interface, whether it be viewing test results, logging notes, or issuing e-prescriptions. In fact, in 2017 alone, more than two billion e-prescriptions were transmitted from doctor to pharmacy. This amazingly high number reflects how 90% of the ambulatory care providers use EHRs and that e-prescribing now exceeds 85% of all prescriptions written. In fact, most hospital systems now require that all medications be e-prescribed. The trend also reveals how the adoption of e-prescription has accelerated over the last few years, and why it's significant that OptimizeRX digital health technology now reaches a very large segment of this market. Remember, our technology is connected into the e-prescription software.

Of the two billion e-prescriptions transmitted annually, 10% of these transactions involve brands with a copay program. This means OPRX has the potential to deliver more than 200 million transactions in. With the escalating cost of healthcare, and especially prescriptions being shifted into increasingly to patients, copay saving programs will be increasingly in demand. The pharma industry has set aside over $8 billion to cover copay programs. Based on these factors and indicators from our clients, agencies, and partners, we estimate the total available market is worth well north of $500 million to a billion once the market fully adopts this channel. We also believe that the point of care, where the patient and doctor engaged together directly or in the waiting room, is becoming the most effective way to communicate. As personalized medicine grows in popularity, specialty treatments are more commonly prescribed, digital health platforms like ours that exist at the point-of-care will be the greatest technology based enablers of communication between the pharma industry and healthcare professionals.

Furthermore, we see our platform becoming increasingly critical component for improving outcomes and reducing costs throughout the health care system. This is especially true when you consider that prescription non-compliance leads to poor health outcomes, costing the US healthcare system more than $100 billion annually. Anyway you look at it, our current and in-developed solutions have tremendous market potential. This potential is being realized more and more every day as we expand our client base and channel reach, and we integrate further within each e-prescription work flow and point-of-care.

Now, I'd like to turn our call over to our CFO, Doug Baker, who will walk us through the financials for Q2. Then Miriam Paramore, our president, will discuss the latest with our product road map and channel strategy. Then I'll return to talk a little bit more about our operational results and outlook for the remainder of the year. Doug?

Doug Baker:

Thanks, Will and good afternoon, everyone.

Prior to the call, we issued a press release with results of our second quarter ended June 30, 2018. A copy of that release is available on the Investor Relations section of our website. We reported net revenue in the second quarter of 2018 increased 78% to a record $5.1 million. The increase is primarily due to growth in our two core digital messaging products, Soft Financial and Brand Messaging, coupled with broader distribution through our new channel partners. The launch of new pharmaceutical brands also contributed to the increase.

Historically, people ask about the actual number of brands we represent. But we've moved away from this metric because it doesn't correlate directly to revenues. For example, one brand may generate over $1 million in revenue for us while another more specialized brand maybe under a $100,000. Strong revenue growth in second quarter increased our gross margins to 56.1% as compared to 44% in Q2 of last year. This big improvement was due primarily to product mix and our focus on reduction of our revenue share expense. We remain focused on maintaining these improved margins in 2018 and expect to achieve our gross margin target of at least 55% through the fourth quarter of 2018.

Our operating expenses in the second quarter of 2018 were $2.6 million, up from $1.6 million in the same year-ago quarter. The increase is primarily due to additional expenses related to growth initiatives. It is important to note, however, that operating expense as a percentage of revenue decreased to 51% as compared to 57% in the same year-ago quarter. We expect our overall operating expenses to continue to increase slightly on a quarter-over-quarter basis as we further implement our business plan and expand our operations to grow the business in a very dynamic and active marketplace. However, we expect operating expense as a percentage of revenue to continue to decrease.

The strong quarter allowed us to attain profitability for the second quarter of 2018. Net income was $281,000 or $0.02 per diluted share, as compared to a net loss of $362,000 or $0.04 per share in the year-ago quarter. Profitability was primarily due to the increase in revenue and decrease in operating expenses as a percentage of revenue. Our strong second quarter also allowed us to achieve profitability for the six-month period ended June 30. We expect to continue to be profitable on a quarterly basis. Although, one-time expenses related to the investments and growth initiatives could result in the quarterly loss in any particular quarter.

Now, turning to the balance sheet, cash and cash equivalents totaled $12 million at June 30, 2018. This compares to $5.1 million at December 31, 2017. This increase in cash was due to the equity raise completed in May, which generated net proceeds of approximately $8.2 million. In addition, we continue to operate debt-free. We expect to have positive cash flow from operations on a quarterly basis for the remainder of 2018 as well.

That wraps up our financial results. Now, I'd like to turn the call over to Miriam.

Miriam Paramore:

Thanks, Doug. We are executing well against our growth plan and I'm happy to share a little more detail about our achievements this quarter. First, I'll discuss our broadening reach to healthcare providers, or HCPs, through expansion of our point-of-care network, including comments regarding our hospital strategy. Second, I'll provide an update on our product roadmap, and third, I'll give some information on our data and analytics solution.

First, we'll talk about healthcare provider or HCP reach. As Doug touched on earlier, our balance sheet is strong, bolstered by the $9 million capital raise completed in the quarter. Today's earnings release laid out our plan to use a portion of the proceeds to make additional sales and channel investments to expand further into our core ambulatory markets where we continue to demonstrate high or a lie (phon) against the pharma marketing ban.

Regarding our reach to HCPs through our channels, I'll summarize our accomplishments regarding that expansion. We launched three new EHR channels and one new ePrescribing channel this quarter. In addition, we implemented our first-ever clinical decision support channel, Evidence Care. Combined, these additions bring our total year-to-date channel expansion to six channels against a full-year goal of seven new channels, and as Will said, we're only halfway through the year. The OptimizeRX digital communication network reaches more than half of the office-spaced HCPs. In some specialties, we have a very high concentration. For example, we're excited to highlight that with one of our newest channel partners, we now reach over 87% of the dermatologists in the country.

A few additional notes about Evidence Care. As you may recall from that press release, this partnership is unique for us in that it provides three "firsts". It's our first messaging into the hospital workflow, it's our first integration with a clinical decision support tool, and for the first time, it gives us the ability to integrate with industry-leading EHR vendors that have a strong presence in the hospital space. Evidence Care provides clinicians with access to reliable, evidence-based treatment recommendations at the bedside in as little as 30 seconds. We look forward to rolling out various messaging solutions with them over the coming months. The Evidence Care partnership is an important step forward within our hospital strategy. We also plan to further expand into the hospital market which is essentially a new channel for us, representing significant growth opportunity as compared to our ambulatory traditional placement in the market. We will do this by building connections to the major hospital-focused EHRs and by working with our pharma clients to selectively pursue high-priority health system.

Turning to international reach, we continue to lay the foundation for future growth and expansion by partnering with Patient Connect, our first expansion into Europe. Our strategic alliance with Patient Connect has the potential to expand distribution of our digital health messaging for client, to millions of HCPs and the patient, with Patient Connect international pharmacy and EHR network. In addition, Patient Connect's European clients will now have the opportunity to take advantage of the OPR network in the U.S. During this quarter, we have cross-trained our respective staff, developed a go-to market plan, including our joint capabilities, and begun to respond to sales opportunities. These are early days, and we are now aligned to pursue growth together. We expect to see PILOT revenue in 2018 and revenue growth in 2019.

Now, onto the product roadmap. Our recent capital raise is important to building, launching, and growing our suite of products and services. One use of this capital is to try to facilitate faster ramp-up and higher utilization by our EHR and ePrescribing partners that are still running on server-based technologies. These partners have complex software-upgrade cycles that must be carefully managed, and we hope to make the process as easy as possible when it comes to working with our technology. The remainder of the year, we plan to invest in additional messaging solutions which we will talk to after Q3.

We are focused on bringing new solutions to our existing clients to capture more pharma budgets in the annual planning session which starts shortly for 2019. We are arming our sales team with a broader affordability and adherence-focused solution set. Each solution brings a compelling value proposition that is transparent, measurable, and ultimately effective for all stakeholders, period. Excuse me.

Turning to data and analytics, this quarter we continued investment in the underlying technology that powers our solution, and we'll invest in our data strategy. We brought in new technical leadership and increased the size of our engineering team. On the solid foundation, we plan to invest more in our data warehouse, including both an investment in technology and talent. The data warehouse is the underpinning of our new reporting and data analytics capabilities and will provide valuable insight to our customers. These changes will support our future growth and significantly enhance our value proposition. Our intent with data and analytics is to bring more value to our client base and ultimately increase our recurring revenue potential. We will update the investment community after Q3 as to its progress. While these investments and growth initiatives may result in quarterly fluctuations in profitability, we expect them to drive further strong top-line growth and margin expansion while sustaining our position as the market leader in our space.

Now, with that, I'd like to turn the call back over to Will.

William Febbo:

Thanks, Miriam, and thanks, Doug. Nice work. I've got a little section, then we'll get to Q&A. Today's healthcare environment, as we know, is increasingly complex, particularly for patients who face an unprecedented cost-burden as it relates to their medication. The high rates of high-deductible health plans coupled with higher copays and fewer generic drug options creates really a perfect storm of price barriers to follow through with needed therapies. Medication adherence is the focal point of a national quality initiative aimed at improving patient outcomes and lowering costs.

As I noted earlier, there's a clear connection between non-adherence to physician-prescribed medication and poor outcomes, disease progression, and, especially avoidable healthcare costs that reach in the billions annually. Recent studies have shown that the high cost of medication is a primary contributor factor to the current non-adherence dynamic. OptimizeRX is now working to better address this challenge of higher patient cost with workflow-related technology solutions. We believe there are unexplored ways of embedding patient-savings strategies directly into the electronic health record, which we believe is a critical piece to reducing costs. Our technology already improves communication between pharma companies and healthcare providers by educating them about available financial programs as they work with patients at the point of care. This technology not only helps improve patient adherence to medication and clinical outcomes, but it also allows providers to extract greater value from their EHR investment by streamlining the process of identifying cost savings for patients, and that's critical because doctors do not have a lot of time in their day to be looking for these kinds of solutions.

We are also seeing an average return on investment of five to one when we measure our clients' progress. This strong ROI data helps encourage the adoption of our cloud-based EHR channels by potential clients. Also supporting our growth is the fact that our platform solves major pain points for the healthcare providers by eliminating the need to manage and store physical drug samples, as well as spending time they don't have with pharma sales reps. As I mentioned earlier, these challenges have led now to nearly 60% of the doctors' offices banning or severely limiting access by pharma reps and the samples they offer.

This means patients increasingly rely on their doctors to provide information on financial assistance programs as they navigate the financial challenges of high-deductible health plans. Data from the Kaiser Family Foundation reveals that deductibles have risen 300% since 2006, and COPE (phon) insurance costs have nearly doubled. In tandem, physicians need access to programs that will help drive down costs for patients to improve medication adherence as part of their population health initiatives. Unfortunately, many savings programs or opportunities are missed simply because the physician and patient are unaware. Many patients are then simply unable to keep up with medication therapies due to the cost burden. To overcome these challenges, physicians need a streamlined method of identifying access to the programs that can help their patients comply with care plans. OptimizeRX, again, eliminates these problems as far as more convenient and efficient ways to allocate, administer, and track copay savings for patients, as well as to gain access to important clinical information. Through the EHR, the system doctors now use consistently in their workflow, we are effectively reopening critical communication between the doctor and the pharmaceutical companies for the benefit of the patient.

Through this new digital platform, pharma companies can regain critical access to doctors and their patients and provide the information and savings they need and precisely when they need it, in the point of care, and create better health outcomes, a win-win-win. Today, our network reaches over half the nation's HCP's and the ambulatory market, making OptimizeRX the healthcare industry's largest point-of-care network. We deliver real-time financial assistance and critical clinical information from pharma companies to HCPs and patients. Our team is doing a tremendous job, and our clients are thrilled with our solutions, service, and our culture.

Our recent uplist in NASDAQ Capital Market couldn't have come at a more opportune time. As we continue to demonstrate high ROI from the marketing spend of our pharma clients and strengthen our network of EHR partners, we expect our NASDAQ listing to further elevate our corporate profile, enhancing liquidity for investors and broadening our shareholder base. We are pleased our execution has resulted in greater interest and attention by the financial community, including now, three sell-side analysts who cover companies that are in emerging market leaders.

For the second half of 2018, we will remain focused on revenue generation from our core solutions, expanding our channel and partnering networks, both domestically and internationally. We see continued gross margin improvement as we scale, and we're exploring all our strategic options which would enhance growth and shareholder value. Now with that, I'd like to open the call to questions, what I consider the fun part. Operator?

Operator:

Thank you. Ladies and gentlemen, if you'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that's star, one for questions.

We'll go first to Eric Martinuzzi with Lake Street.

Eric Martinuzzi:

Congrats on the 78% revenue growth, but I think it's also pretty impressive that you're GAAP profitable now. That's also a nice milestone.

William Febbo:

Thanks, Eric.

Eric Martinuzzi:

I wanted to focus strategically, when you talked about in the press release and in the prepared remarks about further expanding into the hospital market. Miriam addressed this a little bit with the evidence care commentary. But is there anything else you can tell us about penetrating that hospital market?

William Febbo:

Yes. I'll start, then I'll hand it over to Miriam. We won't go into too much detail for competitive reasons. But what we realized was it's a critical piece to the overall market, one. Two, our clients are asking for access to it so we know there's revenue there, and it's highly complex. We have a strategy which we believe is client centric. It has tremendous opportunity and it's going to take time, but that time is worth it frankly, because we're growing our ambulatory at the same time. This is all incremental reach which really touches the core of our clients' concerns. Because if you think of the percentages we threw out of who they can't get to, hospital systems are actually the highest of those that exclude reps from entering. Miriam, maybe you can give a little bit more color and we can do more next quarter, too. You're on mute.

Miriam Paramore:

Thank you. Sorry. I was on mute. Thank you, Will. Hi, Eric. Yes, it is multifaceted and I will keep it high level. Just think about it in terms of all of the health systems that are out there and the predominant EHRs which are in them, and the various business models that those EHRs have. We have to work it from a two-prong, really, a three-prong effort that our clients demand and what is important to them in terms of which health systems they prioritize. Then it's those health systems and communicating with at least a champion within the health system to help move the project both along. Then it's technology; making sure that the technology is ready and can work and plug and play. Each of those installations of very large EHR hospitals—hospital EHRs, rather, are a little bit different, and they're tweaked. Those are the components that add up to the time that we'll mention, that we have action plans and investments in all of those facets of the strategy. Hope that's helpful.

Eric Martinuzzi:

Okay. Well, kind of stay-tuned-more-to-come, I guess. As far as the way your customers spend, Will, I know they budget for the coming year, and then there's insertion orders, and there's the spend. You were pretty good about, in January 2018, getting those spends fired off. What about mid-course corrections, customers coming back because they've had a good experience the first six months and expanding their campaigns mid-year? Are you seeing any of that?

William Febbo:

Yes, absolutely. Q4 is always our biggest quarter, and that's when, if there's additional budget that can be used, and obviously if you have a very transparent measurable service or solution that's showing good ROI, you go to the top of the list. We have a great sales team. They are absolutely in line with all that thinking and process. I will say our operational team does a tremendous job of just keeping them in the loop proactively as we work down budgets, so that we're really not waiting. We're going to the client well before it's run out and telling them about what else they could do for the year. It gives a great chance to talk about additional reach and different solutions, and certainly, the more you're there, the better in their mindset. Yes, we are seeing them, those that have worked through their budget, we're seeing those go through on the larger brands, and we're going into planning for '19. We're pretty excited about.

Eric Martinuzzi:

Okay. Then lastly, a housekeeping item, maybe for Doug. It looks like, based on the 10-Q, the share count now, as of the end of July was around 11.6 million. You've had some pretty good stock price appreciation. That 11.6 million is a basic share count. But now that you're profitable, we need to use a diluted count. Is that diluted count about a million, 1.2 million or so? Is that the right way to think about the dilution?

William Febbo:

Yes. That would be roughly, both—basic and fully diluted are in there, and there's about a million related to dilution, million extra shares.

Eric Martinuzzi:

Got you. Okay, thanks for taking my questions and congrats.

William Febbo:

Thanks, Eric.

Operator:

We'll continue on to Richard Baldry with Roth Capital.

Richard Baldry:

Thanks. I'll echo congrats on a great quarter. You talked about exceeding your goal of 55% gross margins, but if we look at the quarter itself, rents were up about a million, and your COGS only grew a little over $200,000. The incremental margins is about 77%. Could you maybe talk through how that happened? I assume your renegotiations on maybe rev share had a bit of a help on the existing base of revenues, or are some of your newer offerings carrying materially higher gross margins that might make that type of incremental gross margin contribution sustainable?

William Febbo:

Sure, Rich. Hey, it’s Will. Good to hear your voice. It's really product mix and contracts, and I think the contracts were really done last year, so we're starting to see those this year. Then product mix, yes. We have some that have a higher margin than we've traditionally sold, and their solutions we continue to keep selling. I would expect that this business can continue to improve. We have revenue share agreements. Our business is built off of that, and those don't go away. But we have some that are these alternative channels, like evidence care that would have a slightly lower share. I think it's product mix and contract hitting at the same time, and I think we expect to see continued improvement, marginal continued improvement throughout the end of the year.

Richard Baldry:

Okay. Then, if we look at the incremental revenues, again, about 50% of it translated all the way to the bottom line. Given the growth rate you've got, just pretty hyper accelerated, it would seem to me that that's not a long term sustainable pattern, that you’d need to stop out (phon) more in the OpEx side and build infrastructure to keep up the pace you're growing. Now that you've achieved GAAP profitability materially early, are positive generating, how do you think about incremental drop down gross profit and how much might stop in the OpEx line longer term as opposed to the 50% number we saw in the second quarter?

William Febbo:

Yes. We've been pretty consistent on not focusing on profitability, just being very fiscally responsible with our cash management. I think we had all three things happen, that we say, if all three things happen, we grow a lot, we make money. But we are not going to get in the way of top line growth if we have opportunities to invest more in either people or tech. But I will say that this business does scale very nicely with relatively small group of OpEx behind it. If you think of our value proposition, my pharma likes this, is if they come to us, one provider, and they get to a very high percentage of the physicians that matter to them through mainly just one dashboard, and then we control the chaos and have technology that makes it easy for us as well in distributing our content. It should start to scale. If it doesn't, frankly, we've done something wrong. I would expect we will build.

We had a Board meeting last week and that question came up. We will invest in the team, and I think now we're at a really good place to bring on more sales talent. We'll have someone starting next week to increase our team more, and on Miriam's side, she's done a good job bringing more operational people on in the tech team. But again, our whole purpose is to automate and leverage the technology around these solutions so that we don't need big groups of people which are expensive and then, frankly, hard to manage. We're excited about this scale that's starting to show.

Richard Baldry:

Without asking for guidance, maybe talk a little about the seasonal impacts to these. Talked about Q4 being pretty strong. Sometimes there's a pattern of people not launching programs early enough in Q1, so Q1 potentially could be a softer quarter. How do we think about a Q3 period? It looks like in the last couple of years that Q2 has been pretty strong, Q3 a little more muted before the real strong Q4. You think those same patterns still hold? Do you think some of the recent EA (inaudible) launch, and partner launches might change that seasonality as we head into September quarter after a very strong June quarter?

Doug Baker:

Yeah, I wouldn't say Q3 is going to be as strong as Q4, just because historically the data says otherwise. But, historical data, in our case, is a little skewed because you've got multiple things happening at the same time, right? As you said, more reach, right? Any time that happens, that allows us to go back and get more budget on top of the budget we already have. We're closing more clients, even through the year, and we are piloting several new solutions which we'll talk about later in Q3 after Q3, but that's when pharma pilots, that's real revenue. We feel like we've got a really good view into the second half. We feel very confident in the business and very thankful for some of the investments we made in people and tech last year because it's really starting to show.

Richard Baldry:

Great. Thanks a lot and congrats again.

Doug Baker:

Thanks, Rich.

Operator:

Thank you. Our next question comes from Andrew D’Silva with B. Riley FBR.

Andrew D'Silva:

Hey, good afternoon. Thanks for taking my call. Just a few follow up questions here. First off, you really came in meaningfully ahead of what we were looking for here from a top line standpoint. Could you maybe touch on if there are any anomalies during the quarter. Then, can you just walk around what's the catalyst for this growth? Would you say it's more related to things getting to capacity from your brand messaging offering or is it more closely tied to more platforms, and brands feeling comfortable with your position in the space, and moving more heavily with the marketing capabilities financial messaging brings to the table?

Doug Baker:

Sure. Thanks, Andy. No anomalies. Nothing strange to call out other than we did raise some money. That's a balance sheet anomaly, but that didn't impact our revenue. It's pure execution. Sales team is killing it, operation team is delivering, and the technology is working. Nothing strange.

In terms of catalyst, I had a gathering last week with my national sales team, and really impressed with the revenue growth per manufacturer that we have. We've doubled it, and that's being driven by a couple of things. One, just solid ROI. They run independent studies on what we do, so they actually believe the ROI and that really gets them coming back for more. It also helps others within the manufacturer, maybe different brands, adopt this channel.

Secondly, I think the channel itself. We've gone through and educated the market, particularly at the agency level. I think now they're really looking at this point of Care as a space, so we need to be there, how do we do it. How do we do it without really getting in the way of the physicians when they’re doing their job, and I think we've got three areas. We've got affordability, adherence, and then you've got some other things that we don't do, but those first two are big ones. We're really in the right place when it comes to enabling solutions with the technology that don't get in the way of the doctor, and they really help the patient. I would say that's our—that’s the catalyst. No anomalies.

Andrew D'Silva:

Okay, great. That's very useful color. Just moving on. What does the continued industry consolidation, primarily at the health system level—I mean, are you seeing EHR wins or losses from an HCP standpoint as these mergers take place? Any color on how you're thinking about the consolidation space would be extremely useful, really.

Doug Baker:

Yes, it is such a fragmented market that you just expect a lot of consolidation, like in the CRM space back in the day. Physicians really are grumpy. I think we can say that. They don't want to be on the computer, they didn't go to med school to be on the computer six hours a day. They like taking care of people and solving problems. Once they're trained up on EHR, it’s very difficult to switch. We've all been through software changes, we don't like it either. That's just human nature. I think you're seeing, even those that are purchased, you're not going to see a lot of switching. I do think, at the end of the day, the cloud-based, UI-rich, less clicks, more value added type EHRs are going to do really well with physicians. Our strategy is to work with the server-based partners we have, see what technology we can enable with them, just to make everything easier; we've been doing that for a couple of years.

Then the other is looking at the Cloud-based solutions as we've had several partners recently like Modernizing Medicine, and a few others, that have a tremendously powerful cloud-based solution which just makes rolling out tech better and easier. There's obviously been some news out there. There's the Allscripts (inaudible) Practice Fusion, and Athena’s had some management changes, but I don't see tremendous consolidation happening, mainly because the user base is not going to want to just up and switch again after they've either spent a lot of money or time figuring out a system.

Andrew D'Silva:

Okay, fair enough. Two more quick questions for you, and then I'll hop back in queue. Obviously, I come at this story from a little different angle because I'm more life science-focused than software-focused, but a lot of the companies that I cover are starting to go more into premium specialty prescription offerings. I was looking at some data that showed that had a very high correlation with coupon, much higher than even nominally priced-branded drugs. Are you seeing any tailwinds from that? Is that resulting in any of this upswing that we're seeing now in the first and second quarter?

Doug Baker:

Yes. They're definitely in the mix, and I think we'll be more in the mix over the quarters to come just because we have a wave of specialty drugs coming to market over the next 18 months. Part of the new solutions we're working on are enabling that specialty drug to be administered and having financial assistance connected to it, because it is, as you said, it's essential. But, yes, they're in the mix and that mix will only grow.

William Febbo:

Okay. This is my last question. I skimmed your Q. I just saw this to be the slight change in the WPP relationship. I don't really necessarily care about what it means behind the scenes, but should we on the Street think about that any differently than how we previously did?

Doug Baker:

Oh, no. It's business as usual. They've got a Board seat, very happy shareholder, and solid partner.

William Febbo:

Okay. Wonderful. Thank you so much, and good luck on board.

Doug Baker:

Thanks.

Operator:

Thank you. Ladies and gentlemen, as a reminder, that's star, one for questions. We'll hear from Harvey Poppel with PopTech LP.

Harvey Poppel:

Congratulations. Super quarter, especially the start of new developments on the corporate strategy, with the raise and the uplisting, very gratifying. Just continuing on that side for a moment, now that you have more cash in the bank and your cash flow requirements are getting better, do you see the possibility of some M&A in the not too distant future?

Doug Baker:

We talked a little bit, I think, to this last time, last call. It's challenging for small companies to buy small companies or big companies and things can go wrong fast, so I have that bias. But at the same time, we now, as Miriam likes to say, have built the railroad tracks between a very large industry and physicians. We are constantly coming across technology-enabled solutions from entrepreneurs, seasoned corporate people who have spun out of big companies, who are really trying to do what we're doing for some element of adherence or affordability. We talk to all of them because, at a minimum, there could be a commercial relationship, like Evidence Care, for example, or Patient Connect. We haven't found the perfect fit, but I can tell you I have an eye on it. I'm just very cautious.

Harvey Poppel:

Thank you. Second question deals with the market potential. You've sized the market many times, I think typically more on an ambulatory market basis. How would you compare the magnitude of the opportunity in the hospital side from the ambulatory side?

Doug Baker:

It's not apples to apples, right? But it's still 65% of the physicians. It's a lot of physicians, a lot of touch points, a lot of prescriptions, real desperate need to communicate there, particularly with adherence and affordability. But it's hard to size market where you're not—clients aren't currently delivering a solution. If I took all the existing reps and the conferences and all the other things they do to influence and educate in that space, it's billions of dollars. It's big. If you look at what we're doing, I think you're going to see it's all adoption in the ambulatory space over the last three or four years. Harvey, you were early, you watched it, and I think if we can effectively get into the top 20, top 30 hospital systems for our clients, you're going to see more rapid spending on the client side. There will be less convincing that we need to do. The hard part is really getting it to work technologically. But that's why we have Miriam. We've got our weapon. I would say it's a lot bigger, but it takes time on the integration side; not as much on the client side.

Harvey Poppel:

Similar question on international, what do you see as a practical issue? Because there are obviously a lot of differences between what happens, what goes on internationally, regulatory requirements and so forth? Is the international opportunity something that could become a real material part of your revenue stream, say in the next two or three years? By material, I'm saying like as much as 20, 25%.

Doug Baker:

I do think so. If you just look at other large companies that do any form of health media, it's a big piece of their business. Telemedicine is huge globally, and growing very quickly. Traditionally, I would stay away from international, but when it's technology-enabled with the right partner to deliver content to countries that are really hard to get content to, in any language, yes, I'm very hopeful for it. I think this year we'll see some initial revenue from it. I'm hoping, as we approach the '19 planning process, we'll have some good business in there that we can talk more to, probably either in Q4, after Q4 or Q1 of '19.

Harvey Poppel:

Final question. In past conference call or two, you alluded to thresholds that you'd be disappointed at gains this year if they didn't exceed, I think at one point you said 30%, you may have said 40% at one point, but having knocked out the first half of over 80%, it seems like 40% is a slam dunk. Even if your growth almost stalled out in the second half, the math works for you. Do you want to raise that threshold at all at this point?

Doug Baker:

I don't because I'm getting close to giving guidance. That's a dangerous thing to do as a smaller growing company, but I do feel very confident that there's plenty of dollars on the client side, we've got great solutions with terrific partners and the right team. I do still think that if you wanted to have protection to the downside on growth, then I'd hold true to that 40%. I think we're just scratching the surface, Harvey, and the market's just really waking up to this channel, and we're one of a few in it. That gives us a really good potential.

Harvey Poppel:

Great. Thanks a lot.

Doug Baker:

Thanks, Harvey.

Miriam Paramore:

Thank you. Ron Chez, Private Investor, your line is open. Please go ahead.

Ron Chez:

Good afternoon. Just a quick question for Doug Baker, I know it's in the 10-Q. What was EBITDA?

Doug Baker:

I don't have that right in front of me, but—

Ron Chez:

Okay. Don't bother. Then I'll see it in the Q. Thank you. I thought a couple of things that you were saying—by the way, nobody should refer to anything as a slam dunk because that, of course, is bad luck, and Harvey, just giving you a hard time there. Two things; I think your observation about acquisitions, you making them is very good. Don't let that money burn a hole in your pocket. Make sure if you make a deal that it is heavily tilted in your favor, huh?

William Febbo:

Absolutely. Yes, we don't want to get ahead of our skis there. We've got enough remaining access to get with physicians, more clients to get. We can keep growing on that. But if we see something that plugs in nicely, that couldn't scale on its own, then we will definitely look at it. But yes, I agree with you, Ron. You need to be careful.

Ron Chez:

It should be strategically great and with the favorable terms, obviously earn-out whatever small company—while I'm commenting or asking about your making deals, do you want to say anything about the overall M&A market in this space. Any comments, color?

William Febbo:

Yes. Yes. Thanks, Ron. We saw, last year, McKesson take Cover My Meds. We saw (inaudible) Davis take out Everyday Health. Recently, we saw Amazon take out Pill Pack, and these multiples—well, first of all, these companies had been around longer than we have. They're all tech-enabled solutions and they're being acquired by very large companies. I think what's relevant about that is when the multiples are amazing; it's good for investors. Secondly, it's showing these big companies are really starting to say, "Okay, what do we need to do with technology-enabled solutions to keep our position." I think what we've built is a tremendous network at point of care, where in the e-Prescribe workflow, which is really an interesting place to be to affect outcomes and help patients, and we're swimming among giants then. I feel good that we've got protections and good barriers to entry. But I'm also very thankful that there's that activity because it does show us that this is a big market and we're focused on the right things.

Ron Chez:

The multiples have been large, right?

William Febbo:

Yes, 10x revenue and plus. Yes.

Ron Chez:

One more. One more thing, I think another important thing that you touched on, which is very important in this environment with the government and all sorts of regulatory activity, is this is focused on making things better for patients. You talked about adherence. That's a really good position to be in to be able to say that you're going to help outcomes as a result of what you're doing. That emphasis should be continued in your commentary and positioning.

William Febbo:

Couldn't agree more. Thanks, Ron.

Ron Chez:

Well, we'll stop agreeing now. Okay.

Doug Baker:

Ron, to answer your question on Q2, EBITDA was around $850,000,

Ron Chez:

You know what, there's a bit of a conflict in which—I'm sorry, one more—a bit of a conflict in what you're saying about you're going to take money and invest but you're going to be cash flow positive. What you're doing is taking—I mean you've got the money there but it's going to be used in the context of disciplined operating expenditures, right?

William Febbo:

That's right. Remember, we can depreciate those over the life of any contract we are cutting. It's not all hitting at once. But yes, that's right.

Ron Chez:

Thank you.

William Febbo:

Thanks, Ron.

Ron Chez:

Really good job, Will.

William Febbo:

Thank you.

Ron Chez:

And Doug and Miriam.

Miriam Paramore:

Thank you, Ron.

Operator:

Thank you, ladies and gentlemen. At this time, this concludes our question-and-answer session. I would now like to turn the conference back over to Mr. Febbo for any additional or closing remarks.

William Febbo:

Well, thanks, everyone, for joining us on the call. I really believe in our potential as a Company to deliver continued revenue growth, margin improvement, and our profile in the industry. I also believe we're just getting started and we've got that team to really scale this business. I look forward to talking to you all in the future, reporting on our progress, and meanwhile, always feel free to reach out to me, Miriam, or Doug. We all stand ready to address your concerns or comments and ideas. Thanks, again, for the time, and have a great day.

Operator:

Thank you. Now, before we conclude today's call, I'd like to provide the Company's Safe Harbor statement that includes important cautions regarding forward-looking statements made during today's call. Statements made by Management during the call may contain forward-looking statements within the definition of Section 27A in the Securities Act of 1933 as amended, and the Section 21E of the Securities Act of 1934 as amended. These forward-looking statements should not be used to make investment decisions. The words anticipate, estimate, expect, possible and seeking and similar expressions identify forward-looking statements and they speak only to the date the statement was made. Examples of such forward-looking statements in this presentation include statements regarding gross margin targets; continued growth; margin improvement as the Company scales; overall operating expenses to continue to increase slightly on a quarter-over-quarter basis; operating expenses as a percentage of revenue to continue to decrease; expectation to continue to be profitable on a quarterly basis, although one-time expenses related to investments in growth initiatives could result in a quarterly loss in any particular quarter; positive cash flow from operations on a quarterly basis for the remainder of 2018; a plan to use a portion of the proceeds from its recent (inaudible) to make additional sales and channel investments for expanding further into its core ambulatory market; rolling out various messaging solutions over the coming months; plan to further expand into the hospital market; expectation to see pilot revenue in 2018 and revenue growth in 2019 from patient connect partnerships; plans to invest in additional messaging solutions; bringing new solutions to the Company's existing clients; plan to invest more in the Company's data warehouse; the data warehouse supporting future growth and enhancing the Company's value proposition; investments in growth initiatives driving further strong top line growth and margin expansion while sustaining the Company's position as the market leader in its space; expectation that the Company's Nasdaq will further elevate the Company's corporate profile, enhance liquidity for its investors and broaden its shareholder base; continued growth in 2018 and the Company's estimation of the total available market.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth and/or contemplated by underlying forward-looking statements, risks, and uncertainties to which forward-looking statements are subject and could affect business and financial results are included in the Company's annual report on form 10-K for the fiscal year ended December 31, 2017. This form is available on the Company's website and on the SEC website at sec.gov.

Before we end today's conference, I would like to remind everyone that this call will be available for replay starting later this evening through August 28. Please refer to today's press release for dial in replay instructions available via the Company's website at www.optimizerx.com. Thank you for joining us today. This concludes our call. You may now disconnect.