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Feb 04, 2020

NextGen Healthcare (NXGN)

$13.99 (As of 02/03/20)

Price Target (6-12 Months): **$15.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/04/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A | Momentum: F	

Summary

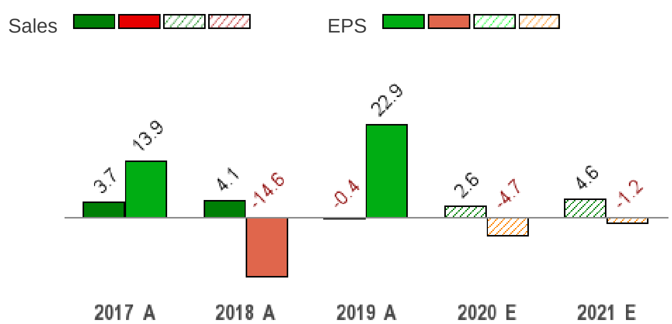
NextGen gained from Recurring segment in the last reported quarter. Impressive rates of client addition have been benefiting the company. NextGen witnessed significant deal-size growth in the quarter under review. Solid bookings growth in the quarter deserves a mention as well. Management has retained fiscal 2020 outlook. NextGen exited the fiscal second quarter on a mixed note. Meanwhile, the company's Software, Hardware and Other non-recurring revenues were soft in the quarter under review. Significant contraction in both gross and operating margins raise concern. Additionally, NextGen faces stiff rivalry in the MedTech space. The stock has underperformed the industry over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$21.12 - $13.60**
20 Day Average Volume (sh)	**246,104**
Market Cap	**$919.2 M**
YTD Price Change	**-12.9%**
Beta	**1.10**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical Info Systems**
Zacks Industry Rank	**Top 40% (101 out of 254)**
Last EPS Surprise	**15.0%**
Last Sales Surprise	**1.9%**
EPS F1 Est- 4 week change	**-0.2%**
Expected Report Date	**05/26/2020**
Earnings ESP	**-5.2%**
P/E TTM	**16.3**
P/E F1	**17.1**
PEG F1	**1.9**
P/S TTM	**1.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	139 E	141 E	143 E	145 E	568 E
2020	132 A	134 A	138 A	140 E	543 E
2019	133 A	130 A	131 A	135 A	529 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.18 E	$0.21 E	$0.21 E	$0.20 E	$0.81 E
2020	$0.16 A	$0.24 A	$0.23 A	$0.20 E	$0.82 E
2019	$0.19 A	$0.24 A	$0.18 A	$0.23 A	$0.86 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/03/2020. The reports text is as of 02/04/2020.

Overview

Headquartered in Irvine, CA, NextGen Healthcare, Inc. (NXGN) is a developer and marketer of healthcare information systems.

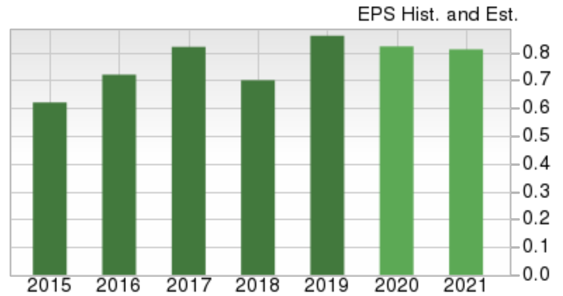
On Sep 7, 2018, Quality Systems, Inc. (QSII) announced that the company has changed its corporate name to NextGen Healthcare, Inc. On Sep 10, 2018, the company's securities started trading under the the new symbol "NXGN."

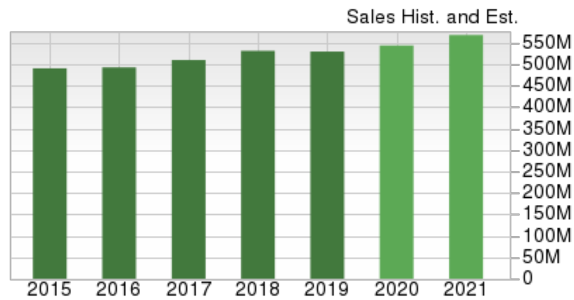
NextGen recently announced that its cloud-based electronic health record (EHR) ambulatory product, NextGen Office, has completed its integration with CoverMyMeds, the nation's largest electronic prior authorization (ePA) solution.

NextGen offers software that help in automating and streamlining administrative functions required for operating a medical, dental or hospital practice. Its segments also provide software products that automate patient records (replaces paper format) in physician practices, community health centers and hospital settings.

The company reports in four segments:

- Software and Hardware
- Support and Maintenance
- RCM
- EDI
- Professional Services





FY19 at a Glance

Fiscal 2019 revenues totaled $529.2 million, down 0.8% year over year. Under ASC 605, revenues for the fiscal 2019 amounted to $134.3 million on a pro forma basis.

Reasons To Buy:

Big-Data based Electronic Health Records, recurring revenue base and solid demand for NextGen solutions are likely to provide NextGen with a competitive edge in the MedTech space.

▲ **Bookings Surge:** The company witnessed consistent momentum in bookings, which came in at $133.5 million for the fiscal 2019, up 14.2% from fiscal 2018. At the beginning of fiscal 2019, the company made a commitment to drive substantial bookings growth throughout the year, which is likely to result in revenue growth in fiscal 2020.

In second-quarter fiscal 2020, bookings totaled $36.6 million, up 1.4% from the year-ago quarter's figure.

▲ **Lucrative Prospects in the RCM Space:** NextGen is a major player in the U.S. RCM market. RCM is the financial process (utilizing medical billing software), which healthcare facilities use to keep track on patientcare episodes from registration, appointment scheduling and the final payment of a balance. The global RCM market is anticipated to reach $73.2 billion by 2026. It is expected to witness a CAGR of 12.0% during the forecast period. Per Frost & Sullivan, RCM is 7.5 times larger than the EHR market.

NextGen Healthcare scored the highest among all ambulatory vendors for its performance in the following key RCM areas – effectiveness of claims processing, patient-facing support performance, efficiency gained by customers, sustainability of pricing and, trust as a business partner. Based on the popularity of the RCM solution, the company plans to expand into dental and hospital markets, which will further drive top-line growth in our view.

NextGen witnessed consistent success in signing all-in deals in its RCM business in the quarter under review.

▲ **Big-Data Based Electronic Health Records System:** The latest trend of electronic health record (EHR) services in the U.S. MedTech space has been gaining prominence.

NextGen's NextGen Enterprise and NextGen Office (formerly, MediTouch) software technology and solutions accommodate the unique needs of ambulatory practices of all sizes. These EHR solutions cater to demands like Merit-Based Incentive Payment System (MIPS) requirements, population health needs, and other value-based care initiatives.

According to Transparency Market Research, the global EHR market is estimated to reach $38.29 billion by 2025, with a CAGR of 5.7%. Reports suggest that MedTech companies with strong exposure to big data automated EHRs will excel in terms of operations and margins.

▲ **Recurring Revenue Base:** Strong recurring-revenue base has been a key catalyst. In second-quarter fiscal 2020, total recurring revenues amounted to $120.6 million, up 3.7% from the year-ago quarter. Recurring revenue growth offsets the decline in perpetual licenses and related services. Per management at NextGen, the growth has been trending in the right direction and enhances the company's future growth curve.

▲ **Solid Demand for NextGen Solutions:** Apart from RCM, NextGen will continue to benefit from strong demand for its other NextGen solutions that include Hospitals, EHR and practice management. NextGen's Inpatient Clinicals, Lab and Patient Portal EHR solutions have also been gaining considerable traction. The latest deals in the platforms with EagleDream and Entrada hold promise.

The company's revenue growth continues to be largely boosted by the strength of its NextGen division. We believe that NextGen has strong growth prospects in the ambulatory and hospital software market owing to its product portfolio, which is compliant with the U.S. government's regulatory reforms. New solutions like NextGen Care and NextGen Now are expected to boost the company's presence in health management, ambulatory EHR and practice management segments. The NextGen EHR app for iOS expands the company's mobile efforts to support physicians in high-volume settings.

In May, the company launched its Behavioral Health Suite 3.0, which is a major step in improvement of mental and full-body health.

▲ **Acquisition Spree:** In recent times, NextGen signed a significant seven figure all-in deal. Additionally, the company signed six deals over a half a million dollars. Per management, these encouraging signs confirm that the company's complete solution is very competitive in the market and represents continuing opportunity. In recent times, the company closed multiple deals across a broad product spectrum of accounts, both by specialty and geography. In recent past, NextGen announced acquired cloud-based analytics company EagleDream Health. We note that EagleDream Health marks the second major asset acquisition by NextGen Healthcare, following its earlier purchase of Entrada.

During the third quarter, the company acquired TOPAZ information solutions (completed in the last month of the quarter under review). TOPAZ has been a strong reseller partner into the behavioral health space and is likely to bring strong, commercial end solution capabilities to NextGen.

Reasons To Sell:

> Unfavorable product mix, global economic weakness, intensifying competition and growing integration risk due to frequent acquisitions are major concerns

- **Shares Down:** Shares of NextGen have lost 21.9%, against the industry's rally of 14.9%. The current level is below the S&P 500 Index's improvement of 16.8%. Integration risks and intense competition continue to weigh on the stock.

- **Q2 Debacle:** In the fiscal second quarter, NextGen's total Software, hardware and other non-recurring revenues totaled $13.7 million, down 2.4% year over year.

  The gross margin in the quarter was 51%, down 210 basis points. Moreover, adjusted operating margin, as a percentage of revenues, was 56.2%, down 340 bps.

- **Macroeconomic Sluggishness:** Although government initiatives to digitize healthcare systems has lent strength to such companies, high cost of investments and maintenance cost is likely to impede market growth. Precisely, NextGen has high cost of investments in EHR maintenance, software upgrades and hardware replacement. All of these factors are acting as major deterrents for the global market.

  Furthermore, unlike the manufacturers of life-saving devices, the demand for the software company's products is closely tied to budgetary processes of clients, which negatively impacts system sales. Moreover, shrinking opportunities for product sales to physician groups as such groups are increasingly absorbed by hospitals also hurts revenue growth. Strict regulatory environment is another major headwind in this regard.

- **Cutthroat Competition in the HCIT Space:** The healthcare information technology (HCIT) market is highly competitive. Also, the industry is exceedingly fragmented and includes numerous players.

  Per a research report by Transparency Market Research, leading players in the Global Healthcare Information Systems Market are Cerner Corporation, McKesson and All Scripts. Collectively, these players hold a 26% share of the global market. Thus, competitors seek to gain market traction through lowering prices or offering services that are differentiated from NextGen.

  We harbor doubts regarding the company's ability to penetrate the Electronic Health Record (EHR) market where it faces competition from low-priced cloud-based EHR models.

- **Unfavorable Product Mix:** Although recurring revenue stream is a positive for NextGen, it mostly comes from the lower margin EDI and RCM services. We believe that the shift in product mix is negatively impacting gross margin. The company expects contributions from services to increase total revenue, which will however be a drag on gross margin expansion in the long run. Moreover, higher research & development as well as selling, general & administrative expenses (increasing headcount, higher marketing expenses) will hurt profitability over the long term.

- **Integration Risks:** NextGen continues to acquire businesses that improve its revenue opportunities on one hand and aggravate integration risks on the other. The company's frequent acquisitions can impact its balance sheet in the form of a high level of goodwill and intangible assets. Meanwhile, regular acquisitions are proving to be a distraction for management which can impact the company's overall organic growth. This may limit NextGen's future expansion and worsen the company's risk profile, going forward.

Last Earnings Report

NextGen Q2 Earnings Beat, Revenues Miss Estimates

Quarter Ending	12/2019
Report Date	Jan 23, 2020
Sales Surprise	1.85%
EPS Surprise	15.00%
Quarterly EPS	0.23
Annual EPS (TTM)	0.86

NextGen Healthcare reported second-quarter fiscal 2020 adjusted earnings per share of 24 cents, flat with the year-ago quarter's figure. The metric edged past the Zacks Consensus Estimate by a penny.

Revenues totaled $134.3 million, up 3% year over year. However, the figure missed the Zacks Consensus Estimate by a nominal 0.1%.

Bookings Update

Bookings for the quarter came in at $36.6 million, up 1.4% from the year-ago quarter's figure.

Segment Details

The company reported second-quarter fiscal 2020 revenues under the following segments:

Total Recurring revenues grossed $120.6 million, up 3.7% from the year-ago quarter's figure.

Meanwhile, total Software, hardware and other non-recurring revenues came in at $13.7 million, down 2.4% on a year-over-year basis. Per management, this reflects headwinds in the managed services and software areas.

Margin

In the quarter under review, gross profit totaled $68.5 million, down 1%% from the prior-year quarter's tally. Gross margin was 51%, down 210 basis points (bps).

Adjusted operating income in the fiscal second quarter was $75.4 million, down 3% from the year-ago quarter's figure. Adjusted operating margin, as a percentage of revenues, was 56.2%, down 340 bps.

Fiscal 2020 View Retained

For fiscal 2020, NextGen continues to expect revenues between $536 million and $550 million. The Zacks Consensus Estimate for revenues is pegged at $541.8 million, which is within the guided range.

Full-year EPS are expected between 82 cents and 90 cents. The Zacks Consensus Estimate for EPS is pegged at 85 cents, which is within the projected range.

Recent News

On **Dec 12**, NextGen Healthcare – a leading provider of ambulatory-focused technology solutions – inked a deal to acquire OTTO Health that will allow the acquirer to expand patient capabilities with integrated visits.

Valuation

NextGen's shares are down 12.9% and 21.9% in the year-to-date and in trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 2.4% while the Zacks Medical Market is down 2.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 14.9% and sector is down 0.7%.

The S&P 500 index is up 0.1% in the year-to-date period and 16.8% in the past year.

The stock is currently trading at 17.22X Forward 12-months earnings, which compares to 45.65X for the Zacks sub-industry, 20.66X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.31X and as low as 14.22X, with a 5-year median of 23.67X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our $15 price target reflects 18.52X forward 12-months earnings.

The table below shows summary valuation data for NXGN.

Valuation Multiples - NXGN

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.22	45.65	20.66	18.5
	5-Year High	35.31	51.67	21.25	19.34
	5-Year Low	14.22	24.52	15.84	15.18
	5-Year Median	23.67	31.96	18.9	17.46
P/S F12M	Current	1.63	2.15	2.76	3.43
	5-Year High	2.66	3.15	3.82	3.43
	5-Year Low	1.29	1.61	2.44	2.54
	5-Year Median	1.81	2.31	2.95	3
P/B TTM	Current	2.3	2.97	4.41	4.4
	5-Year High	4.38	4.47	5.03	4.54
	5-Year Low	2.28	2.13	3.43	2.85
	5-Year Median	3.03	3.07	4.29	3.62

As of 02/03/2020

Industry Analysis **Zacks Industry Rank:** Top 40% (101 out of 254)

Top Peers

Inovalon Holdings, Inc. **(INOV)**	Outperform
Cerner Corporation **(CERN)**	Neutral
Cognizant Technology Solutions Corporation **(CTSH)**	Neutral
Evolent Health, Inc **(EVH)**	Neutral
IQVIA Holdings Inc. **(IQV)**	Neutral
Allscripts Healthcare Solutions, Inc. **(MDRX)**	Neutral
Premier, Inc. **(PINC)**	Neutral
Computer Programs and Systems, Inc. **(CPSI)**	Underperform

Industry Comparison Industry: Medical Info Systems

Industry Peers

	NXGN Neutral	X Industry	S&P 500	CERN Neutral	EVH Neutral	MDRX Neutral
VGM Score	A	-	-	B	F	C
Market Cap	919.16 M	217.04 M	23.66 B	22.98 B	844.40 M	1.41 B
# of Analysts	12	4	13	15	8	14
Dividend Yield	0.00%	0.00%	1.82%	0.98%	0.00%	0.00%
Value Score	B	-	-	B	F	A
Cash/Price	0.04	0.09	0.04	0.03	0.24	0.10
EV/EBITDA	12.68	-1.25	13.87	16.20	935.32	7.14
PEG Ratio	1.93	1.79	1.97	1.71	NA	1.11
Price/Book (P/B)	2.30	2.66	3.24	5.21	0.75	1.13
Price/Cash Flow (P/CF)	10.83	12.66	13.40	17.19	36.22	5.00
P/E (F1)	17.10	18.78	18.48	23.29	NA	11.42
Price/Sales (P/S)	1.71	3.93	2.60	4.09	1.05	0.80
Earnings Yield	5.86%	-1.11%	5.40%	4.29%	-2.10%	8.75%
Debt/Equity	0.19	0.13	0.72	0.24	0.27	0.51
Cash Flow ($/share)	1.29	-0.04	6.92	4.26	0.28	1.74
Growth Score	A	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	-4.17%	13.24%	10.80%	6.89%	NA	21.95%
Proj. EPS Growth (F1/F0)	-4.46%	15.29%	7.46%	17.74%	69.98%	11.41%
Curr. Cash Flow Growth	2.19%	33.26%	10.59%	4.25%	-289.80%	24.91%
Hist. Cash Flow Growth (3-5 yrs)	-2.55%	13.08%	8.55%	13.59%	1.35%	8.69%
Current Ratio	1.12	1.75	1.21	2.21	1.19	0.66
Debt/Capital	16.03%	16.57%	42.91%	19.06%	20.98%	33.83%
Net Margin	2.91%	-21.53%	11.76%	9.02%	-15.02%	12.00%
Return on Equity	10.58%	-19.61%	17.24%	15.61%	-6.93%	5.98%
Sales/Assets	0.94	0.61	0.55	0.80	0.48	0.55
Proj. Sales Growth (F1/F0)	2.70%	21.35%	4.22%	3.81%	9.89%	3.78%
Momentum Score	F	-	-	C	C	C
Daily Price Chg	0.94%	0.00%	0.67%	1.87%	-0.99%	1.28%
1 Week Price Chg	-4.94%	-3.06%	-2.60%	-3.53%	-7.86%	-4.45%
4 Week Price Chg	-11.51%	-0.28%	-0.76%	-1.11%	7.08%	-10.27%
12 Week Price Chg	-18.71%	-1.07%	2.84%	10.43%	7.66%	-21.22%
52 Week Price Chg	-22.92%	-16.03%	13.93%	31.62%	-43.62%	-28.24%
20 Day Average Volume	246,104	222,376	1,915,782	1,431,915	1,257,447	2,257,384
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.17%	0.00%	0.00%	0.00%	-10.43%	-1.83%
(F1) EPS Est 12 week change	-6.33%	-0.83%	-0.13%	0.20%	-31.20%	-1.65%
(Q1) EPS Est Mthly Chg	-12.50%	0.00%	0.00%	0.00%	5.10%	4.96%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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