

NextGen Healthcare (NXGN)

\$10.95 (As of 06/03/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

NextGen exited the fiscal fourth quarter on a strong note. NextGen continues to gain from the Recurring segment, which performed impressively in the last reported quarter. Surging rates of client addition instill optimism in the stock. On the flip side, NextGen's Software, hardware and other non-recurring revenues were soft in the quarter. Bookings also declined in the quarter. Significant contraction in gross margin remains a concern. Additionally, NextGen faces stiff rivalry in the MedTech space. Reflective of these, the stock has underperformed the industry in a year's time.

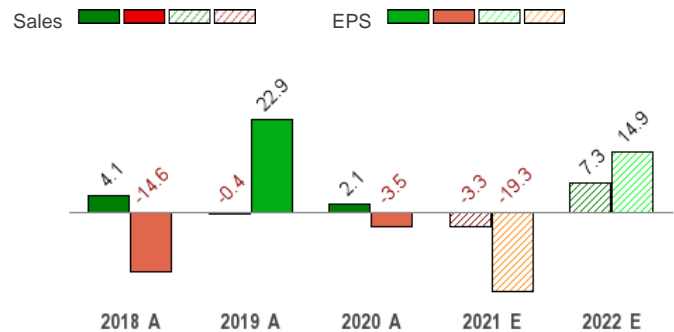
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.68 - \$5.10
20 Day Average Volume (sh)	488,821
Market Cap	\$723.9 M
YTD Price Change	-31.9%
Beta	0.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Top 25% (64 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.3%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-18.3%
Expected Report Date	07/22/2020
Earnings ESP	-33.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	131 E	135 E	139 E	144 E	560 E
2021	116 E	125 E	135 E	140 E	522 E
2020	132 A	134 A	138 A	136 A	540 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.16 E	\$0.20 E	\$0.20 E	\$0.20 E	\$0.77 E
2021	\$0.12 E	\$0.16 E	\$0.19 E	\$0.20 E	\$0.67 E
2020	\$0.16 A	\$0.24 A	\$0.23 A	\$0.20 A	\$0.83 A

*Quarterly figures may not add up to annual.

P/E TTM	13.2
P/E F1	16.3
PEG F1	1.8
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

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.

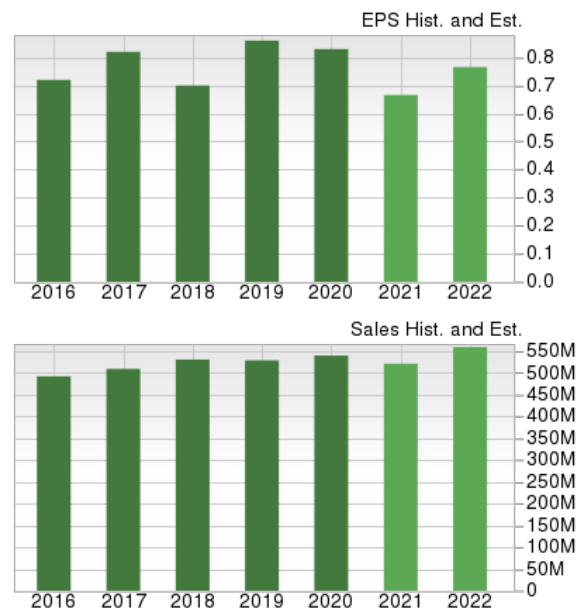
NextGen offers software that help in automating and streamlining administrative functions required for operating a medical, dental or hospital practice. Its segments also provide software products that automate patient records (replaces paper format) in physician practices, community health centers and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

The company reports in four segments:

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

FY20 at a Glance

For fiscal 2020, adjusted earnings per share came in at 83 cents, down 3.5% from the previous period. Fiscal 2020 revenues totaled \$540.2 million, up 2.1% from the prior-year period.



Reasons To Buy:

- ▲ **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 patient care 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 fourth-quarter fiscal 2020, total recurring revenues amounted to \$124.5 million, up 3.6% from the year-ago quarter, and accounted for 91.3% of total revenues. Per management, the improvement is headed 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 recent past, 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.

In October 2019, 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.

- ▲ **Balance Sheet View:** The company exited fourth-quarter fiscal 2020 with cash and cash equivalents of \$138 million, substantially up from \$32 million on a sequential basis. Meanwhile, the company ended the quarter with no debt on the balance sheet.

Its cash flow trends also remain robust. Cash flow from operations in the fiscal fourth quarter was \$21.2 million and free cash flow totaled \$16.1 million. This compares with the year-ago operating cash flow of \$17.2 million and free cash flow of \$10.6 million.

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.

Reasons To Sell:

▼ **Shares Down:** Shares of NextGen have plunged 41.4% against the industry's 8.1% rise in the past year. Headwinds in the Software, hardware and other non-recurring unit, as well as intense competition continue to weigh on the stock. Further, the ongoing economic volatility on account of the global coronavirus outbreak is hampering the stock.

▼ **Q4 Weakness:** In the fiscal fourth quarter, NextGen's total Software, hardware and other non-recurring revenues amounted to \$11.9 million, down 18.7% on a year-over-year basis. Also, bookings in the quarter came in at \$31 million, down 12.4% from the year-ago quarter.

Gross profit totaled \$68 million, down 6.4% from the prior-year quarter. Gross margin was 49.9%, down 400 basis points (bps). Operating loss in the fiscal fourth quarter was \$6.3 million against the year-ago operating income of \$6.5 million.

▼ **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.

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

Last Earnings Report

NextGenEarnings and Revenues Beat Estimates in Q4

NextGen Healthcare, Inc. reported fourth-quarter fiscal 2020 adjusted earnings per share of 20 cents, beating the Zacks Consensus Estimate of 19 cents by 5.3%. However, the bottom line declined 13% from the prior-year quarter.

For fiscal 2020, adjusted EPS came in at 83 cents, down 3.5% from the previous period. The metric outpaced the Zacks Consensus Estimate of 81 cents.

Quarter Ending 03/2020

Report Date	Jun 01, 2020
Sales Surprise	0.41%
EPS Surprise	5.26%
Quarterly EPS	0.20
Annual EPS (TTM)	0.83

Revenue Details

Revenues of this Zacks Rank #3 (Hold) company amounted to \$136.4 million, up 1.2% year over year. Moreover, the top line surpassed the Zacks Consensus Estimate by 0.4%.

For fiscal 2020, revenues grossed \$540.2 million, up 2.1% from the prior-year period. However, the metric missed the consensus mark by 0.1%.

Bookings Update

Bookings for the quarter came in at \$31 million, down 12.4% from the year-ago quarter.

Segment Details

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

Total Recurring revenues were \$124.5 million, up 3.6% from the year-ago quarter.

Meanwhile, total Software, hardware and other non-recurring revenues amounted to \$11.9 million, down 18.7% on a year-over-year basis.

Margin

In the quarter under review, gross profit totaled \$68 million, down 6.4% from the prior-year quarter. Gross margin was 49.9%, down 400 basis points (bps).

Operating loss in the fiscal fourth quarter was \$6.3 million, against the year-ago quarter's operating income of \$6.5 million.

Fiscal 2021 Guidance

NextGen announced in its business update on Apr 28, 2020 that it will not issue any guidance for fiscal 2021 or the years beyond considering the uncertainty surrounding the COVID-19 pandemic. The company will decide on guidance after evaluating the scenario once it stabilizes and there is more confidence in the macro environment.

Valuation

NextGen's shares are down 31.9% and 41.7% in the year-to-date and in trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 8% in the year-to-date period while that in the Zacks Medical Market are down 0.7%. Over the past year, the Zacks sub-industry and sector are up 8.1% and 4.4%, respectively.

The S&P 500 index is down 4.4% in the year-to-date period and up 9.1% in the past year.

The stock is currently trading at 15.8X Forward 12-months earnings, which compares to 97X for the Zacks sub-industry, 23.2X for the Zacks sector and 22.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.3X and as low as 10X, with a 5-year median of 23.3X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$11 price target reflects 15.9X 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	15.84	97.04	23.2	22.3
	5-Year High	35.31	97.04	23.2	22.3
	5-Year Low	10	24.52	15.92	15.23
	5-Year Median	23.03	31.97	18.95	17.49
P/S F12M	Current	1.36	2.55	2.79	3.47
	5-Year High	2.66	3.14	3.75	3.47
	5-Year Low	0.66	1.61	2.21	2.53
	5-Year Median	1.76	2.3	2.92	3.02
P/B TTM	Current	1.8	3.57	4.25	4.21
	5-Year High	4.38	4.24	5.07	4.56
	5-Year Low	0.94	2.13	2.93	2.83
	5-Year Median	2.93	3.06	4.29	3.66

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Cerner Corporation (CERN)	Neutral	3
Computer Programs and Systems, Inc. (CPSI)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	4
Evolent Health, Inc (EVH)	Neutral	3
Inovalon Holdings, Inc. (INOV)	Neutral	3
IQVIA Holdings Inc. (IQV)	Neutral	3
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	3
Premier, Inc. (PINC)	Neutral	3

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	NXGN	X Industry	S&P 500	CERN	EVH	MDRX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	B	C
Market Cap	723.85 M	246.39 M	22.50 B	22.37 B	524.43 M	1.09 B
# of Analysts	10	5	14	15	7	13
Dividend Yield	0.00%	0.00%	1.88%	0.98%	0.00%	0.00%
Value Score	A	-	-	C	D	B
Cash/Price	0.05	0.06	0.06	0.02	0.16	0.21
EV/EBITDA	11.31	-0.61	12.98	17.37	-20.62	18.09
PEG Ratio	1.88	2.19	3.05	2.04	NA	1.70
Price/Book (P/B)	1.80	3.24	3.11	5.79	0.62	0.87
Price/Cash Flow (P/CF)	7.18	16.34	12.18	15.66	2.62	3.26
P/E (F1)	16.70	19.19	22.19	25.93	NA	10.71
Price/Sales (P/S)	1.34	3.37	2.40	3.92	0.59	0.62
Earnings Yield	6.12%	-1.86%	4.31%	3.85%	-6.46%	9.27%
Debt/Equity	0.42	0.06	0.76	0.35	0.42	0.63
Cash Flow (\$/share)	1.52	-0.05	7.01	4.69	2.36	2.06
Growth Score	A	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	-4.17%	11.37%	10.87%	4.96%	NA	11.77%
Proj. EPS Growth (F1/F0)	-19.76%	-9.64%	-10.74%	5.77%	44.25%	-6.77%
Curr. Cash Flow Growth	19.84%	19.30%	5.48%	6.07%	781.20%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	-2.55%	10.83%	8.55%	11.81%	58.24%	10.24%
Current Ratio	1.82	1.65	1.29	1.93	1.09	0.78
Debt/Capital	29.53%	18.54%	44.75%	25.73%	29.69%	38.84%
Net Margin	1.39%	-21.87%	10.59%	8.93%	-37.17%	-11.10%
Return on Equity	9.98%	-11.95%	16.29%	18.20%	-6.09%	4.98%
Sales/Assets	0.87	0.60	0.55	0.82	0.57	0.54
Proj. Sales Growth (F1/F0)	-3.44%	0.00%	-2.65%	-1.60%	14.73%	-3.01%
Momentum Score	F	-	-	C	A	C
Daily Price Chg	4.48%	0.33%	2.42%	0.48%	-2.67%	1.52%
1 Week Price Chg	5.52%	-0.22%	4.60%	8.35%	9.23%	-1.56%
4 Week Price Chg	17.43%	13.17%	13.40%	9.90%	-1.59%	21.20%
12 Week Price Chg	-0.54%	8.43%	12.78%	7.55%	-10.55%	6.02%
52 Week Price Chg	-41.69%	-8.75%	0.89%	2.80%	-39.55%	-35.55%
20 Day Average Volume	488,821	356,415	2,528,787	1,959,172	2,111,958	1,618,359
(F1) EPS Est 1 week change	-2.65%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-18.34%	-0.05%	-0.14%	0.00%	2.02%	-8.95%
(F1) EPS Est 12 week change	-27.57%	-10.95%	-16.00%	-12.73%	0.77%	-19.00%
(Q1) EPS Est Mthly Chg	-50.27%	-15.18%	-0.02%	0.00%	14.22%	-15.18%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
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.

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