

NextGen Healthcare (NXGN)

\$13.53 (As of 08/25/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

NextGen exited the fiscal first quarter on a strong note, with earnings and revenues beating estimates. The company benefited from its Recurring segment in the quarter under review. Expansion in adjusted operating margin is another plus. Through the fiscal first quarter, the company continued gaining from the Topaz acquisition. The NextGen Virtual Visits and NextGen Enterprise also gained significant momentum during the fiscal first quarter. The launch of the NextGen Patient Experience Platform instills optimism on the stock. Meanwhile, NextGen's Software, hardware and other non-recurring revenues were soft in the quarter under review. Significant contraction in gross margin remains a concern. Additionally, NextGen faces stiff rivalry in the MedTech space. Over the past year, shares of the company have underperformed the industry.

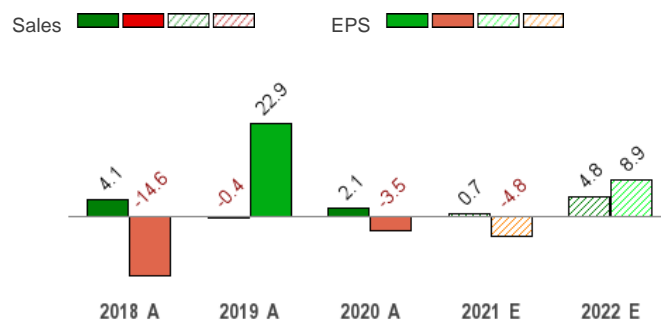
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$18.49 - \$5.10
20 Day Average Volume (sh)	326,051
Market Cap	\$901.7 M
YTD Price Change	-15.8%
Beta	1.14
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Bottom 25% (190 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	133.3%
Last Sales Surprise	13.7%
EPS F1 Est- 4 week change	41.9%
Expected Report Date	10/28/2020
Earnings ESP	-0.3%
P/E TTM	15.4
P/E F1	17.1
PEG F1	1.9
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	138 E	140 E	142 E	145 E	570 E
2021	131 A	133 E	137 E	140 E	544 E
2020	132 A	134 A	138 A	136 A	540 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.24 E	\$0.25 E	\$0.26 E	\$0.24 E	\$0.86 E
2021	\$0.21 A	\$0.21 E	\$0.20 E	\$0.19 E	\$0.79 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/25/2020. The reports text is as of 08/26/2020.

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 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.

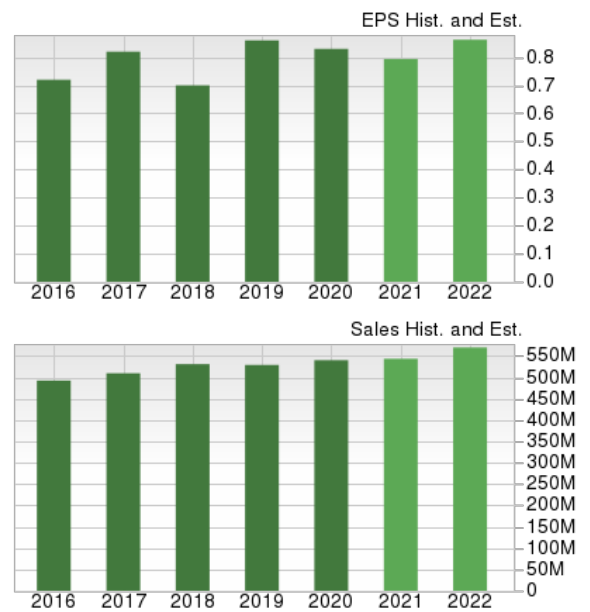
Apart from RCM, NextGen will continue to benefit from strong demand for its other NextGen solutions that include Hospitals, EHR and practice management.

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.

- ▲ **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.

The company's long-term integrated platform strategy was bolstered in March 2020 with the most recent launch of NextGen Enterprise, its integrated EHR/PM core system designed to run complex and growing ambulatory practices.

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 the first quarter of fiscal 2021, total recurring revenues were \$119.5 million, up 0.1% from the year-ago quarter on a 17% increase in subscription services, offset by declines of 12% in managed services, 4% in EDI and data services and 3% in maintenance and support.

- ▲ **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.

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. Its behavioral health suite continued to gain solid traction in the market through the fiscal first quarter.

Through the fiscal first quarter, the company continued to demonstrate the strength of its NextGen integrated ambulatory platform. In March 2020, the company announced the availability of NextGen Patient Experience Platform. This newly-available platform is likely to enable high-quality healthcare apart from driving patient engagement and outcomes.

In May, the company announced NextGen Advisors, a multi-disciplinary team of healthcare and regulatory experts who offer strategic guidance and insights for ambulatory care providers across the United States. In June, the company announced that Capital Women's Care, an OB/GYN private practice in the mid-Atlantic region, has utilized NextGen Virtual Visits for the expansion of women's healthcare services during the coronavirus crisis. In June, the company announced Nevada Eye Physicians, a comprehensive eye care facility in the Las Vegas area, which is utilizing NextGen Enterprise with integrated telehealth capability called NextGen Virtual Visits.

In August, the company announced that Virginia Cardiovascular Specialists ("VCS"), the largest private cardiology practice in Central Virginia, deployed NextGen Virtual Visits to expand the scope of care and treatment offered to patients for non-urgent visits that were disrupted by COVID-19.

Notably, each of these developments is likely to bolster NextGen's presence in the global healthcare information technology (HCIT) space.

- ▲ **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. Through the fiscal first quarter, the company continued gaining from this acquisition.

- ▲ **Balance Sheet View:** The company exited first-quarter fiscal 2021 with cash and cash equivalents of \$200 million, substantially up from \$140 million in the preceding quarter. Meanwhile, the company ended the quarter with long-term debt of \$215 million on the balance sheet, sequentially up from \$168 million. Current debt for the fiscal first quarter was 11 million, flat sequentially. Hence we see that the current debt level is noticeably lower than the company's short-term cash level, which is particularly good when it comes to the company's solvency

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.

position, as at least during a year of economic downturn, the company has sufficient cash for debt repayment.

Reasons To Sell:

▼ **Shares Down:** Shares of NextGen have plunged 4% against the industry's 30.4% 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.

▼ **Q1 Weakness:** In the first fiscal quarter, total Software, hardware and other non-recurring revenues amounted to \$11.4 million, down 8.1% on a year-over-year basis.

Also, gross profit was down 3.2% from the prior-year quarter. Further, gross margin was 49.3%, down 124 basis points (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.

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

Last Earnings Report

NextGen Earnings and Revenues Beat Estimates in Q1

NextGen Healthcare, Inc. reported first-quarter fiscal 2021 adjusted earnings per share of 21 cents, beating the Zacks Consensus Estimate of 9 cents. Moreover, the bottom line rose 31.3% from the prior-year quarter.

Revenue Details

Revenues of this Zacks Rank #3 (Hold) company amounted to \$130.9 million, down 0.8% year over year. However, the top line surpassed the Zacks Consensus Estimate by 13.7%.

Segment Details

The company reported first-quarter fiscal 2021 revenues under the following segments:

Total Recurring revenues were \$119.5 million, up 0.1% from the year-ago quarter.

Meanwhile, total Software, hardware and other non-recurring revenues amounted to \$11.4 million, down 8.1% on a year-over-year basis.

Margin

In the quarter under review, gross profit totaled \$64.5 million, down 3.2% from the prior-year quarter. Gross margin was 49.3%, down 124 basis points (bps).

Adjusted operating profit came in at \$5.6 million, up 24.7% year over year.

Adjusted operating margin in the fiscal first quarter was 4.2%, expanding 87 bps.

Fiscal 2021 Guidance

The company is not issuing any guidance for fiscal 2021 considering the uncertainty surrounding the COVID-19 pandemic. It will decide on the guidance after evaluating the scenario once it stabilizes and there is more confidence in the macro environment..

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	13.70%
EPS Surprise	133.33%
Quarterly EPS	0.21
Annual EPS (TTM)	0.88

Recent News

NextGen announces Nevada Eye Physicians: Jun 30, 2020

NextGen announced Nevada Eye Physicians, a comprehensive eye care facility in the Las Vegas area, which is utilizing NextGen Enterprise with integrated telehealth capability called NextGen Virtual Visits.

NextGen announced that Capital Women's Care has utilized NextGen Virtual Visits: Jun 19, 2020

The company announced that Capital Women's Care, OB/GYN private practice in the mid-Atlantic region, has utilized NextGen Virtual Visits for the expansion of women's healthcare services during the coronavirus public health emergency.

Valuation

NextGen's shares are down 15.8% and 4% in the year-to-date and in trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 21.9% in the year-to-date period while that in the Zacks Medical Market and 0.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 30.4% and 11.2%, respectively.

The S&P 500 index is up 22.1% in the year-to-date period and 15% in the past year.

The stock is currently trading at 21.8X Forward 12-months earnings, which compares to 77X for the Zacks sub-industry, 22.1X for the Zacks sector and 23X 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 23X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$14 price target reflects 22.9X 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	21.77	77.00	22.10	23.04
	5-Year High	35.31	86.32	23.21	23.04
	5-Year Low	10.00	24.52	15.89	15.25
	5-Year Median	23.00	32.18	18.97	17.58
P/S F12M	Current	1.63	3.26	2.79	3.76
	5-Year High	2.66	3.26	3.42	3.76
	5-Year Low	0.66	1.61	2.23	2.53
	5-Year Median	1.74	2.30	2.89	3.05
P/B TTM	Current	2.23	4.15	3.82	4.59
	5-Year High	4.38	4.22	5.07	4.59
	5-Year Low	0.94	2.13	2.94	2.83
	5-Year Median	2.90	3.07	4.29	3.75

As of 08/25/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
IQVIA Holdings Inc. (IQV)	Outperform	2
Cerner Corporation (CERN)	Neutral	4
Computer Programs and Systems, Inc. (CPSI)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	3
Evolent Health, Inc (EVH)	Neutral	3
Inovalon Holdings, Inc. (INOV)	Neutral	3
Allscripts Healthcare Solutions, Inc. (MDRX)	Underperform	3
Premier, Inc. (PINC)	Underperform	5

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	NXGN	X Industry	S&P 500	CERN	EVH	MDRX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	A	-	-	B	A	B
Market Cap	901.70 M	236.59 M	23.77 B	21.93 B	1.12 B	1.48 B
# of Analysts	10	5	14	16	7	14
Dividend Yield	0.00%	0.00%	1.65%	1.00%	0.00%	0.00%
Value Score	B	-	-	B	D	B
Cash/Price	0.22	0.08	0.07	0.02	0.13	0.14
EV/EBITDA	13.62	-1.48	13.35	17.00	-36.38	22.24
PEG Ratio	1.93	2.13	3.03	2.12	NA	1.62
Price/Book (P/B)	2.23	3.28	3.17	5.46	1.72	1.19
Price/Cash Flow (P/CF)	8.87	17.34	12.81	15.30	5.52	4.43
P/E (F1)	17.12	21.35	21.72	25.29	NA	14.63
Price/Sales (P/S)	1.67	3.99	2.47	3.91	1.19	0.86
Earnings Yield	5.84%	-1.57%	4.45%	3.95%	-2.30%	6.81%
Debt/Equity	0.53	0.10	0.75	0.33	0.57	0.62
Cash Flow (\$/share)	1.52	-0.06	6.93	4.69	2.36	2.06
Growth Score	A	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	-5.16%	7.28%	10.41%	4.11%	NA	7.28%
Proj. EPS Growth (F1/F0)	-4.34%	-3.02%	-4.92%	5.95%	57.74%	-7.04%
Curr. Cash Flow Growth	19.84%	10.02%	5.20%	6.07%	781.20%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	9.12%	10.24%	8.50%	11.81%	58.24%	10.24%
Current Ratio	2.29	1.97	1.33	2.04	1.12	0.78
Debt/Capital	34.77%	20.03%	44.20%	24.99%	36.18%	38.15%
Net Margin	1.01%	-15.18%	10.25%	9.23%	-53.56%	-3.06%
Return on Equity	10.60%	-18.63%	14.66%	18.19%	-4.68%	5.55%
Sales/Assets	0.80	0.53	0.51	0.82	0.64	0.53
Proj. Sales Growth (F1/F0)	0.61%	0.61%	-1.45%	-3.68%	20.07%	-5.06%
Momentum Score	A	-	-	C	B	C
Daily Price Chg	-0.92%	0.00%	-0.03%	-0.76%	0.38%	-0.65%
1 Week Price Chg	-1.72%	0.00%	-1.45%	-1.50%	6.11%	-1.08%
4 Week Price Chg	12.90%	-0.73%	3.76%	0.94%	17.99%	26.70%
12 Week Price Chg	29.06%	0.69%	5.99%	-1.85%	105.19%	38.24%
52 Week Price Chg	-3.94%	-3.94%	4.07%	5.31%	106.82%	1.33%
20 Day Average Volume	326,051	407,683	1,880,903	1,576,349	1,828,308	1,650,807
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	41.87%	0.26%	1.03%	-1.21%	13.43%	6.02%
(F1) EPS Est 12 week change	39.08%	0.00%	3.40%	-1.05%	18.56%	1.09%
(Q1) EPS Est Mthly Chg	51.58%	3.62%	0.00%	0.71%	23.33%	-0.48%

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	B
Growth Score	A
Momentum Score	A
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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