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Zacks Small-Cap Research

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Angeion Corp (ANGN-NASDAQ)

ANGN: Q1 Results Lower Than Our Estimates But Margins Continue To Improve.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/09/2010
Current Price (03/15/11)	$4.75
Target Price	**$6.50**

OUTLOOK

We are maintaining our Outperform rating on Angeion. Q1 2011 revenue and EPS came in much lower than our estimates although both improved y-o-y. Margins continue to improve and management expects top-line and EPS growth throughout 2011.

We have moved our price target from $7.00 to $6.50 per share.

SUMMARY DATA

52-Week High	**$5.78**
52-Week Low	**$3.63**
One-Year Return (%)	**3.71**
Beta	**1.22**
Average Daily Volume (sh)	**13,452**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$18**
Short Interest Ratio (days)	**0.28**
Institutional Ownership (%)	**11**
Insider Ownership (%)	**17**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-5.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**237.5**
P/E using 2011 Estimate	**19.0**
P/E using 2012 Estimate	**11.6**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Value**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in 000's)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	$6,615 A	$6,854 A	$7,120 A	$8,452 A	$29,041 A
2011	$7,053 A	$7,225 E	$7,445 E	$8,326 E	$30,049 E
2012					$33,353 E
2013					$36,888 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	-$0.20 A	-$0.13 A	$0.03 A	$0.10 A	-$0.20 A
2011	-$0.09 A	$0.04 E	$0.08 E	$0.14 E	$0.17 E
2012					$0.34 E
2013					$0.47 E

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

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Q1 2011 Financial Results

Angeion reported financial results for its fiscal 2011 first quarter ending January 31, 2011 on March 9, 2011. Although revenue and EPS came in well below our estimates, there were some highlights within the numbers and we would not necessarily characterize the results as overly disappointing. We have made some significant changes to our model and despite our estimated FY2011 revenue going from $32.8 million (prior to the Q1 results announcement) to $30.1 million currently, due to accelerated and better than previously expected margin improvement, our 2011 EPS estimate of $0.28 (excluding one-time charges) remains intact.

As management does not provide specific financial guidance or disclose sales of its various product lines, it can be difficult to gauge where revenue will trend from quarter to quarter. Q4 2010 revenue of $8.45 million was especially strong (+28% y-o-y and +19% sequentially) and our thesis for Q1 2011 was that some of this sales momentum would carry over into the early part of the current year. Based on the 16.6% sequential drop in revenue (Q4 2010 to Q1 2011), it is now clear that we were overly optimistic. We do note, however, that Angeion's first quarter is typically relatively soft compared to the rest of the year and despite the large sequential drop, on a y-o-y basis revenue was up by 6.6%.

We also point out that gross margin continues to improve and came in 60 basis points better than our estimate in Q1 (56.4% A vs. 55.8% E). Angeion also continues to capitalize much of its R&D expense related to development of new product software. Management indicated on the call that higher production volumes from sequential sales growth throughout the remainder of the year should continue to benefit GM. The company also expects to continue to capitalize a portion of R&D which should also help widen operating margins.

Revenue
Q1 2011 revenue was $7.053 million, 14.5% below our $8.253 million estimate but up 6.6% y-o-y. Revenue consisted of $6.144 million (up 6.1%) in equipment and supplies and $909k (up 10.2%) in services revenue. International sales were $1.918 million, a 2% increase and accounted for 27% of revenue, compared to 28% in Q1 2010. Management noted strong sales in the Far East and Canada as responsible for much of the international sales growth. Domestic sales grew 8% to $5.135 million.

Gross Margin
Gross margin came in at 56.4% in the quarter with product margin at 52.4% and services margin at 83.5%. Gross margin was better than our estimates, both on equipment (52.1% E) and services (80.0% E). Management noted during 2010 that retrofitting of certain products resulted in temporary narrowing of services margin (fell as low as 80%) but that they expected this to rebound within a few quarters. We are hopeful that the 83.5% services margin in Q1 2011 is the front end of a return to the mid-to-high 80% level (we now model 84.5% for the full year 2011, up from 82% prior to Q1). Despite product margin coming in ahead of our estimate in the most recent quarter, we have not increased our product margin estimates for the remaining three quarters of 2011 - this could prove conservative.

Operating Expenses
Operating expenses of $4.176 million included a $418k one-time charge in G&A related to the CEO transition. Stripping out the charge, operating expenses were about 12.1% ($517k) lower than our estimate. While operating expenses (ex the charge) were 53.3% of revenue compared to our 51.8% estimate, we think Angeion will show consistent improvement in this throughout the remainder of the year as sales growth squeezes leverage out of G&A and R&D.

EPS
EPS was ($0.09) on net income of $324k compared to our $212k and $0.06 estimates. But stripping out the one-time charge, EPS was $0.02 on net income of $94k.

Cash
Angeion exited the quarter with $10.5 million in cash and investments, up slightly from $10.4 million at the end of Q4 2010. Operating cash flow was $260k during the quarter, ex-changes in working capital this was ($134k). Angeion purchased $173k in PP&E in Q1. The balance sheet remains debt free. Angeion completed its stock repurchase program in October 2010.

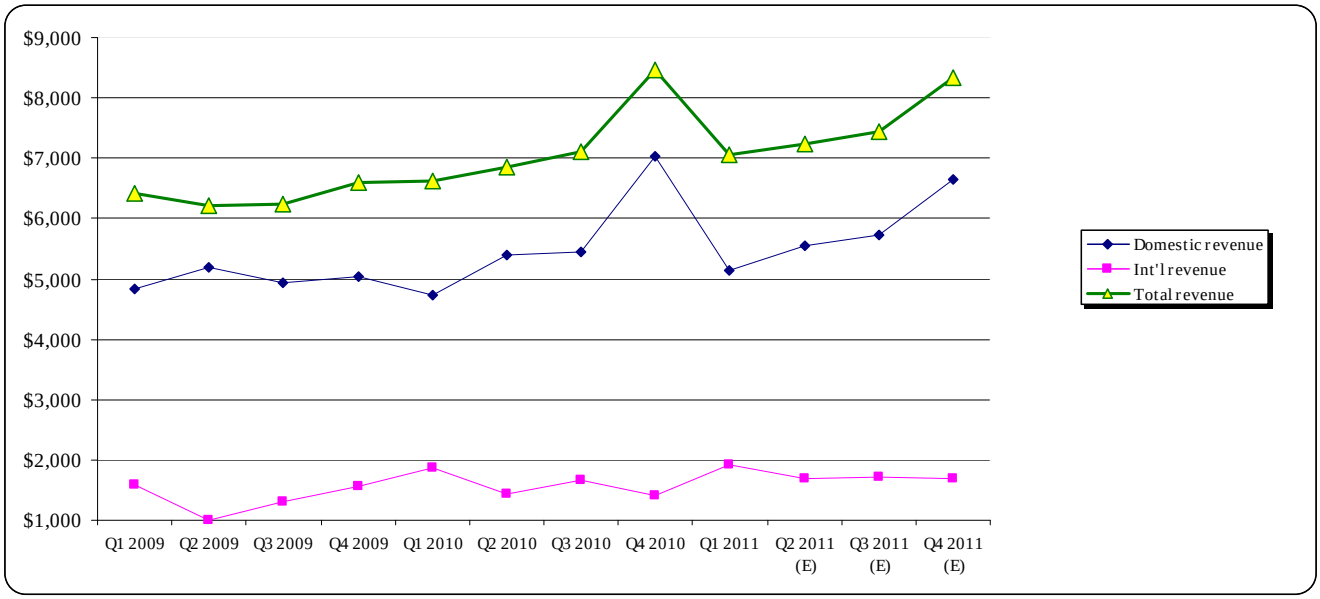
Based on our model we expect Angeion to generate positive operating cash flow for the foreseeable future. We also continue to believe management will be looking to put its cash to work – whether it be through organic investments, further stock repurchasing or an outright acquisition.

Our Revised 2011 Outlook

Revenue

Changes to our revenue estimates for the remainder of 2011 are mostly a result of Q1 revenue coming in significantly softer than what we had modeled. Certain comments by management on the Q1 call indicate to us that they believe revenue will show consistent and sequential growth over the rest of the year. Management mentioned they are seeing some larger sales come through, they may still be eking out share gains and (anecdotally) believe the capex environment is modestly improving. They also noted that they expect to make new product introductions in the coming quarters and are making progress with expansion of the New Leaf business. This hopefully supports the idea that sales will improve over the course of 2011 (and beyond). We reiterate however that it is inherently difficult to accurately estimate Angeion's revenue. We hope with our revised revenue figures that there is greater risk of our numbers being conservative, rather than optimistic.

We now look for FY2011 revenue of $30.05 million, implying y-o-y growth of 3.5%. This is revised down from $32.76 million (+12.8%) prior to Q1. Our revised revenue number assumes only modest y-o-y growth for Q2 (5.4%) and Q3 (4.6%). As Q4 2010 revenue may prove a tough comp to beat, we model Q4 2011 revenue falling 1.5% to $8.33 million. The graph below should indicate our estimates are not particularly aggressive.



Gross Margin

Prior to Q1 we had modeled full year 2011 GM of 56.7%, with equipment margin at 52.9% and services margin at 82%. Q1 results indicate services margin may end up better than this and, as a result, we have changed our services margin estimate to 84.5%. This could still prove to be conservative as services margin was 87.2% and 88.4% 2008 and 2009, respectively. Retrofitting began in Q2 2010, significant fruits of which hopefully will continue to be seen in the coming quarters.

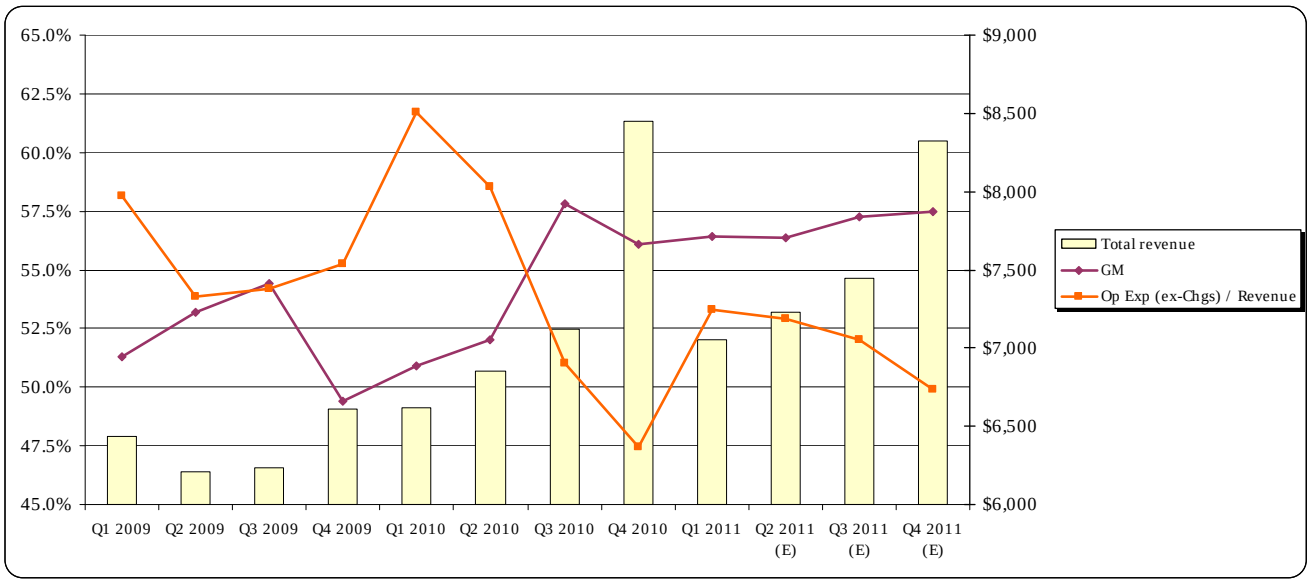
Our aggregate GM has moved from 56.7% to 56.9%, with no change to our equipment margin. As the graph below indicates, our model incorporates only modest improvement in GM over the next few quarters (never getting above the 57.8% reached in Q3 2010). Higher production volumes should provide more opportunity to gain economies of scale – assuming revenue continues to grow throughout 2011, our margin estimates might be low.

Operating Expenses
Angeion continues to capitalize R&D related to software development – and indicated on the Q1 call that this will remain the case throughout 2011. As a result, we assume R&D expense remains relatively flat quarter to quarter. Prior to Q1 we had modeled R&D expense to show a consistent increase over the course of the year so this change shaves almost $700k off of or our full year R&D expense estimate compared to before Q1.

Excluding the $418k charge, G&A expense was $950k in Q1. We were allocating approximately $1,077k per quarter to G&A. We now assume Angeion can keep G&A expense near the $950k - $1,000k per quarter level.

Sales and marketing came in at 29% of revenue in Q1 (this includes $105k that was reallocated from R&D). We assume this 29% remains relatively steady throughout 2011.

Our operating expense estimates could also prove conservative. The orange line in the graph represents total operating expenses (ex non-recurring items) as a percent of revenue.



EPS
Our full year 2011 EPS estimate has moved from $0.28 prior to Q1 to $0.17. But, excluding the $418k charge in Q1, our EPS estimate remains at $0.28.

Recommendation
We are maintaining our Outperform rating on Angeion. Our price target has moved from $7.00 to $6.50. We use the industry average long-term PE/G ratio of 0.88x. Applying this to our 3-year expected annual EPS growth rate of 23% and estimated 2011 EPS of $0.28 (ex non-recurring charges) for Angeion, results in a current valuation of approximately $6.50 per share.

FINANCIAL MODEL

Angeion Corp.

	2010 A	Q1A	Q2E	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Equipment and Supplies	$25,522.0	$6,144.0	$6,321.9	$6,514.4	$7,285.3	$26,265.5	$29,154.7	$32,245.1	$35,405.1
YOY Growth	*15.1%*	*6.1%*	*6.1%*	*5.0%*	*-3.7%*	*2.9%*	*11.0%*	*10.6%*	*9.8%*
Services	$3,519.0	$909.0	$903.1	$930.6	$1,040.8	$3,783.5	$4,198.3	$4,643.3	$5,098.3
YOY Growth	*6.4%*	*10.2%*	*1.1%*	*1.9%*	*17.2%*	*7.5%*	*11.0%*	*10.6%*	*9.8%*
Total Revenues	$29,041.0	$7,053.0	$7,225.0	$7,445.0	$8,326.0	$30,049.0	$33,353.0	$36,888.4	$40,503.5
YOY Growth	*14.0%*	*6.6%*	*5.4%*	*4.6%*	*-1.5%*	*3.5%*	*11.0%*	*10.6%*	*9.8%*
Cost of equip/supplies	$12,647.0	$2,922.0	$3,002.9	$3,048.7	$3,387.6	$12,361.3	$13,615.2	$14,994.0	$16,463.4
Equipment and supplies margin	*50.4%*	*52.4%*	*52.5%*	*53.2%*	*53.5%*	*52.9%*	*53.3%*	*53.5%*	*53.5%*
Cost of service revenue	$603.0	$150.0	$149.0	$134.9	$150.9	$584.9	$579.4	$626.8	$678.1
Service revenue margin	*82.9%*	*83.5%*	*83.5%*	*85.5%*	*85.5%*	*84.5%*	*86.2%*	*86.5%*	*86.7%*
Cost of Revenues	$13,250.0	$3,072.0	$3,151.9	$3,183.7	$3,538.6	$12,946.1	$14,194.6	$15,620.8	$17,141.5
Gross Income	$15,791.0	$3,981.0	$4,073.1	$4,261.3	$4,787.5	$17,102.9	$19,158.4	$21,267.6	$23,362.0
Gross Margin	*54.4%*	*56.4%*	*56.4%*	*57.2%*	*57.5%*	*56.9%*	*57.4%*	*57.7%*	*57.7%*
Selling & Mktg	$8,067.0	$2,047.0	$2,095.3	$2,144.2	$2,389.6	$8,676.0	$9,539.0	$10,550.1	$11,584.0
% Sell&Mktg	*27.8%*	*29.0%*	*29.0%*	*28.8%*	*28.7%*	*28.9%*	*28.6%*	*28.6%*	*28.6%*
G&A	$4,514.0	$1,368.0	$953.7	$967.9	$1,007.4	$4,297.0	$4,235.8	$4,611.0	$4,981.9
% G&A	*15.5%*	*19.4%*	*13.2%*	*13.0%*	*12.1%*	*14.3%*	*12.7%*	*12.5%*	*12.3%*
R&D	$3,606.0	$761.0	$773.1	$759.4	$757.7	$3,051.1	$3,658.0	$3,721.0	$3,910.0
% R&D	*12.4%*	*10.8%*	*10.7%*	*10.2%*	*9.1%*	*10.2%*	*11.0%*	*10.1%*	*9.7%*
Amortization of Intangibles	$420.0	$105.0	$105.0	$105.0	$106.0	$421.0	$420.0	$475.0	$475.0
Operating Income	($816.0)	($300.0)	$146.1	$284.9	$526.8	$657.8	$1,305.6	$1,910.4	$2,411.1
Operating Margin	*-2.8%*	*-4.3%*	*2.0%*	*3.8%*	*6.3%*	*2.2%*	*3.9%*	*5.2%*	*6.0%*
Interest income, net	$8.0	$8.0	$8.1	$8.2	$8.3	$32.6	$50.0	$65.0	$75.0
Other expense	$0.0	($22.0)	$0.0	$0.0	$0.0	($22.0)	$0.0	$0.0	$0.0
Pre-Tax Income	($808.0)	($314.0)	$154.2	$293.1	$535.1	$668.4	$1,355.6	$1,975.4	$2,486.1
Taxes	$41.0	$10.0	$6.2	$11.7	$21.4	$49.3	$135.6	$296.3	$621.5
Tax Rate	*N/A*	*-3.2%*	*4.0%*	*4.0%*	*4.0%*	*7.4%*	*10.0%*	*15.0%*	*25.0%*
Net Income	($849.0)	($324.0)	$148.0	$281.4	$513.7	$619.1	$1,220.0	$1,679.1	$1,864.6
YOY Growth	*46.7%*	*60.8%*	*126.5%*	*123.3%*	*25.3%*	*172.9%*	*97.1%*	*37.6%*	*11.0%*
Net Margin	*-2.9%*	*-4.6%*	*2.0%*	*3.8%*	*6.2%*	*2.1%*	*3.7%*	*4.6%*	*4.6%*
EPS	($0.20)	($0.09)	$0.04	$0.08	$0.14	$0.17	$0.34	$0.47	$0.52
YOY Growth	*47.5%*	*-56.6%*	*-129.3%*	*159.5%*	*43.5%*	*-182.4%*	*102.7%*	*37.6%*	*11.0%*
Diluted Shares O/S	4,182	3,754	3,754	3,650	3,650	3,702	3,600	3,600	3,600

Source: Zacks Investment Research *Brian Marckx, CFA*

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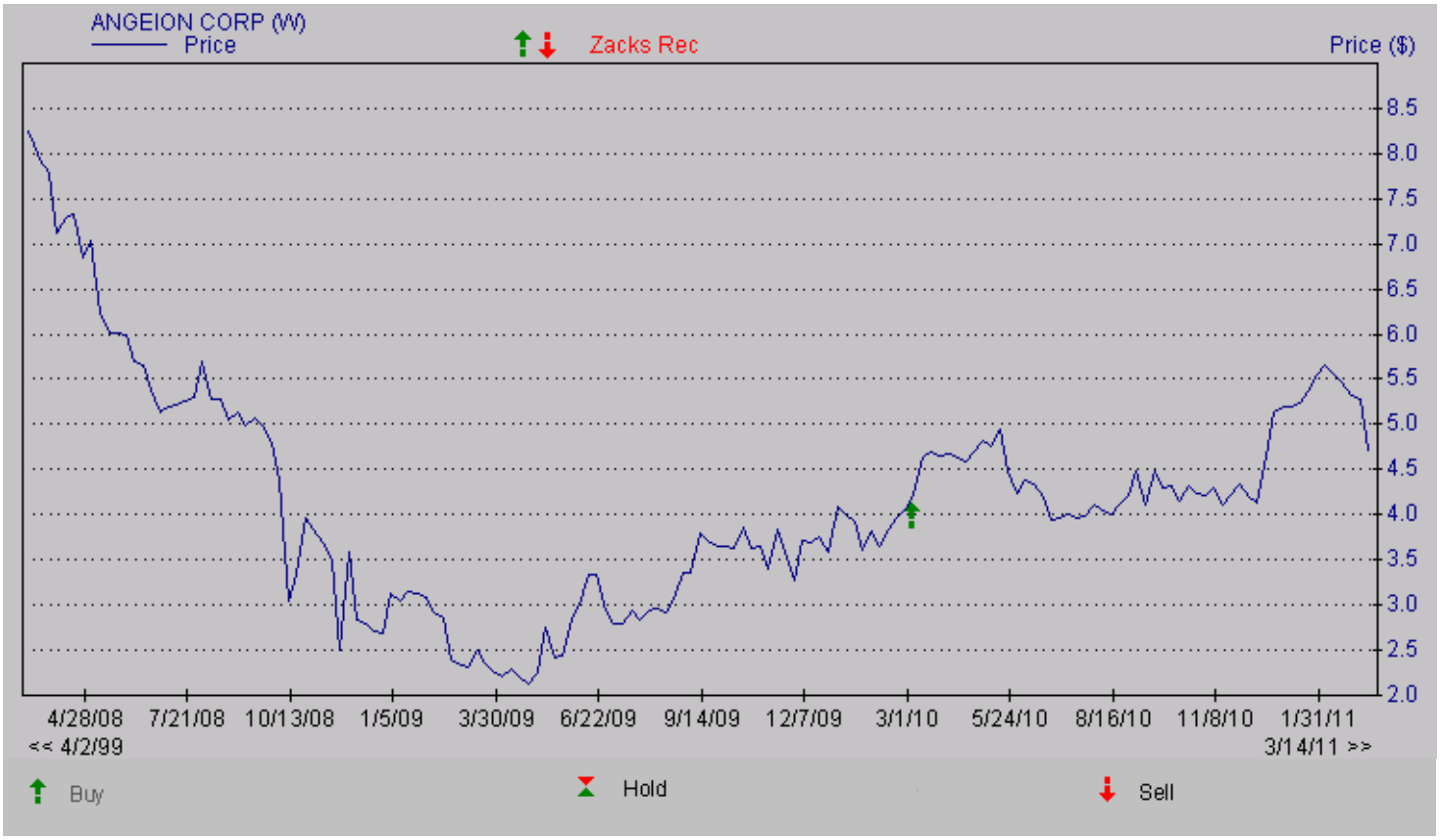

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