Zacks Small-Cap Research

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NeoGenomics Inc. (NGNM-OTC)

NGNM: Continued momentum for sales growth in 1Q2012---Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	10/09/2011
Current Price (04/25/12)	$1.75
Twelve- Month Target Price	**$4.50**

OUTLOOK

NeoGenomics continues to impress investors with 72% revenue growth in 1Q2012, which is the highest in the Company's history. Sequentially, sales in 1Q12 also increased 18% compared to sales in 4Q11.

Following the break-even in 4Q11, NeoGenomics became profitable with an EPS of $0.01. Going forward, revenue will continue to increase in the rest of the year and the Company will have an EPS of $0.03 per share for 2012.

We continue to rate NGNM shares Outperform based on the Company's strong fundamentals.

SUMMARY DATA

52-Week High	**$1.80**
52-Week Low	**$1.01**
One-Year Return (%)	**18.06**
Beta	**0.95**
Average Daily Volume (sh)	**22,224**
Shares Outstanding (mil)	**45**
Market Capitalization ($mil)	**$79**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**43**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**51.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**26**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	8.8 A	10.5 A	11.3 A	12.9 A	43.5 A
2012	15.2 A	15.3 E	15.5 E	16.0 E	62.0 E
2013					75.0 E
2014					94.5 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.02 A	-$0.01 A	-$0.00 A	$0.00 A	-$0.03 A
2012	$0.01 A	$0.01 E	$0.00 E	$0.01 E	$0.03 E
2013					$0.06 E
2014					$0.10 E

Zacks Projected EPS Growth Rate - Next 3 Years % **86**

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WHAT'S NEW

NeoGenomics Reports Record Financial Results for 1Q12

On April 25, 2012, NeoGenomics reported another strong quarter (1Q12) of financial results.

Revenue for 1Q12 was $15.2 million, a 72%, increase over first quarter 2011 revenue of $8.8 million. Sequentially, sales in 1Q12 also increased 18% compared to sales in 4Q11 of $12.9 million. First quarter sales also beat our estimate of $13.7 million.

In 1Q12, tests increased by 75% and average revenue per test declined by 1.6%. Requisitions increased by 66% and the average number of tests per requisition increased by 5.5%. Average cost of goods sold per test improved by 7.2% from last year, which resulted in an improvement in gross margin to 47.1% in the first quarter as compared to 43.9% in the first quarter of last year. As a result, gross profit increased by 85% to $7.1 million.

SG&A and R&D expenses increased by $1.7 million, or 37%, from last year's first quarter due primarily to an increase in payroll, research and development expenses and bad debt expense. SG&A as a percentage of revenue fell to 38.2% from 52.0% last year.

Net income for the quarter was $603,000 or $0.01/share versus a net loss of ($893,000) or ($0.02)/share in last year's first quarter. Adjusted EBITDA increased to $1.8 million from ($97,000) last year.

Balance sheet is strong. As of March 31, 2012, the Company had cash and cash equivalents of $3.1 million with little debt. The Company also has approximately $3.8 million line of credit backed by accounts receivables.

Summary of Quarterly Performance

($, 000's)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
Total Revenue	**8,418**	**8,490**	**8,708**	**8,755**	**8,805**	**10,466**	**11,320**	**12,893**	**15,160**
% Growth	21.8%	13.8%	19.3%	12.3%	4.6%	23.3%	30.0%	47.3%	72.2%
Gross Margin	**48.4%**	**46.1%**	**44.7%**	**44.6%**	**43.9%**	**44.5%**	**44.8%**	**45.2%**	**47.1%**
SG&A as a % of Revenue	55.4%	55.5%	56.3%	51.0%	52.0%	45.6%	44.5%	42.3%	38.2%
Net Income (Loss)	**($750.0)**	**($978.0)**	**($1,198.0)**	**($377.0)**	**($893.0)**	**($293.0)**	**($143.0)**	**$152.0**	**$603.0**
Diluted EPS	($0.02)	($0.03)	($0.03)	($0.01)	($0.02)	($0.01)	($0.00)	$0.00	$0.01
Adjusted EBITDA		($149.0)	($398.0)	($97.0)	$29.0	$483.0	$693.0	$1,055.0	$1,775.0
Test Volume	**14,042**	**14,464**	**14,477**	**14,349**	**15,396**	**18,358**	**19,978**	**22,557**	**26,932**
% Growth	34.3%	27.8%	29.4%	12.9%	9.6%	26.9%	38.0%	57.2%	74.9%
Average Price/Test	600.00	587.00	602.00	610.00	572.00	570.00	567.00	571.59	562.89
% Growth	-9.2%	-10.9%	-7.7%	-0.5%	-4.7%	-2.9%	-5.8%	-6.3%	-1.6%

Momentum Will Continue for the Rest of 2012

NeoGenomics impressed investors with record revenue growth of 72% year-over-year in 1Q12. Sequentially, revenue growth also achieved impressive 18% over the fourth quarter of 2011. Gross margin also continued to improve for the quarter.

For the fourth quarter in a row, the Company posted the largest year-over-year and sequential quarterly revenue increases in the Company's history, and for the first time the Company surpassed $15 million in quarterly revenue. For the second quarter in a row, NeoGenomics achieved positive earnings.

According to management, the Company continues to realize significant improvements in laboratory and sales force productivity as a result of initiatives the Company has implemented over the last two years. As a result, both gross margin and overall operating leverage have improved.

In order to maintain a sustainable growth, NeoGenomics is significantly increasing spending for R&D and new test development, including new cancer genetic tests using platform acquired from Health Discovery Corporation early this year. The Company is expanding molecular testing menu and plan to launch approximately 25 new molecular tests this year alone. In addition, the Company is expanding its menu of immunohistochemistry tests and improving service offering in this important area.

In addition to the strong first quarter, and based on current development, the Company also raised its guidance for the fiscal second quarter and full year of 2012. In 2Q12, the Company expects revenue of $15.5 - $16.0 million and net income of $0.00 to $0.01 per share. Given 1Q12 performance, the Company is increasing its revenue guidance to $57-63 million for the full year 2012, and earnings guidance of $0.02 - $0.04 per share.

This guidance is especially encouraging with the consideration of possible expiration of the Hospital Technical Component (TC) Grandfather Clause. Currently, NeoGenomics is working with the American Clinical Laboratory Association and the College of American Pathologists to permanently extend the Hospital Technical Component Grandfather Clause, which has allowed independent laboratories to bill Medicare directly for the technical component of tests reimbursed under the Medicare Physician Fee Schedule. As a result of recent legislation, this decades-old billing practice is now set to expire on June 30th. Unless it is extended further, NeoGenomics and other pathology labs will be required to begin billing hospitals directly for the technical component of affected tests beginning on July 1st.

If the TC Grandfather Clause is not extended further, NeoGenomics anticipates that previously grandfathered hospitals will seek price concessions on the affected services as they will receive little or no corresponding increases in reimbursement from Medicare. In such a scenario, the overall average revenue per test will be reduced by an approximately 5-8% beginning in 3Q12.

We estimate that for the 3Q12, the Company will still be able to break even, and growth and productivity improvements will offset these impacts in fairly short order. We believe that the Company could similarly absorb any unit price decreases in the event the TC Grandfather Clause is not extended.

Based on these analyses, we expect NeoGenomics will achieve an EPS of $0.03 based on total revenue of $62 million in fiscal 2012, which still represents a revenue growth of 43% over 2011. From 2012 to 2015, revenue will grow at a compound annual growth rate (CAGR) of 40% and EPS will grow at a CAGR of 86%. Revenue will reach $120 million in fiscal 2015, and EPS will reach $0.22 per share in 2015.

Summary of Annual Performance

$, 000's	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Total Revenue	11,505	20,015	29,469	34,371	43,484	61,960	75,000	94,500	120,000
% Growth	78.0%	74.0%	47.2%	16.6%	26.5%	42.5%	21.0%	26.0%	27.0%
Gross Margin	52.0%	53.3%	51.6%	45.9%	44.7%	47.2%	47.2%	47.5%	49.5%
SG&A as a % of Revenue	79.3%	57.7%	57.5%	54.5%	45.6%	39.8%	38.7%	37.6%	35.0%
Net Income (Loss)	(3,380.0)	(1,383.0)	(2,243.0)	(3,303.0)	(1,177.0)	1,633.0	3,100.0	5,587.5	13,200.0
Diluted EPS	(0.11)	(0.04)	(0.06)	(0.09)	(0.03)	0.03	0.06	0.10	0.22
Adjusted EBITDA	(1,017.0)	809.0	103.0	(566.0)	2,134.0	3,133.0	4,600.0	7,087.5	14,700.0
Summary Testing Metrics									
% Growth in tests performed	63.7%	55.7%	39.7%	25.5%	33.1%	35.0%	37.0%	40.0%	45.0%

Two Significant Developments in 1Q12

NeoGenomics announced two important events in January, 2012.

- The Company appointed Dr. Maher Albitar as Chief Medical Officer and Director of Research & Development, and
- The Company entered into an agreement with Health Discovery Corporation (HDC) providing the Company with exclusive worldwide rights to develop cancer diagnostics and other products using HDC's pattern recognition technologies

Dr. Maher Albitar is world renowned for his expertise in Hematopathology and Molecular Oncology. During his career, he has served as Medical Director for Hematopathology and Oncology, and Chief of Research and Development, for Quest Diagnostics Nichols Institute. Dr. Albitar has held various faculty positions at The University of Texas MD Anderson Cancer Center where he also served as Director of the Leukemia and Molecular Laboratory in the Division of Laboratory Medicine and Pathology Medicine. He was also a tenured full professor in the Departments of Leukemia and Pathology. He has been responsible for the development of numerous tests and inventions in molecular testing and plasma-based testing, and is passionate about innovation and molecular test development.

The agreement with HDC is also a milestone event for NeoGenomics. With this Agreement, NeoGenomics has exclusive worldwide rights to utilize HDC's extensive intellectual property portfolio to develop laboratory developed tests and other products relating to hematopoietic and solid-tumor cancers. Initially, the Company plans to focus on developing tests for the detection of prostate, pancreatic and colon cancer. The Company also plans to develop interpretation software targeted at automating cytogenetics and flow cytometry analysis.

Dr. Albitar recently served as Chief Medical Officer for HDC and has significant experience working with HDC's technology. His leadership, along with the agreement with HDC, will significantly enhance NeoGenomics' ability to develop and launch novel new tests targeting a variety of cancers.

We believe innovation and the launch of proprietary products is an important driver of future growth for NeoGenomics, and will allow the Company to further differentiate itself in the marketplace.

VALUATION AND RECOMMENDATION

We maintain our Outperform rating on NeoGenomics (NGNM) and reiterate our 12-month price target of $4.5 per share.

NeoGenomics is an emerging leader in the genetic/molecular cancer testing market. The Company holds numerous competitive advantages over its competitors. We are especially impressed by the Company's fast turn-around times, tech-only reporting solution and state of the art laboratory information system (LIS), which are key elements that drive top line growth.

NeoGenomics has achieved strong financial performance. Revenue grew from $1.9 million in 2005 to $43.5 million in 2011, a tremendous 68.7% compound annual growth rate (CAGR) for the six-year period. We estimate revenue will further grow to $120 million in 2015, at a CAGR of 40% from 2012 to 2015.

With strong revenue growth and increased operating leverage, the bottom line will grow accordingly. The Company became profitable in 4Q11 when positive cash flow has been generated from operations.

We are also impressed by the Company's strong balance sheet, which is in contrast with most small cap biotech companies. NeoGenomics held $3.1 million in cash as of March 31, 2012 with little debt. With profitability at its fingertips, the Company should be able to focus on its long term strategic development plan without fearing short term cash strains.

Based on NeoGenomics strong fundamentals, we think the shares of NeoGenomics are undervalued. Currently, NGNM is trading at about $1.70 per share which values the Company at $79 million in terms of market cap based on 45 million shares outstanding. This is a deep discount compared to its peers. Based on our financial model, revenue will grow at amazing 40% CAGR from 2012 to 2015. We think NGNM should trade at 35 x P/E multiple. If we use this P/E multiple, coupled with our estimated EPS of $0.22 in 2015, discounted at 20% for three years, we come up with a price target of $4.5 per share.

We think at this time, downside risk for NGNM is relatively low while upside potential is high. One short term potential catalyst is the possible upgrade of NGNM shares from current OTC trading to major exchange such as AMEX or NASDAQ. Management indicated that they are making progress to list NGNM shares on either exchange. This upgrade will significantly increase the Company's visibility and attract institutional investors.

One wild card for NGNM valuation is that the Company may be an acquisition target for big players. The genetic/molecular industry is quite fragmented currently, but merger & acquisition activity is looming. We all know that big players like LabCorp and Quest Diagnostics are increasingly acquiring smaller players in this field. Qiagen NV, a research service company based in Netherland, entered into genetic/molecular testing market in 2007 by acquiring Digene Corp. Since then, Qiagen has been quite aggressive in acquisition of other small genetic/molecular testing companies.

In December 2010, GE Healthcare acquired NeoGenomics' largest competitor Clarient Inc. at 5.8 x EV/LTM Revenue. Clarient Inc. is similar to NeoGenomics in terms of business and operations and is NeoGenomics' largest competitor, therefore, Clarient is the closest comparable for NeoGenomics. With the increased activity in M&A in the industry, NGNM could be an easy target for acquisition. If acquired by big players, share price of NGNM may soar.

PROJECTED INCOME STATEMENT

	2011A (Dec)					2012E (Dec)					2013E (Dec)	2014E (Dec)	2015E (Dec)
$ in million except per share data	Q1	Q2	Q3	Q4	FYA	Q1	Q2E	Q3E	Q4E	FYE	FYE	FYE	FYE
Total Revenues	**$8.81**	**$10.47**	**$11.32**	**$12.89**	**$43.48**	**$15.16**	**$15.30**	**$15.50**	**$16.00**	**$61.96**	**$75.00**	**$94.50**	**$120.00**
YOY Growth	4.6%	23.3%	30.0%	47.3%	26.5%	72.2%	46.2%	36.9%	24.1%	42.5%	21.0%	26.0%	27.0%
CoGS	4.94	5.81	6.25	7.06	24.06	8.02	8.07	8.20	8.45	32.74	39.60	49.61	60.60
Gross Income	**$3.87**	**$4.66**	**$5.07**	**$5.83**	**$19.43**	**$7.14**	**$7.23**	**$7.30**	**$7.55**	**$29.22**	**$35.40**	**$44.89**	**$59.40**
Gross Margin	43.9%	44.5%	44.8%	45.2%	44.7%	47.1%	47.3%	47.1%	47.2%	47.2%	47.2%	47.5%	49.5%
SG&A	$4.58	$4.77	$5.03	$5.46	$19.84	$5.79	$6.00	$6.35	$6.50	$24.64	$29.00	$35.50	$42.00
% SG&A	52.0%	45.6%	44.5%	42.3%	45.6%	38.2%	39.2%	41.0%	40.6%	39.8%	38.7%	37.6%	35.0%
R&D	$0.00	$0.00	$0.00	$0.00	$0.00	$0.50	$0.50	$0.55	$0.55	$2.10	$2.30	$3.00	$3.50
% Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($0.7)**	**($0.1)**	**$0.0**	**$0.4**	**($0.4)**	**$0.9**	**$0.7**	**$0.4**	**$0.5**	**$2.5**	**$4.1**	**$6.4**	**$13.9**
Operating Margin	-	-	0.4%	2.9%	-0.9%	5.7%	4.8%	2.6%	3.1%	4.0%	5.5%	6.8%	11.6%
Other Net	($0.2)	($0.2)	($0.2)	($0.2)	($0.8)	($0.3)	($0.2)	($0.2)	($0.2)	($0.9)	($1.0)	($0.8)	($0.5)
Pre-Tax Income	**($0.9)**	**($0.3)**	**($0.1)**	**$0.2**	**($1.2)**	**$0.6**	**$0.5**	**$0.2**	**$0.3**	**$1.6**	**$3.1**	**$5.6**	**$13.4**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.2
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%
Reported Net Income	**($0.9)**	**($0.3)**	**($0.1)**	**$0.2**	**($1.2)**	**$0.6**	**$0.5**	**$0.2**	**$0.3**	**$1.6**	**$3.1**	**$5.6**	**$13.2**
YOY Growth	-	-	-	-	-64.4%	-	-	-	97.4%	-	89.8%	80.2%	136.2%
Net Margin	-	-	-	1.2%	-2.7%	4.0%	3.5%	1.3%	1.9%	2.6%	4.1%	5.9%	11.0%
Diluted Shares Out	41.7	42.9	43.1	45.3	43.2	47.4	47.5	48.0	48.5	47.9	50.0	55.0	60.0
Reported EPS	**($0.02)**	**($0.01)**	**($0.00)**	**$0.00**	**($0.03)**	**$0.01**	**$0.01**	**$0.00**	**$0.01**	**$0.03**	**$0.06**	**$0.10**	**$0.22**
One time charge	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($0.9)**	**($0.3)**	**($0.1)**	**$0.2**	**($1.2)**	**$0.6**	**$0.5**	**$0.2**	**$0.3**	**$1.6**	**$3.1**	**$5.6**	**$13.2**
Non GAAP EPS	**($0.02)**	**($0.01)**	**($0.00)**	**$0.00**	**($0.03)**	**$0.01**	**$0.01**	**$0.00**	**$0.01**	**$0.03**	**$0.06**	**$0.10**	**$0.22**

Source: Company filings and Zacks Investment Research

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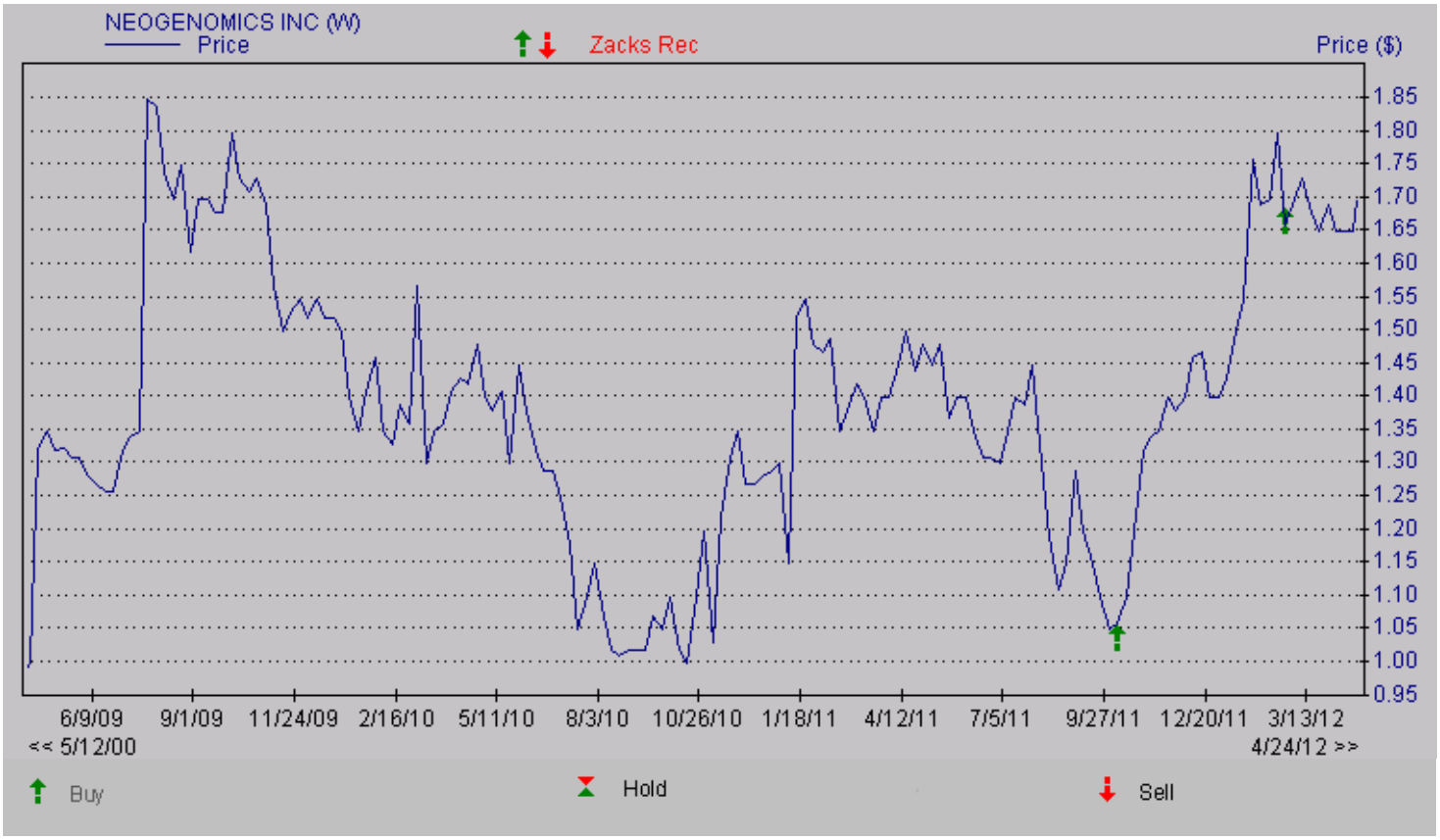
HISTORICAL ZACKS RECOMMENDATIONS



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