Zacks Small-Cap Research

February 15, 2013
Brian Marckx, CFA
bmarckx@zacks.com
Ph. (312) 265-9474

scr.zacks.com
111 North Canal Street, Chicago, IL 60606

Corgenix Medical (CONX-OTC)

CONX: *Q2: Strong Revenue, Another Profitable Quarter*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (02/14/13)	$0.18
Target Price	**$0.60**

OUTLOOK

Coming off 17% revenue growth in fiscal 2012, management is guiding for mid-to-high teens revenue growth and positive income and cash flow in 2013. AspirinWorks and Contract Manufacturing expected to catalyze revenue growth in 2013. Int'l revenue disappointed in 2012 but now looks to have turned the corner, posting 29% growth in the first half of 2013 and expected to remain robust. AspirinWorks and new product launches (domestically and overseas), along with penetration of new geographic markets will be relied on to drive revenue longer-term.

Based on comparable valuations, Corgenix's shares trade significantly cheaper than warranted. Our fair value estimate is $0.60/share. We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$0.25**
52-Week Low	**$0.08**
One-Year Return (%)	**24.91**
Beta	**1.44**
Average Daily Volume (sh)	**17,031**
Shares Outstanding (mil)	**51**
Market Capitalization ($mil)	**$9**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**12**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**2.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**19.0**
P/E using 2014 Estimate	**19.0**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	$2,178 A	$2,066 A	$2,717 A	$2,328 A	$9,289 A
2013	$2,821 A	$2,478 A	$2,698 E	$2,863 E	$10,860 E
2014					$12,362 E
2015					$13,973 E

Earnings per Share

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	-$0.00 A	-$0.00 A	-$0.00 A	-$0.01 A	-$0.01 A
2013	$0.00 A	$0.00 A	$0.00 E	$0.00 E	$0.01 E
2014					$0.01 E
2015					$0.02 E

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

© Copyright 2013, Zacks Investment Research. All Rights Reserved.

Q2 2013 Financial Results

Corgenix reported financial results for the fiscal second quarter 2013 ending December 31, 2012 on February 14th. Revenue was up 20%, although slightly below our estimate. Strong gross margin and keeping a lid on operating expenses benefitted the bottom line with net income coming in a hair better than our forecast. Importantly, management continues to expect double digit revenue growth for the full year with current guidance at $10.6MM - $11.0MM (+14% - +18%). We model revenue of $10.9MM (+17%) for the current full year.

Q2 revenue came in at $2.5 million, up 20% yoy and down 12% sequentially. Gross margin is holding up very well despite a high proportion of revenue coming from relatively lower margin segments. And has we noted in prior updates, we think management has and continues to do a great job with discipline in expense management with SG&A expense ratcheting down over the last several quarters. SG&A, R&D and G&A expenses have all come in lower than our estimates in the last two quarters.

Another trend that we point to as meaningful is the relatively strong growth in International sales - something we also noted in our Q1 update. International revenue in Q1 2013 was $375k, which was the highest in two years (since fiscal Q1 2011) - yet this was crushed in Q2 2013 with International revenue of $443k. As a reminder, international revenue had declined every period (on a yoy quarterly as well as annual basis) since 2010 which had been a significant hindrance to growing CONX's top line. The expectation was that international sales would quickly turn around with the ELITech agreement in late 2010 but that inflection point seemed to be dragged out due to integration wrinkles and certain product launch delays. We think the current growth in International relates to those wrinkles being ironed out as well as some of these new products finally coming to market. Clearly the AspirinWorks launch in Asia has already been a significant contributor (and is expected to continue to be for at least the next several years). Entry into additional international markets (such as India, Latin America, and South America), deeper and broader penetration in existing territories and other new products which are expected to come to market in the near-term should further benefit revenue (both internationally as well as domestically) .

Near-to-Mid Term Milestones

- Continue progress on development and clinical trials of infectious disease products with collaboration partners including Tulane University. Lassa virus rapid test is expected to be CE Marked by end of this quarter. Expect to bring other infectious disease products to market in near future
- Submit Hyaluronic Acid (HA) test to FDA in Q3/early Q4
- Automated AspirinWorks Test FDA submission and CE Mark in Q3/Q4
- Companion diagnostics products program - continue to work w/ a partner (pharma?) and is in feasibility stage - expect project to progress over next few quarters, at which time CONX may be able to discuss further plan forward. Companion diagnostics could eventually become a meaningful part of the business
- Investigating ancillary applications for AspirinWorks biomarker - may have utility in other clinical applications - working with scientists and physicians throughout the world on this. Could eventually lead to clinical trials
- AtherOx - have made significant progress in overcoming obstacles to be able to manufacture the product - these have largely been cleared. Expect to begin add'l studies in coming quarter(s) and simultaneously talking to potential collaborators for the product. Management remains committed to the product and believes it could eventually be their biggest product ever. If all goes right, FDA filing could potentially happen sometime in 2014
- China / India - beef up distribution and continue to roll out AspirinWorks in China and soon India. Bring other (existing and pipeline) products to these Asian markets. Expect Asia to be a big opportunity for near and long-term growth
- U.S. market - continue to expand the customer base through new product introductions and sales efforts. Recently introduced Skylab instrument already starting to pay dividends by bringing in new customers
- Contract manufacturing - bring on additional customers/clients, increase capabilities and offerings to appeal to wider potential customer base, continue to increase efficiencies

Revenue

Q2 revenue of $2.5 million consisted of $2.0 million (+17%) in sales from North America and $443k (+33%) internationally, compared to our $2.3 million and $357k estimates. We now model 27% growth in international sales in fiscal 2013 which we think is fueled by new product launches, entry into new geographic markets (including China with AspirinWorks) and an ongoing ramp up in activity by ELITech with deeper penetration in existing markets.

Revenue from the domestic business, while up 17% yoy missed our estimate by about 12%. Management noted on the call that a reduction in AspirinWorks sales to a large lab customer in the U.S. resulted from a planned temporary slowdown from that customer - which likely largely reflects the difference between our estimated and actual North American sales for the quarter. Management expects this will not recur in 2H and is still shooting for AspirinWorks sales to at least double in the current fiscal year.

Net Income / EPS
Q2 net income and EPS came in at $50k and $0.00, compared to our $24k and $0.00 estimates. Lower than modeled operating expenses ($1,013k A vs $1,105k E) along with slightly better than modeled gross margin (43.1% A vs 42.6% E) contributed to the beat on the bottom line. We continue to expect to see additional operating leverage with revenue growth and GM to maintain near 43% in 2013 (and slightly widening in future years with economies of scale).

Cash
Corgenix exited Q2 with $1.2 million in cash and equivalents, roughly flat from the end of Q1 (9/30/2012). Cash flow from operating activities was an inflow of $141k but stripping out changes in working capital (which is more indicative of cash from operations) it was an inflow of $158k. Debt remained relatively insignificant at quarter end.

Maintaining Outlook / Price Target
While maybe still a little too early to call this a definitive inflection point for consistent improvement in financial performance, we think the recent financial and operational trends, coupled with meaningful and tangible progress on pipeline products, recent product introductions, collaborations, and entry into additional geographical territories bodes well as support for that to happen. We remain big believers in Corgenix and management's ability to deliver ever-improving financial results and build long-term shareholder value.

We have made only relatively insignificant adjustments to our model following Q2 results. We continue to value CONX based on our comp valuation methodology (below) which values the shares at approximately $0.60/share. We maintaining our Outperform rating on the stock.

VALUATION

Revenue
We model $10.9 million (+17%) in revenue in fiscal 2013 and look for this to grow at a CAGR of about 14% through 2016, reflecting North America and International annual revenue growth of approximately 13% and 24%, respectively.

Income / EPS
We model net income and EPS of approximately $340k and $0.01 in 2013, up from a net loss of $623k and EPS of (-$0.01 EPS) in 2012. This reflects our ~17% estimated growth in revenue, relatively flat GM and some leverage in operating expenses coming off of the R&D and SG&A investments made in the prior year.

We expect Corgenix to gain slightly more leverage in operating expenses going forward and, coupled with strong revenue growth and incremental widening of gross margin, to result in EPS showing consistent year-over-year improvement. We look for EPS of $0.03 in 2016.

Our comparable cohort used to value CONX consists of several companies in the medical diagnostic testing space, some of which are considered direct competitors to Corgenix. Our valuation methodology uses the average of four metrics; price-to-2016 estimated EPS, price-to-book value, price-to-sales (trailing 12 months), and enterprise value-to-sales (trailing 12 months).

Average valuation based on these four metrics is about $0.60/share. Based on CONX's current market price of approximately $0.19/share, indicates the stock remains significantly undervalued. As such, we continue to recommend accumulating the stock and are maintaining our Outperform rating on Corgenix.

Ticker	Est Long-term EPS growth	Implied 2017 P/E	Price / Book Value	Price / Sales (ttm)	EV / Sales (ttm)
ERB	NA	NA	2.5	2.0	1.8
DIA.MI	6.5%	12.4	NA	NA	3.2
OSUR	NA	NA	1.9	3.7	2.7
TRIB	11.0%	15.3	2.2	4.4	3.4
CEMI	11.0%	9.1	3.3	1.8	2.0
IDXX	NA	NA	7.9	3.9	3.9
VIVO	12.9%	13.4	6.4	4.9	4.7
QDEL	NA	NA	4.0	5.0	4.9
ABAX	10.8%	28.5	5.8	5.4	5.0
Average	**8.7%**	**13.1**	**4.2**	**3.9**	**3.5**

	Value using 201 Comp P/E	Value using Comp Price/Book	Value using Comp Price/Sales	EV using Comp EV/Sales	Value using Comp EV/Sales	AVG
CONX	$0.39	$0.46	$0.80	$32.72	$0.75	**$0.60**

FINANCIAL MODEL

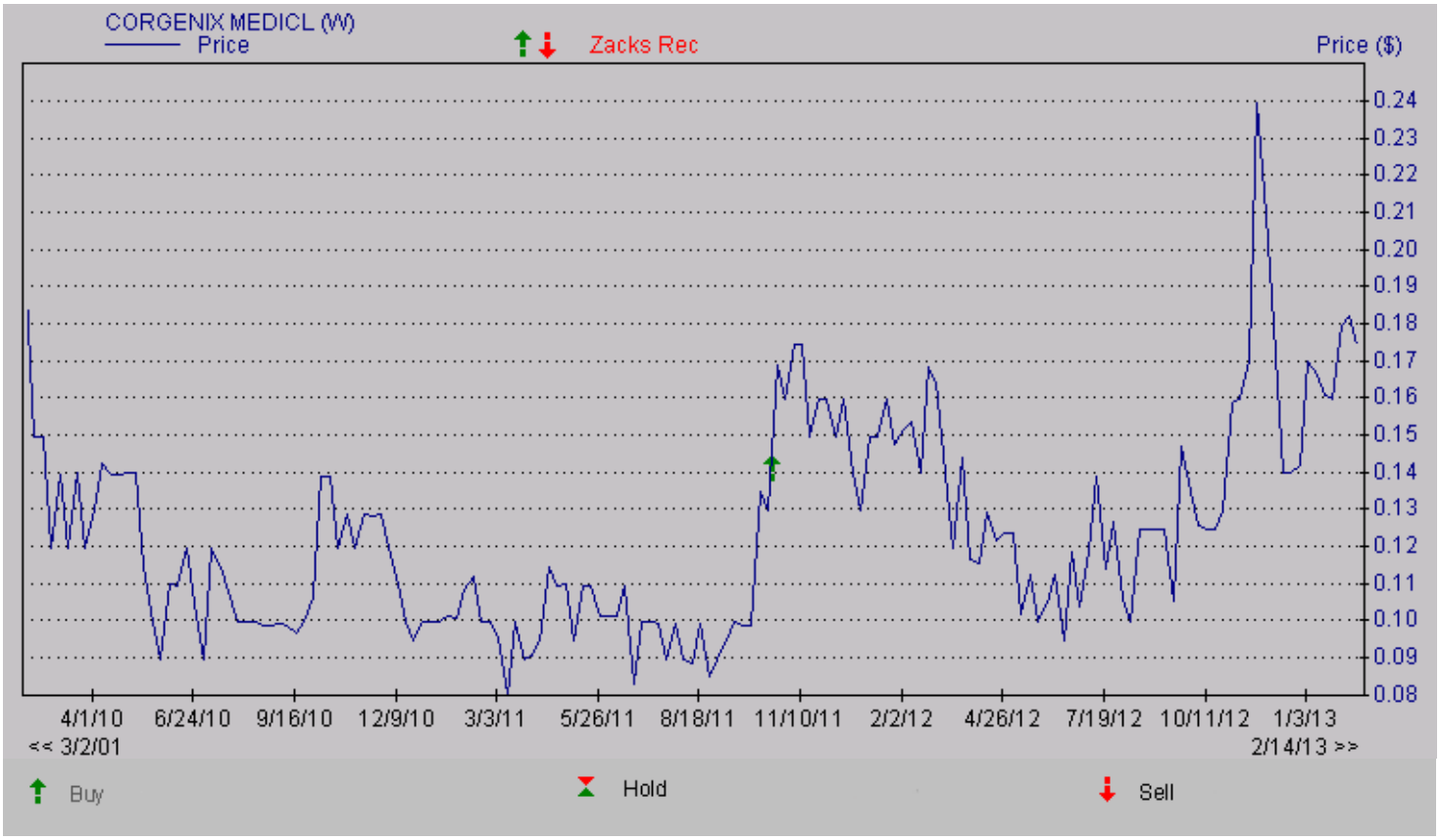
Corgenix Medical Corporation

	2012 A	Q1A	Q2A	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
North America sales	$8,113.5	$2,445.8	$2,035.7	$2,375.6	$2,514.6	$9,371.6	$10,524.3	$11,728.6	$13,239.4
y-o-y growth	*25.1%*	*30.4%*	*17.4%*	*-3.6%*	*23.3%*	*15.5%*	*12.3%*	*11.4%*	*12.9%*
International sales	$1,175.8	$375.3	$442.6	$322.2	$348.0	$1,488.1	$1,837.8	$2,243.9	$2,717.4
y-o-y growth	*-19.4%*	*24.1%*	*33.4%*	*27.2%*	*20.6%*	*26.6%*	*23.5%*	*22.1%*	*21.1%*
Revenue	$9,289.4	$2,821.1	$2,478.2	$2,697.8	$2,862.6	$10,859.7	$12,362.1	$13,972.5	$15,956.8
YOY Growth	*17.0%*	*29.5%*	*20.0%*	*-0.7%*	*23.0%*	*16.9%*	*13.8%*	*13.0%*	*14.2%*
Cost of Goods Sold	$5,355.0	$1,619.1	$1,409.3	$1,538.5	$1,623.7	$6,190.7	$6,852.0	$7,619.1	$8,613.7
Gross Income	$3,934.4	$1,202.0	$1,068.9	$1,159.3	$1,238.9	$4,669.0	$5,510.1	$6,353.5	$7,343.1
Gross Margin	42.4%	42.6%	43.1%	43.0%	43.3%	43.0%	44.6%	45.5%	46.0%
Sales / Mktg	$1,996.9	$441.4	$435.1	$485.6	$521.0	$1,883.1	$2,126.3	$2,347.4	$2,616.9
% S&M	*21.5%*	*15.6%*	*17.6%*	*18.0%*	*18.2%*	*17.3%*	*17.2%*	*16.8%*	*16.4%*
R&D	$517.1	$127.2	$98.8	$131.1	$128.5	$485.6	$502.0	$487.0	$472.0
% R&D	*5.6%*	*4.5%*	*4.0%*	*4.9%*	*4.5%*	*4.5%*	*4.1%*	*3.5%*	*3.0%*
G&A	$1,889.3	$428.8	$479.2	$514.1	$504.1	$1,926.2	$2,101.6	$2,291.5	$2,585.0
% G&A	*20.3%*	*15.2%*	*19.3%*	*19.1%*	*17.6%*	*17.7%*	*17.0%*	*16.4%*	*16.2%*
Disposal of assets	$17.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($486.2)	$204.6	$55.8	$28.5	$85.3	$374.1	$780.3	$1,227.6	$1,669.2
Operating Margin	*-5.2%*	*7.3%*	*2.2%*	*1.1%*	*3.0%*	*3.4%*	*6.3%*	*8.8%*	*10.5%*
Total other income	($117.5)	($6.3)	($5.4)	($4.7)	($4.5)	($20.9)	($13.0)	$24.0	$63.0
Pre-Tax Income	($603.7)	$198.3	$50.4	$23.8	$80.8	$353.3	$767.3	$1,251.6	$1,732.2
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred dividends	$19.7	$3.1	$0.0	$5.0	$5.0	$13.1	$0.0	$0.0	$0.0
Income to common	($623.4)	$195.2	$50.4	$18.8	$75.8	$340.2	$767.3	$1,251.6	$1,732.2
Net Margin	*-6.7%*	*6.9%*	*2.0%*	*0.7%*	*2.6%*	*3.1%*	*6.2%*	*9.0%*	*10.9%*
EPS	($0.01)	$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.02	$0.03
YOY Growth	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*67.9%*	*63.1%*	*38.4%*
Diluted Shares O/S	44,864	48,543	50,756	53,100	53,122	51,380	69,000	69,000	69,000

Brian Marckx, CFA

© Copyright 2013, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1011 companies covered: Buy/Outperform- 14.8%, Hold/Neutral- 78.1%, Sell/Underperform – 6.5%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2013, Zacks Investment Research. All Rights Reserved.