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Zacks Small-Cap Research

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CombiMatrix Cp (CBMX-NASDAQ)

CBMX: Model Update for Reverse Split

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	07/07/2014
Current Price (02/01/16)	$6.83
Target Price	**$30.00**

OUTLOOK

Molecular diagnostics company CBMX has offered a variety of genetic tests for various indications but just recently shifted the majority of its focus for growth on chromosomal microarray analysis (CMA) in the prenatal setting. A relatively novel genetic testing method, CMA has gained more attention due to two recent NEJM-published studies and a recommendation from an influential trade association supporting its use in prenatal analysis. CBMX is positioning itself to exploit an industry shift away from the current standard testing method towards CMA by expanding distribution, beefing up their sales force, launching new products, entering into key partnerships and leveraging competitive advantages. Early indications are that this plan is already bearing fruit.

SUMMARY DATA

52-Week High	**$32.40**
52-Week Low	**$0.38**
One-Year Return (%)	**-77.09**
Beta	**0.33**
Average Daily Volume (sh)	**55,534**
Shares Outstanding (mil)	**1**
Market Capitalization ($mil)	**$6**
Short Interest Ratio (days)	**6.32**
Institutional Ownership (%)	**13**
Insider Ownership (%)	**2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**19.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Instru-Scientfc**

ZACKS ESTIMATES

Revenue
(in 000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	1,822 A	1,941 A	2,062 A	2,217 A	8,042 A
2015	2,329 A	2,549 A	2,526 A	2,702 E	10,106 E
2016					13,145 E
2017					16,815 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$2.74 A	-$3.50 A	-$3.41 A	-$2.19 A	-$11.8 E
2015	-$2.24 A	-$1.91 A	-$2.00 A	-$1.87 E	-$7.88 E
2016					-$4.10 E
2017					-$2.43 E

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

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WHAT'S NEW….

1-for-15 Reverse Split, Model Update

We have updated our model to account for the 1-fo-15 RS which was effective at the market open on February 1.

Other noteworthy news since our Nov 6th update includes

- a presentation at the World Congress on Recurrent Pregnancy Loss (Cannes, France, Jan 16) by Dr. Trilochan Sahoo, CBMX's VP of Clinical Affairs, of new data from a multi-year study demonstrating CMA as the most effective test in identification of chromosomal abnormalities. The 44-month, 8k product of conception sample (76% fresh, 22% FFPE) study compared CMA with karyotyping. CMA was able to successfully analyze 91% of the samples (92% fresh, 86% FFPE).

  Karyotyping has been shown to be significantly less reliable and is not useful with FFPE (formalin and embedded paraffin) tissue. Specific to culturing, studies have shown that culture failure (i.e. - tissue dies) occurs in as many as 20% - 55% of POCs, making karyotyping much less reliable than CMA given that the latter analyzes DNA extracted directly from tissue, can analyze non-living tissue and usually does not require culturing.

  CBMX's data also showed clinically significant abnormalities detected in 53.7% of successfully analyzed samples, of which 95% were causative. This builds on the growing body of evidence of the superiority of CMA testing.

- last week CBMX announced the launch of a SNP genetic array for intrauterine fetal demise (IUFD) – or more commonly called, stillbirth testing. While the market is on the smaller side – CBMX estimates about $40M, this should be an add-to-the-bag type of product and one we don't expect to add much in the way of incremental cost to detail as it should fit seamlessly into the company's miscarriage product line and rep call points. CMA provides women with the benefit of significantly faster test turnaround time (~10-12 days vs ~3 weeks) and greater accuracy (~90% vs 60-80%) as compared to karyotyping. An ACOG committee opinion as well as data published in the New England Journal of Medicine (Reddy et al study – see our July 2014 Initiation Report for more details) supports use of CMA over karyotyping.

  This IUFD array is one more of CBMX's planned expansion of their testing menu. They recently launched an effort to broaden their product line and also to lessen their reliance on insurance reimbursement. The company recently launched their CombiPGS IVF product which has been off to a strong start, a targeted array for prenatal analysis and a buccal swab DNA collection kit.

- in mid-December CBMX announced introduction of what they term their PGS Multicycle Program. This allows for the upfront purchase of testing for 8 embryos over the course of 12 months – essentially a way for women to save some money for testing of additional embryos than if they were to purchase single PGS tests. And, of course, if all courses are not needed, CBMX will benefit from higher per-test revenue.

VALUATION

We use a 10-year DCF model to value CBMX. We model revenue to grow from $8.0M in 2014 to $21.5M in 2018 and to $72M in 2024, representing a 10-year CAGR of 25%. We believe our revenue estimates are reasonable, particularly as out our out-year number assumes just less than 12% penetration of the estimated prenatal chromosomal microarray analysis market at that time. We also do not incorporate contribution from any new products that CBMX may potentially bring to market through the term of DCF - new product launches and/or a higher rate of revenue growth (relative to our assumptions) from existing tests could provide some upside to our numbers and associated calculated valuation.

Other key inputs into our DCF include a 9% discount rate and 2% terminal growth rate. Based on our DCF model, CBMX is valued at approximately $30/share (post 1-for-15 reverse split). We are maintaining our Buy rating.

FINANCIAL MODEL

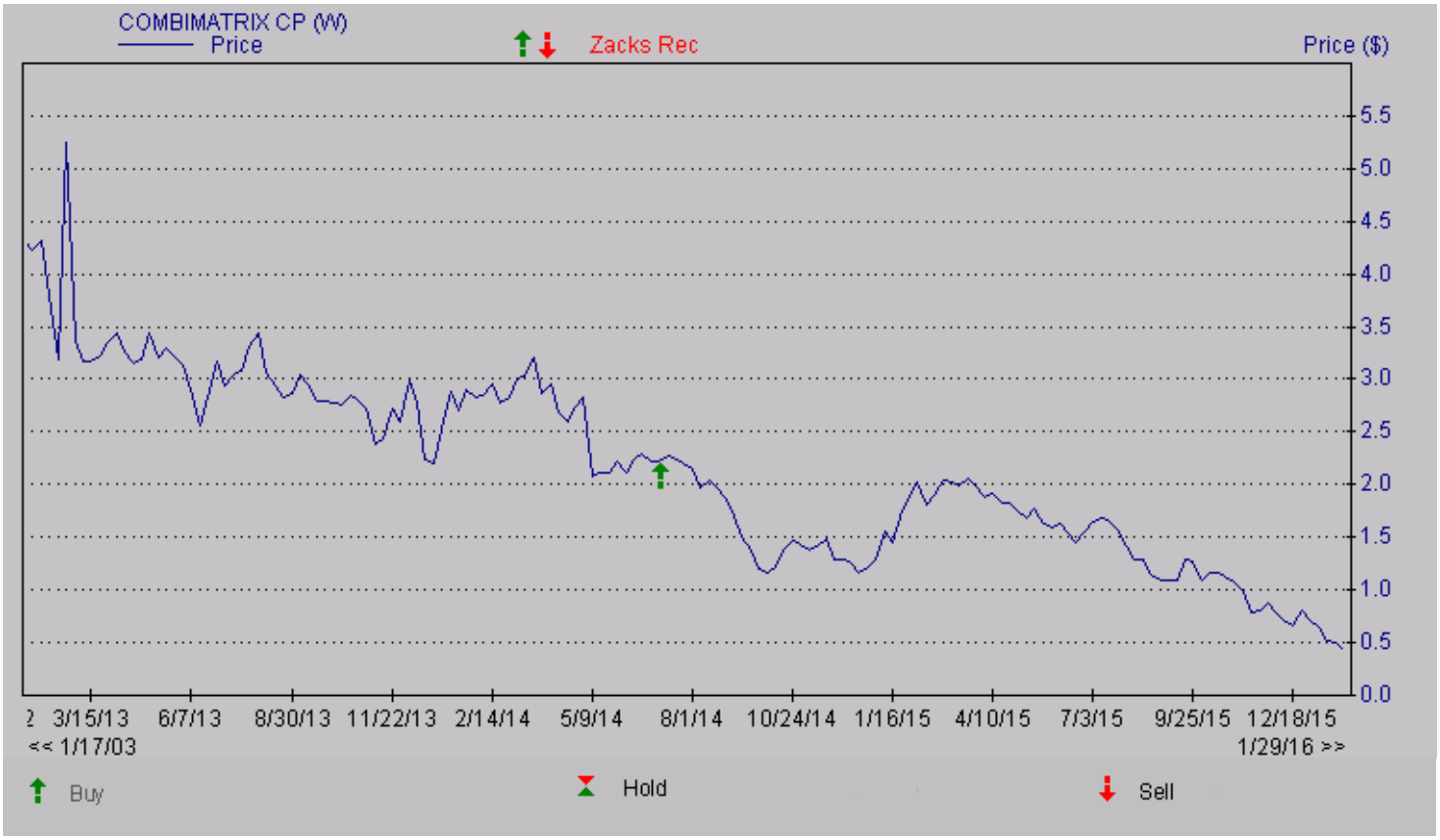
CombiMatrix Corporation

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018 E
Diagnostic Svcs	$7,893.0	$2,287.0	$2,524.0	$2,481.0	$2,662.0	$9,954.0	$12,984.6	$16,654.5	$21,402.0
YOY Growth	*27.2%*	*27.8%*	*32.4%*	*23.4%*	*21.8%*	*26.11%*	*30.45%*	*28.26%*	*28.51%*
Royalties	$149.0	$42.0	$25.0	$45.0	$40.0	$152.0	$160.0	$160.0	$160.0
YOY Growth	*-8.6%*	*31.3%*	*-28.6%*	*-11.8%*	*29.0%*	*2.01%*	*5.3%*	*0.0%*	*0.0%*
Total Revenues	$8,042.0	$2,329.0	$2,549.0	$2,526.0	$2,702.0	$10,106.0	$13,144.6	$16,814.5	$21,562.0
YOY Growth	*26.3%*	*27.8%*	*31.3%*	*22.5%*	*21.9%*	*25.7%*	*30.1%*	*27.9%*	*28.2%*
Cost of Services	$4,432.0	$1,230.0	$1,398.0	$1,400.0	$1,474.8	$5,502.8	$6,985.7	$8,593.7	$10,765.2
Gross Income	$3,610.0	$1,099.0	$1,151.0	$1,126.0	$1,227.3	$4,603.3	$6,158.9	$8,220.8	$10,796.8
Services Margin	*43.8%*	*46.2%*	*44.6%*	*43.6%*	*44.6%*	*45.5%*	*46.2%*	*48.4%*	*49.7%*
R&D	$725.0	$157.0	$62.0	$133.0	$151.0	$503.0	$637.0	$785.0	$718.0
% R&D	*9.0%*	*6.7%*	*2.4%*	*5.3%*	*5.6%*	*5.0%*	*4.8%*	*4.7%*	*3.3%*
SG&A	$11,525.0	$2,665.0	$2,661.0	$2,544.0	$2,628.0	$10,498.0	$11,764.4	$13,115.3	$13,670.3
% SG&A	*143.3%*	*114.4%*	*104.4%*	*100.7%*	*97.3%*	*103.9%*	*89.5%*	*78.0%*	*63.4%*
Patent amort. & royalties	$114.0	$25.0	$25.0	$25.0	$26.0	$101.0	$120.0	$110.0	$110.0
Goodwill impairment	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($8,754.0)	($1,748.0)	($1,597.0)	($1,576.0)	($1,577.7)	($6,498.7)	($6,362.5)	($5,789.5)	($3,701.5)
Operating Margin	*-108.9%*	*-75.1%*	*-62.7%*	*-62.4%*	*-58.4%*	*-64.3%*	*-48.4%*	*-34.4%*	*-17.2%*
Total Other income	$47.0	($17.0)	($15.0)	($111.0)	($15.0)	($61.0)	($100.0)	($125.0)	($150.0)
Pre-Tax Income	($8,707.0)	($1,765.0)	($1,612.0)	($1,687.0)	($1,592.7)	($6,559.7)	($6,462.5)	($5,914.5)	($3,851.5)
Taxes	$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	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	($8,707.0)	($1,765.0)	($1,612.0)	($1,687.0)	($1,592.7)	($6,559.7)	($6,462.5)	($5,914.5)	($3,851.5)
YOY Growth	*-28.7%*	*-11.6%*	*-37.5%*	*-32.9%*	*-1.5%*	*-24.7%*	*-1.5%*	*-8.5%*	*-34.9%*
Net Margin	*-108.3%*	*-75.8%*	*-63.2%*	*-66.8%*	*-58.9%*	*-64.9%*	*-49.2%*	*-35.2%*	
EPS	($11.84)	($2.24)	($1.91)	($2.00)	($1.87)	($7.88)	($4.10)	($2.43)	($1.32)
YOY Growth	*-74.5%*	*-18.1%*	*-45.5%*	*-41.5%*	*-14.8%*	*-33.5%*	*-47.9%*	*-40.7%*	*-45.8%*
Diluted Shares O/S	735	786	845	845	853	833	1,575	2,430	2,920

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