Zacks Small-Cap Research

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DiagnoCure Inc. (T.CUR)

T.CUR: *Q4 2012 Earnings*

OUTLOOK

DiagnoCure's flagship PCA3 test received FDA approval in February 2012. The test, marketed by Hologic Gen-Probe, could provide significantly greater clinical utility than the standard prostate cancer test (i.e. - PSA). PSA is infamously unreliable and, coupled with a huge unmet demand for a better prostate cancer test, provides a potentially attractive opportunity for DiagnoCure. HOLX/GPRO deal and recent USPSTF rec against PSA testing could benefit sales of Progensa, although sales have been slow to ramp. Recent issue with Signal Genetics prompted downward adjustment to our model. However, balance sheet remains healthy and our longer-term outlook remains mostly intact.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/19/2012
Current Price (01/14/2013)	$0.35
Target Price	**$1.80**

SUMMARY DATA

52-Week High	**$1.30**
52-Week Low	**$0.26**
One-Year Return (%)	**0.00**
Beta	**N/A**
Average Daily Volume (sh)	**26,225**
Shares Outstanding (mil)	**43**
Market Capitalization ($mil)	**15**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**N/A**
Dividend Yield (%)	**N/A**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**Large-Growth**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in millions of $U.S.)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2012	0.6 A	1.1 A	0.7 A	0.1 A	2.4 A
2013	0.2 E	0.2 E	0.2 E	0.3 E	0.8 E
2014					2.1 E
2015					6.5 E

Earnings per Share

	Q1	Q2	Q3	Q4	Year
2012	-$0.02 A	-$0.01 A	-$0.01 A	-$0.05 A	-$0.09 A
2013	-$0.02 E	-$0.03 E	-$0.02 E	-$0.02 E	-$0.10 E
2014					-$0.08 E
2015					-$0.01 E

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

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WHAT'S NEW....

Q4 2012 Financial Results

On January 11th DiagnoCure Inc. reported results for the fiscal fourth quarter ending October 31, 2012. Revenue of $143k was just shy of our $166k estimate. Revenue consisted of $137k (+9% yoy) in royalties from Hologic Gen-Probe (HOLX) related to Progensa PCA3 and $5.9k of royalties booked related to Previstage sales from Signal Genetics.

While Progensa royalties only came in slightly below our estimate (which we revised lower following Q3 results), they remain somewhat of a disappointment. As was the case in Q3, management points to prolonged economic weakness in Europe as the hindrance to growth of ex-U.S. sales of PCA3. Also as we noted following Q3 results, it continues to remain unclear what the issue(s) are that have apparently stunted the roll-out in the U.S. following FDA approval of the test which happened in February 2012 and Hologic's acquisition of Gen-Probe in August. We have again made some (slight) downward revisions to our forecasted sales of Progensa and the related royalty revenue to DiagnoCure.

The earnings release also notes that DiagnoCure and Signal Genetics entered into a settlement agreement relative to Previstage. The agreement calls for Signal to pay $200k and CUR will regain all rights to Previstage. CUR will write off approximately $507k in A/R that they had been carrying related to monies owed from Signal from sales royalties as well as for the R&D services contract. We note that at the end of Q3 CUR had been carrying $707k in A/R due from Signal so it appears the $200k settlement figure is essentially a carve out of that A/R balance. It's unclear to us why CUR agreed to what seems like extremely favorable terms for Signal - although CUR's press release indicates that they were motivated to mitigate any litigation expenses/risks.

With Signal now completely out of the picture CUR management noted on the call that they will pursue a marketing, sales, licensing agreement with one or more established reference labs to sell and process Previstage. As this is still on the front-end management could not provide specifics or timelines. As a reminder, given the ambiguity surrounding the future of Previstage we removed all Previstage royalties as well as R&D revenue from Signal Genetics from our model following Q3 results. Until there's more clarity on the potential future of Previstage our model will not include any contribution from the product. Meanwhile, CUR noted that they are continuing with R&D activities of Previstage development, including the VITAR studies.

Net Income, EPS
Net income and EPS came in at ($2.0) million and ($0.05) compared to our ($1.2) million and ($0.03) estimates - the difference mostly attributable to a $650k non-recurring impairment charge.

Cash balance (including investments) stood at $5.8 million at 10/31/2012, compared to $6.5 million at the end of Q3 (7/31/2012). Management indicated that 2013 full-year cash burn is expected to be $1.7 million - $2.0 million, down from approximately $3.0 million used in 2012.

Outlook Mostly Unchanged

As we had already made adjustments to our model related to the hiccup with Previstage as well as made meaningful downward revisions to our ramp in PCA3 following Q3 results and with no significant surprises in the Q4 earnings release or conference call, our financial model remains mostly unchanged from our previous update.

We look for total revenue of $820k in 2013 (all of which is PCA3 royalties), growing to $6.5 million in 2015, this is adjusted from $1.1 million in 2013 and $6.8 million in 2015. With the close of fiscal 2012, we now model out to 2016 in which we estimate revenue of $9.1 million. As we've explained in the past, long-term our outlook has always been mostly driven by an elongated ramp in PCA3 royalties so the hiccup with Previstage, even if prolonged or even permanent, has a much more muted effect on our long-term outlook and modeled revenue.

Our DCF-generated valuation remains at approximately $1.80/share, unchanged since our last update. We are maintaining our Outperform rating.

FINANCIAL MODEL

DiagnoCure Inc.

	2012 A	Q1E	Q2E	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
Royalty revenue total	**$622.2**	**$162.0**	**$186.0**	**$219.0**	**$252.0**	**$819.0**	**$2,079.0**	**$6,480.0**	**$9,120.0**
y-o-y growth	*-5.6%*	*-1.1%*	*7.4%*	*54.1%*	*76.2%*	*31.6%*	*153.8%*	*211.7%*	*40.7%*
Total other revenue	**$1,849.9**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
y-o-y growth	*216.2%*	-	-	-	-	-	-	-	-
Revenue	$2,472.0	$162.0	$186.0	$219.0	$252.0	$819.0	$2,079.0	$6,480.0	$9,120.0
y-o-y growth	*98.7%*	*-70.9%*	*-82.5%*	*-69.1%*	*76.2%*	*-66.9%*	*153.8%*	*211.7%*	*40.7%*
Cost of Goods Sold	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$41.6	$129.6	$182.4
Gross Income	$2,472.0	$162.0	$186.0	$219.0	$252.0	$819.0	$2,037.4	$6,350.4	$8,937.6
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*98.0%*	*98.0%*	*98.0%*
Total Operating Expenses	$5,562.7	$1,216.0	$1,288.0	$1,216.0	$1,283.0	$5,003.0	$5,539.0	$6,677.0	$7,680.0
% Operating Expenses	*225.0%*	*750.6%*	*692.5%*	*555.3%*	*509.1%*	*610.9%*	*266.4%*	*103.0%*	*84.2%*
Restruct/Imprmt Charges	$650.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($3,740.7)	($1,054.0)	($1,102.0)	($997.0)	($1,031.0)	($4,184.0)	($3,501.6)	($326.6)	$1,257.6
Operating Margin	*-151.3%*	*-650.6%*	*-592.5%*	*-455.3%*	*-409.1%*	*-510.9%*	*-168.4%*	*-5.0%*	*13.8%*
Financial income, net	$61.4	$0.0	$0.0	$0.0	$0.0	$0.0	($50.0)	($100.0)	($100.0)
Pre-tax Income	($3,679.3)	($1,054.0)	($1,102.0)	($997.0)	($1,031.0)	($4,184.0)	($3,551.6)	($426.6)	$1,157.6
Taxes (benefit)	($8.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*-0.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income (continuing ops)	($3,670.7)	($1,054.0)	($1,102.0)	($997.0)	($1,031.0)	($4,184.0)	($3,551.6)	($426.6)	$1,157.6
Net Margin	*-148.5%*	*-650.6%*	*-592.5%*	*-455.3%*	*-409.1%*	*-510.9%*	*-170.8%*	*-6.6%*	*12.7%*
EPS (continuing ops)	($0.09)	($0.02)	($0.03)	($0.02)	($0.02)	($0.10)	($0.08)	($0.01)	$0.02
YOY Growth	*-1.7%*	*28.9%*	*306.7%*	*62.7%*	*-48.7%*	*13.1%*	*-20.0%*	*-88.5%*	*-360.5%*
Diluted Shares O/S	43,027	43,100	43,170	43,500	43,700	43,368	46,000	48,000	50,000

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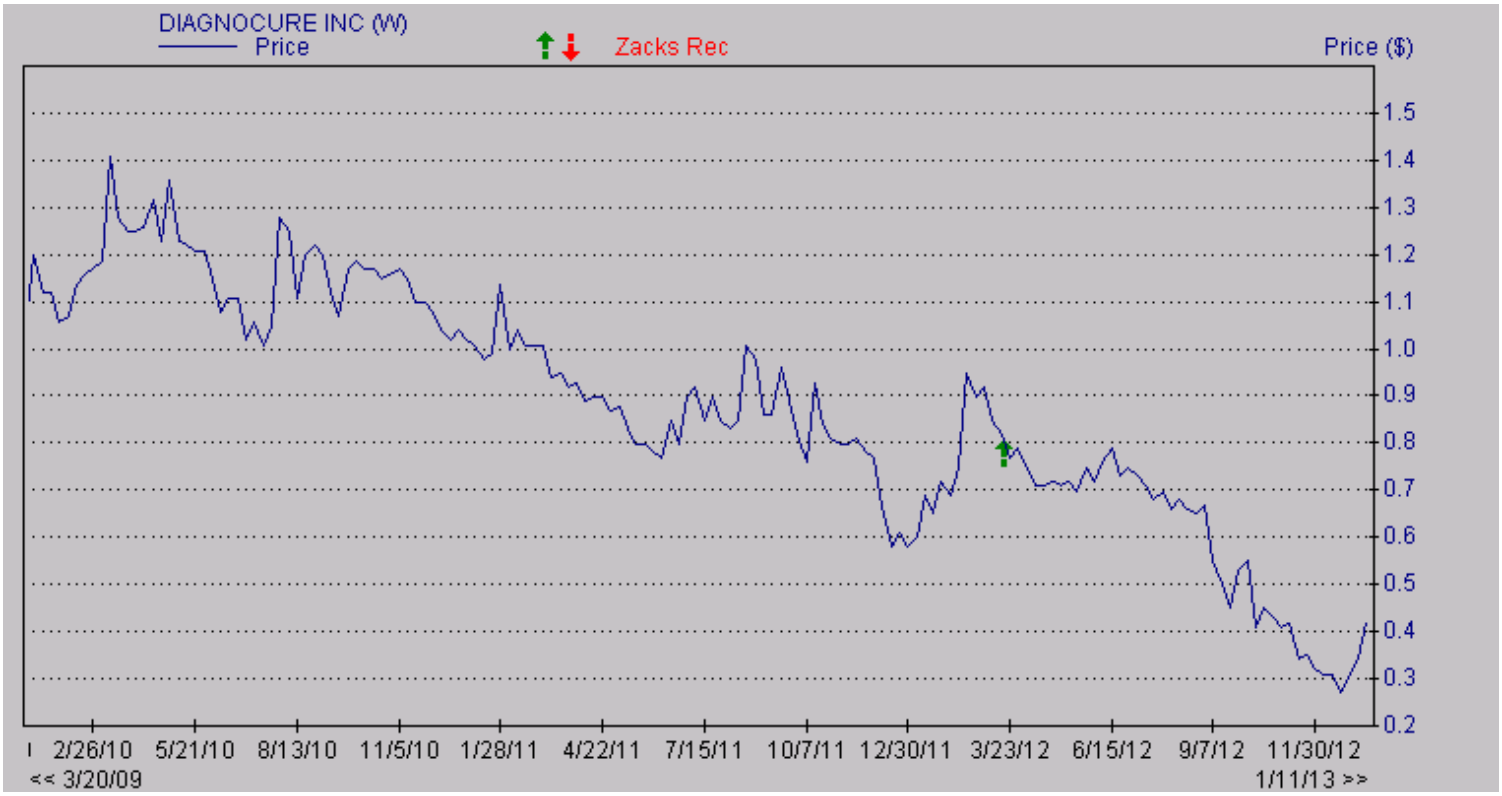

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