Zacks Small-Cap Research

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NeoGenomics Inc. (NGNM-OTC)

NGNM: Record sales reported in 2Q2012---Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/09/2011
Current Price (07/20/12)	$1.98
Twelve- Month Target Price	**$4.00**

OUTLOOK

NeoGenomics reported another quarter of record revenue of $15.6 million for 2Q2012, which is the highest in the Company's history. Sales for 2Q12 also beat our estimate.

Following the break-even in 4Q11, NeoGenomics became profitable with an EPS of $0.01 in 1Q12. 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	**$1.98**
52-Week Low	**$1.01**
One-Year Return (%)	**42.45**
Beta	**0.94**
Average Daily Volume (sh)	**50,892**
Shares Outstanding (mil)	**45**
Market Capitalization ($mil)	**$89**
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	15.6 A	15.8 E	16.0 E	62.5 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 A	$0.01 E	$0.01 E	$0.04 E
2013					$0.06 E
2014					$0.10 E

Zacks Projected EPS Growth Rate - Next 3 Years % **77**

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WHAT'S NEW

Another Strong Quarter for NeoGenomics

On July 19, NeoGenomics (NGNM) reported another quarter of record financials for fiscal 2Q12 ended June 30, 2012.

Revenue for the second quarter 2012 was $15.6 million, a 49%, increase over second quarter 2011 revenue. Test volume increased by 57%. Average cost of goods sold per test improved by 10% from last year, and resulted in gross margin improvement to 47.2% as compared to 44.5% in the second quarter of last year. As a result, gross profit increased by 58% to $7.4 million.

Total operating expenses were $6.5 million, a 37% increase from last year's second quarter, primarily as a result of higher bad debt expense and sales commissions resulting from the higher revenue, as well as increases in R&D expenditures related to new test development. Operating expenses as a percentage of revenue fell to 41.8% from 45.6% last year.

Net income for 2Q12 was $551,000, or $0.01 per share, versus a net loss of ($293,000), or ($0.01) per share, in last year's second quarter. Adjusted EBITDA increased by 300% to $1.9 million from $0.5 million last year.

Balance sheet is strong. As of June 30, 2012, the Company had cash and cash equivalents of $2.9 million with little debt. The Company also has approximately $3.8 million line of credit backed by accounts receivables.

We are pleased to see another quarter of strong financial performance by NeoGenomics. Revenue for the 2Q12 beat our estimate once again. Revenue growth rates of 49% in the second quarter and 60% on a year-to-date basis were accomplished when the Company had to redirect the focus of its sales force over the last four months to prepare clients for the expiration of the Technical Component (TC) Grandfather Clause on July 1st. The Company has also made big progress in increasing the productivity and efficiency of its lab operations. The average number of tests completed per lab employee has increased 16% and the average cost per test has decreased 9% since the end of last year.

New Products Launched

On July 18, 2012, NeoGenomics announced that it has validated and launched 20 new molecular assays thus far in 2012 and that it expects to validate another 15-20 molecular assays by the end of 2012. NeoGenomics also added over 60 immunohistochemistry (IHC) antibodies to its menu in 2012, and the Company is in the process of rolling out a new digital pathology imaging platform. These investments are beginning to fuel growth in its molecular and IHC volumes, and allowed each of these laboratories to turn profitable in the second quarter for the first time. In addition, the Company recently introduced 10-color Flow Cytometry, which makes the Company one of only a few labs to offer this service on a broad scale.

NeoGenomics also announced that it is in the process of launching a series of new NeoTYPE™ Cancer Profile Panels in conjunction with this significantly expanded molecular testing menu. These NeoTYPE™ Panels are specifically designed to detect cancer-related genetic mutations in patients that have failed their first line therapies in order to assess which additional types of treatments may be effective.

The first NeoTYPE™ Panels will provide comprehensive molecular profiles of certain solid tumor cancers, but the Company expects to offer additional NeoTYPE™ Panels for hematopoietic cancers in the future. Each NeoTYPE™ Panel will profile the molecular abnormalities in a cancer by using high

throughput, highly reliable Sanger sequencing and will use ancillary FISH testing if deemed necessary. These NeoTYPE™ Panels are specifically designed to help physicians better plan the therapeutic approach for their cancer patients as well as help determine if a patient would be a good candidate for one of the many new cancer therapeutics that are currently in clinical trials. The initial NeoTYPE™ Panels are based on sequencing combinations of the following 10 oncogenes: TP53, KRAS, NRAS, PIK3CA, BRAF, EGFR, c-KIT, IDH1, IDH2 and DNMT3A, however, additional oncogenes may be added or substituted depending on the type of cancer being targeted in each panel. The initial NeoTYPE™ Solid Tumor Profiles are:

- NeoTYPE™ Breast Tumor Profile
- NeoTYPE™ Colorectal Tumor Profile
- NeoTYPE™ Gastric Tumor Profile
- NeoTYPE™ Lung Tumor Profile
- NeoTYPE™ Solid Tumor (Other) Profile

The launch of new products is important to NeoGenomics as these new products will be growth driver and provide sustainable growth for the Company in the long run. NeoGenomics now has one of the most advanced molecular testing labs in the United States.

The TC Grandfather Clause Impact will be Limited

NeoGenomics announced previously that the Company expects the expiration of the TC Grandfather Clause to impact the Company beginning in the third quarter.

Effective as of July 1st, NeoGenomics is now required to bill hospitals for the technical component of certain tests performed on behalf of Medicare in-patients and out-patients, whereas previously the Company was allowed to bill Medicare directly for such services if they were provided to hospitals that were "grandfathered" under the regulations.

As a reminder, about 80% of NeoGenomics' lab tests are billed off the physician fee schedule with the remainder billed off the clinical lab fee schedule. Lab tests billed off the physician fee schedule usually have two separable billing components: the **technical component** consisting of sample treatment and testing, and the **professional component** for interpretation of the test results.

Due to the TC Grandfather Clause impact, NeoGenomics expects a 5-8% reduction in its overall average unit price per test as a result of this regulatory change. This will have some negative impact for the revenue growth. But due to the test volume growth each quarter, the price reduction will be offset by the test volume increase. Therefore, the Company is re-affirming its previously issued full year revenue guidance of $57-63 million for FY 2012.

Summary of Quarterly Performance

($, 000's)	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Total Revenue	**8,490**	**8,708**	**8,755**	**8,805**	**10,466**	**11,320**	**12,893**	**15,160**	**15,611**
% Growth	13.8%	19.3%	12.3%	4.6%	23.3%	30.0%	47.3%	72.2%	49.2%
Gross Margin	**46.1%**	**44.7%**	**44.6%**	**43.9%**	**44.5%**	**44.8%**	**45.2%**	**47.1%**	**47.2%**
SG&A as a % of Revenue	55.5%	56.3%	51.0%	52.0%	45.6%	44.5%	42.3%	38.2%	38.4%
Net Income (Loss)	**($978.0)**	**($1,198.0)**	**($377.0)**	**($893.0)**	**($293.0)**	**($143.0)**	**$152.0**	**$603.0**	**$839.0**
Diluted EPS	($0.03)	($0.03)	($0.01)	($0.02)	($0.01)	($0.00)	$0.00	$0.01	$0.01
Adjusted EBITDA	($149.0)	($398.0)	($97.0)	$29.0	$483.0	$693.0	$1,055.0	$1,775.0	$1,943.0
Test Volume	**14,464**	**14,477**	**14,349**	**15,396**	**18,358**	**19,978**	**22,557**	**26,932**	**28,846**
% Growth	27.8%	29.4%	12.9%	9.6%	26.9%	38.0%	57.2%	74.9%	57.1%
Average Price/Test	587.00	602.00	610.00	572.00	570.00	567.00	571.59	562.89	541.20
% Growth	-10.9%	-7.7%	-0.5%	-4.7%	-2.9%	-5.8%	-6.3%	-1.6%	-5.1%

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	61,071	75,000	94,500	120,000
% Growth	78.0%	74.0%	47.2%	16.6%	26.5%	40.4%	22.8%	26.0%	27.0%
Gross Margin	52.0%	53.3%	51.6%	45.9%	44.7%	46.2%	47.2%	47.5%	49.5%
SG&A as a % of Revenue	79.3%	57.7%	57.5%	54.5%	45.6%	38.9%	38.7%	37.6%	35.0%
Net Income (Loss)	(3,380.0)	(1,383.0)	(2,243.0)	(3,303.0)	(1,177.0)	1,334.0	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	2,834.0	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%

VALUATION AND RECOMMENDATION

We maintain our Outperform rating on NeoGenomics (NGNM) and our 12-month price target is $4.0 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 had 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 $2.9 million in cash as of June 30, 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 $1.98 per share which values the Company at $89 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 30 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 $4.0 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.

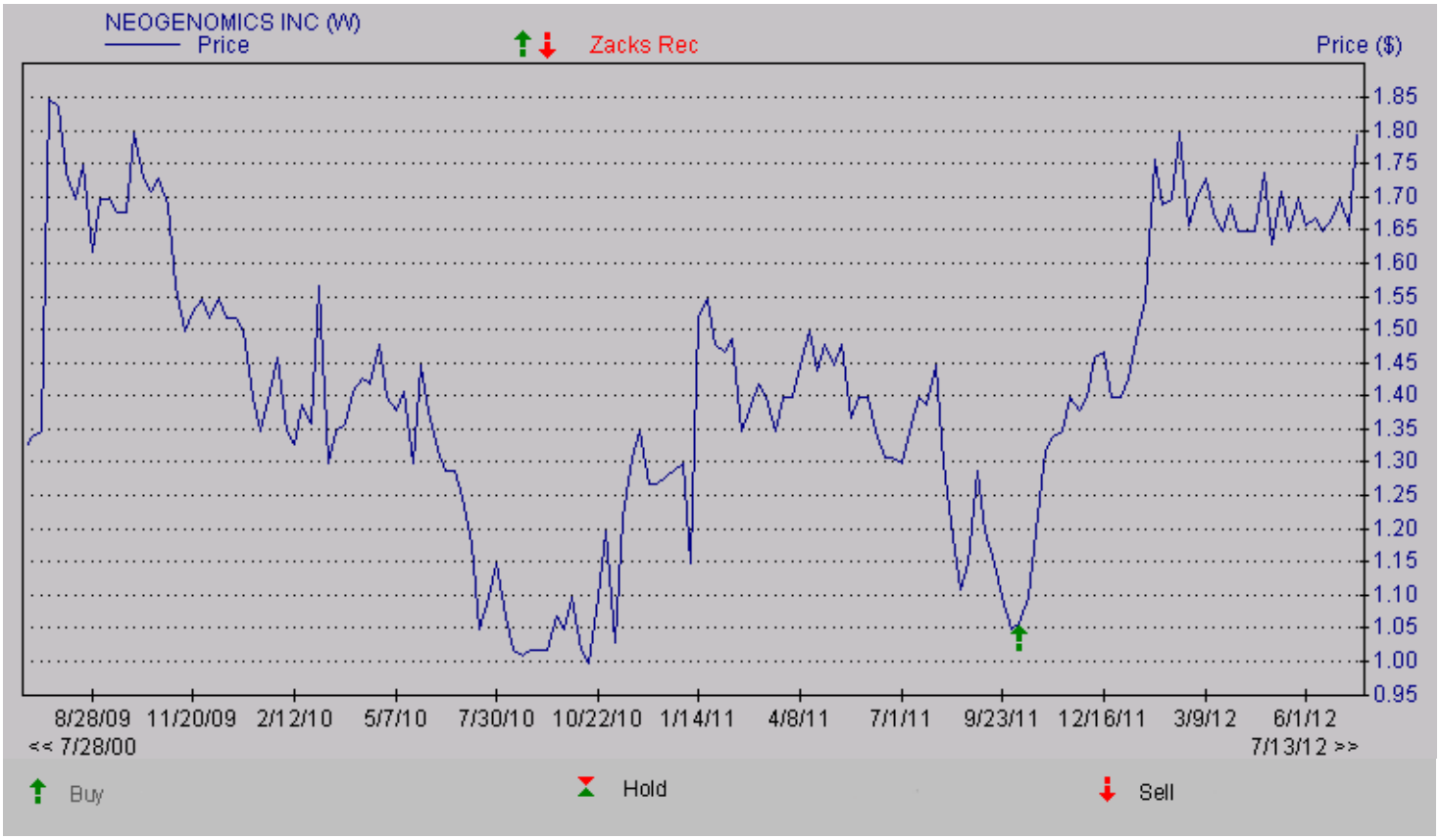
PROJECTED INCOME STATEMENT

	2009A (Dec)	2010A (Dec)	2011A (Dec)					2012E (Dec)					2013E (Dec)	2014E (Dec)	2015E (Dec)
$ in million except per share data	FYA	FYA	Q1	Q2	Q3	Q4	FYA	Q1	Q2	Q3E	Q4E	FYE	FYE	FYE	FYE
Total Revenues	**$29.47**	**$34.37**	**$8.81**	**$10.47**	**$11.32**	**$12.89**	**$43.48**	**$15.16**	**$15.61**	**$14.50**	**$15.80**	**$61.07**	**$75.00**	**$94.50**	**$120.00**
YOY Growth	-	16.6%	4.6%	23.3%	30.0%	47.3%	26.5%	72.2%	49.2%	28.1%	22.5%	40.4%	22.8%	26.0%	27.0%
CoGS	14.25	18.59	4.94	5.81	6.25	7.06	24.06	8.02	8.24	8.35	8.27	32.88	39.60	49.61	60.60
Gross Income	**$15.22**	**$15.78**	**$3.87**	**$4.66**	**$5.07**	**$5.83**	**$19.43**	**$7.14**	**$7.37**	**$6.15**	**$7.53**	**$28.19**	**$35.40**	**$44.89**	**$59.40**
Gross Margin	51.6%	45.9%	43.9%	44.5%	44.8%	45.2%	44.7%	47.1%	47.2%	42.4%	47.7%	46.2%	47.2%	47.5%	49.5%
SG&A	$16.94	$18.75	$4.58	$4.77	$5.03	$5.46	$19.84	$5.79	$6.00	$5.50	$6.50	$23.79	$29.00	$35.50	$42.00
% SG&A	57.5%	54.5%	52.0%	45.6%	44.5%	42.3%	45.6%	38.2%	38.4%	37.9%	41.1%	38.9%	38.7%	37.6%	35.0%
R&D	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.50	$0.53	$0.55	$0.55	$2.13	$2.30	$3.00	$3.50
% Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($1.7)**	**($3.0)**	**($0.7)**	**($0.1)**	**$0.0**	**$0.4**	**($0.4)**	**$0.9**	**$0.8**	**$0.1**	**$0.5**	**$2.3**	**$4.1**	**$6.4**	**$13.9**
Operating Margin	-	-	-	-	0.4%	2.9%	-0.9%	5.7%	5.4%	0.7%	3.0%	3.7%	5.5%	6.8%	11.6%
Other Net	($0.5)	($0.3)	($0.2)	($0.2)	($0.2)	($0.2)	($0.8)	($0.3)	($0.3)	($0.2)	($0.2)	($0.9)	($1.0)	($0.8)	($0.5)
Pre-Tax Income	**($2.2)**	**($3.3)**	**($0.9)**	**($0.3)**	**($0.1)**	**$0.2**	**($1.2)**	**$0.6**	**$0.6**	**($0.1)**	**$0.3**	**$1.3**	**$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	$0.0	$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%	0.0%	0.0%	1.5%
Reported Net Income	**($2.2)**	**($3.3)**	**($0.9)**	**($0.3)**	**($0.1)**	**$0.2**	**($1.2)**	**$0.6**	**$0.6**	**($0.1)**	**$0.3**	**$1.3**	**$3.1**	**$5.6**	**$13.2**
YOY Growth	-	-	-	-	-	-	-64.4%	-	-	-	84.2%	-	132.4%	80.2%	136.2%
Net Margin	-	-	-	-	-	1.2%	-2.7%	4.0%	3.5%	-0.7%	1.8%	2.2%	4.1%	5.9%	11.0%
Diluted Shares Out	34.6	37.3	41.7	42.9	43.1	45.3	43.2	47.4	47.7	48.0	48.5	47.9	50.0	55.0	60.0
Reported EPS	**($0.06)**	**($0.09)**	**($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*	*$0.00*	*$0.00*
Non GAAP Net Income	**($2.2)**	**($3.3)**	**($0.9)**	**($0.3)**	**($0.1)**	**$0.2**	**($1.2)**	**$0.6**	**$0.6**	**($0.1)**	**$0.3**	**$1.3**	**$3.1**	**$5.6**	**$13.2**
Non GAAP EPS	**($0.06)**	**($0.09)**	**($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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