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Zacks Small-Cap Research

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CombiMatrix Cp (CBMX-NASDAQ)

CBMX: 3rd Ruling in CBMX Favor, Reinforces Our Conviction of Overblown Risks

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/07/2014
Current Price (03/12/15)	$1.99
Target Price	**$3.50**

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, entering into key partnerships and leveraging competitive advantages. Early indications are that this plan is already bearing fruit.

SUMMARY DATA

52-Week High	**$3.50**
52-Week Low	**$1.09**
One-Year Return (%)	**-34.75**
Beta	**0.04**
Average Daily Volume (sh)	**155,937**
Shares Outstanding (mil)	**13**
Market Capitalization ($mil)	**$25**
Short Interest Ratio (days)	**2.94**
Institutional Ownership (%)	**14**
Insider Ownership (%)	**2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**15.5**
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	**Above Avg.,**
Type of Stock	**Small-Blend**
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	2,430 E	2,497 E	2,807 E	3,171 E	10,905 E
2016					16,331 E
2017					22,135 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.18 A	-$0.23 A	-$0.23 A	-$0.15 A	-$0.79 A
2015	-$0.14 E	-$0.14 E	-$0.14 E	-$0.12 E	-$0.54 E
2016					-$0.23 E
2017					-$0.17 E

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

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WHAT'S NEW….

This morning (March 12) CombinMatrix announced that the Superior Court of California has issued a final decision in favor of CombiMatrix (and the two other defendants named in the lawsuit) and against plaintiff, Michael Strathman, a former employee of the company.

As a reminder, Strathman filed the lawsuit in early 2011, claiming CombiMatrix filed false insurance claims related to a prior lawsuit. The lawsuit was dismissed by the court later in 2011. An appeals court reversed this decision in late 2012 and the case was then remanded to the Superior Court of California.

The lawsuit has hung over CombiMatrix like a dark cloud given the ambiguity of potential damages if the company came out on the losing end. Court documents suggested that damages could be as much as $75 million. This, in our opinion, has been kept the share price from appreciating towards what we believe is fair value, approximately $3.50.

Strathman filed an amended complaint and, following an unsuccessful motion by CBMX for the court to rule in their favor without a trial, on January 6, 2015 the Superior Court issued a tentative ruling in favor of CombiMatrix and against all claims of Michael Strathman. The court specifically determined that the defendants had no fraudulent intent. Plaintiff subsequently filed an objection to the ruling.

Following the Jan 6, 2015 ruling in CBMX's favor we noted that, while there was still the possibility for an eventual successful appeal by plaintiff, that we believed that given that Strathman had at that point lost twice, that any potential adverse outcomes from this lawsuit had been significantly diminished.

While plaintiff can still appeal (within 60 days) this latest ruling, this morning's news that Strathman has now lost for a third time further reinforces our conviction that risks related to this lawsuit have been overblown.

We are maintaining our Outperform recommendation and $3.50 per share price target.

FINANCIAL MODEL

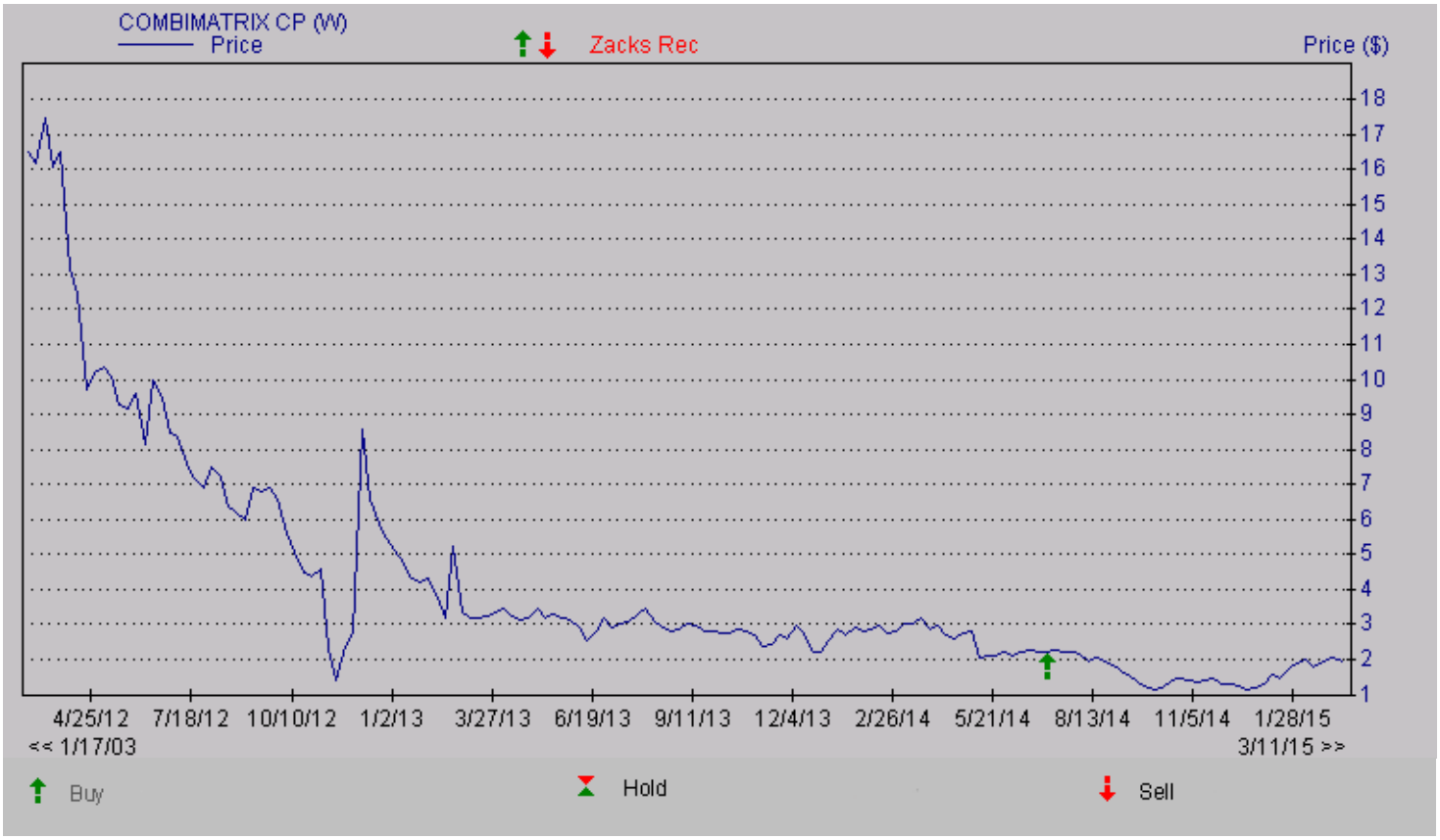
CombiMatrix Corporation

	2014 A	Q1E	Q2E	Q3E	Q4E	2015 E	2016 E	2017 E	2018 E
Prenatal microarrays	$5,072	$1,589	$1,748	$2,112	$2,442	$7,891	$13,759	$19,541	$27,130
YOY Growth	*42.8%*	*41.6%*	*43.2%*	*60.9%*	*72.5%*	*55.59%*	*74.36%*	*42.02%*	*38.84%*
All microarrays	$7,318	$2,246	$2,313	$2,619	$2,995	$10,173	$15,871	$21,675	$29,264
YOY Growth	*26.1%*	*31.0%*	*29.2%*	*42.6%*	*51.5%*	*39.02%*	*56.00%*	*36.57%*	*35.01%*
Non-microarrays	$575	$144	$144	$147	$136	$572	$300	$300	$300
YOY Growth	*42.6%*	*89.4%*	*24.4%*	*-15.4%*	*-34.9%*	*-0.61%*	*-47.51%*	*0.00%*	*0.00%*
Total	**$7,893**	**$2,390**	**$2,457**	**$2,767**	**$3,131**	**$10,745**	**$16,171**	**$21,975**	**$29,564**
YOY Growth	*27.2%*	*33.5%*	*28.9%*	*37.6%*	*43.2%*	*36.13%*	*50.50%*	*35.89%*	*34.54%*
Diagnostic Svcs	$7,893.0	$2,390.1	$2,457.2	$2,766.6	$3,131.1	$10,745.0	$16,171.1	$21,974.8	$29,564.2
YOY Growth	*27.2%*	*33.5%*	*28.9%*	*37.6%*	*43.2%*	*36.13%*	*50.50%*	*35.89%*	*34.54%*
Royalties	$149.0	$40.0	$40.0	$40.0	$40.0	$160.0	$160.0	$160.0	$160.0
YOY Growth	*-8.6%*	*25.0%*	*14.3%*	*-21.6%*	*29.0%*	*7.38%*	*0.0%*	*0.0%*	*0.0%*
Total Revenues	$8,042.0	$2,430.1	$2,497.2	$2,806.6	$3,171.1	$10,905.0	$16,331.1	$22,134.8	$29,724.2
YOY Growth	*26.3%*	*33.4%*	*28.7%*	*36.1%*	*43.0%*	*35.6%*	*49.8%*	*35.5%*	*34.3%*
Cost of Services	$4,432.0	$1,362.4	$1,412.9	$1,604.6	$1,775.3	$6,155.2	$8,619.2	$11,185.2	$14,368.2
Gross Income	$3,610.0	$1,067.7	$1,084.3	$1,202.0	$1,395.8	$4,749.8	$7,711.9	$10,949.6	$15,356.0
Services Margin	*43.8%*	*43.0%*	*42.5%*	*42.0%*	*43.3%*	*43.6%*	*46.7%*	*49.1%*	*51.4%*
R&D	$725.0	$194.0	$201.0	$194.0	$187.0	$776.0	$918.0	$971.0	$888.0
% R&D	*9.0%*	*8.0%*	*8.0%*	*6.9%*	*5.9%*	*7.1%*	*5.6%*	*4.4%*	*3.0%*
SG&A	$11,525.0	$2,520.0	$2,710.0	$2,756.0	$2,767.0	$10,737.0	$12,476.9	$14,299.1	$16,794.2
% SG&A	*143.3%*	*103.7%*	*108.5%*	*98.2%*	*87.3%*	*98.5%*	*76.4%*	*64.6%*	*56.5%*
Patent amort. & royalties	$114.0	$26.0	$26.0	$26.0	$26.0	$104.0	$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)	($1,612.3)	($1,792.7)	($1,716.0)	($1,746.2)	($6,867.2)	($5,803.0)	($4,430.5)	($2,436.2)
Operating Margin	*-108.9%*	*-66.3%*	*-71.8%*	*-61.1%*	*-55.1%*	*-63.0%*	*-35.5%*	*-20.0%*	*-8.2%*
Total Other income	$47.0	($25.0)	($10.0)	($15.0)	($20.0)	($70.0)	($150.0)	($175.0)	($150.0)
Pre-Tax Income	($8,707.0)	($1,637.3)	($1,802.7)	($1,731.0)	($1,766.2)	($6,937.2)	($5,953.0)	($4,605.5)	($2,586.2)
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	$33	$0	$33	$0	$0	$0
Net Income	($8,707.0)	($1,637.3)	($1,802.7)	($1,764.0)	($1,766.2)	($6,970.2)	($5,953.0)	($4,605.5)	($2,586.2)
YOY Growth	*-28.7%*	*-18.0%*	*-30.1%*	*-29.9%*	*9.2%*	*-19.9%*	*-14.6%*	*-22.6%*	*-43.8%*
Net Margin	*-108.3%*	*-67.4%*	*-72.2%*	*-62.9%*	*-55.7%*	*-63.9%*	*-36.5%*	*-20.8%*	
EPS	($0.79)	($0.14)	($0.14)	($0.14)	($0.12)	($0.54)	($0.32)	($0.17)	($0.09)
YOY Growth	*-74.5%*	*-24.2%*	*-39.1%*	*-38.9%*	*-17.8%*	*-32.0%*	*-40.8%*	*-47.2%*	*-43.8%*
Diluted Shares O/S	11,029	11,830	12,700	12,700	14,700	12,983	18,742	27,446	27,446

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