Zacks Small-Cap Research

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Corgenix Medical (CONX-OTCQB)

CONX: *2014 Record Revenue Guidance Reiterated*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (05/19/14)	$0.32
Target Price	**$0.60**

OUTLOOK

CONX posted revenue growth of 17% in 2012 and 10% in 2013. Despite weakness in international sales, we think they can turn in another record revenue year in 2014. International sales expected to remain soft for next couple of quarters but several catalysts expected to return this business back to growth - this includes additional roll-out of AspirinWorks in China and European launches of TxBCardio and initial AtherOx test. Meanwhile, domestic revenue should benefit from strong contract businesses, AspirinWorks and new potential launches including ELISA HA test, an AtherOx product and TxBCardio. Collaboration agreements on companion diagnostics is opening up another high potential revenue channel. Widening of gross margins and additional operating leverage is expected to push even more revenue to the bottom line. Balance sheet remains very healthy.

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	**$0.44**
52-Week Low	**$0.10**
One-Year Return (%)	**46.09**
Beta	**1.07**
Average Daily Volume (sh)	**106,448**
Shares Outstanding (mil)	**56**
Market Capitalization ($mil)	**$18**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**9**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**7.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**32.0**
P/E using 2014 Estimate	**32.0**
P/E using 2015 Estimate	**32.0**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2013	$2,821 A	$2,478 A	$2,495 A	$2,393 A	$10,188 A
2014	$2,878 A	$2,712 A	$2,451 A	$2,992 E	$11,032 E
2015					$12,186 E
2016					$13,715 E

Earnings per Share

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2013	$0.00 A	$0.00 A	$0.00 A	-$0.00 A	$0.01 A
2014	$0.00 A	$0.00 A	$0.00 A	$0.00 E	$0.01 E
2015					$0.01 E
2016					$0.02 E

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

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Q3 2014 Financial Results: Int'l sales remain soft. Guidance of record total revenue for full-year intact..

Corgenix reported financial results for the fiscal third quarter ending March 31, 2013. Revenue was somewhat disappointing and below our estimate, with international sales remaining relatively weak. North American sales were roughly flat and benefitted from a very strong showing in contract R&D revenue. The relative softness in the top line did not translate into equally weak net income, however, as continued focus on expense management and absorption of much of R&D expense by grant revenue helped CONX turn in another profitable quarter. And while management's outlook for the international business is tepid over at least the next couple of quarters (until certain catalysts are expected to make a positive impact), the company continues to expect fiscal 2014 (ending June 30) to set another record in revenue and income.

We now model full-year revenue growth of 8%. Importantly, gross margins continue to improve - partly a result of higher sales volumes and partly from improvement to manufacturing processes. GM have widened from 42.4% in fiscal 2012 to 44.8% in 2013 (with some of this improvement also likely a result of significantly greater services-related revenue) and a 46.9% average through the first six nine months of fiscal 2014. Management noted on the call that they expect further improvement in GM.

We now model 2014 full-year revenue of $11.0M, net income of $596k (vs. $275k in 2013) and EPS of $0.01 (vs. $0.01 in 2013). We are maintaining our Outperform rating. Our price target is $0.60/share.

Revenue
Q3 revenue of $42.5M was down 2% (down 10% sequentially) and was about 14% lower than our estimate. However, for the nine months ending 3/31/2014 revenue was $8.0M, up 3% from $7.8M in the year-earlier comparable period and still an all-time record.

For Q3, every reporting category missed our respective revenue estimates except contract R&D which exhibited 174% yoy revenue growth. AspirinWorks, while below our estimate, remained fairly strong - posting growth of 21% in Q3. As noted, international sales continue to be soft and will likely remain that way through the end of fiscal 2014. However, the relatively anemic domestic revenue (which posted 10% growth in 2013 and was up 8% in the first nine months of the current fiscal year) may be more timing-related than representative in fundamental weakness. In fact management indicated on the call that domestic revenue should benefit in Q4 from an uptick in contract R&D, contract manufacturing and AspirinWorks sales.

Our revenue model for the full-year 2014 assumes AspirinWorks sales increase by about ~25% - with almost all of this growth coming from the U.S. market. Going forward, we expect to see a greater contribution from China for the current ELISA version as additional provincial approvals/reimbursements come online - which recently happened in Beijing and which could be in place in other provinces, including Shanghai, in the near term. Meanwhile the automated version, which will be marketed as TxBCardio, just received initial CE Marking. CONX will look to expand CE Mark to include use on EliTech's instruments - while not expected to happen prior to fiscal 2014 year-end, once completed this should facilitate additional growth of the AspirinWorks products. The automated version could also be on the U.S. market - potentially in fiscal 2015. TxBCardio was filed with FDA for 510(k) clearance in mid-December - on the Q3 call management noted that the agency has since requested additional information which the company is working to put together.

Contract manufacturing, which had been the most consistent driver of CONX's top-line over the previous 18 months, saw revenue drop almost 70% on both a yoy and sequential basis in Q3. However, contract manufacturing revenue can swing widely from q-to-q and indications are that the Q3 weakness is largely timing related. We look for contract manufacturing to return to growth in Q4 as the business continues to benefit from the recent agreement with diaDexus to manufacture that company's cardiovascular PLAC test as well as CONX's ongoing relationship with BG Medicine. We think contract manufacturing will continue to be a significant driver of total revenue beyond 2014 as CONX continues to aggressively market this business and scores additional customers.

Geographically, international sales were down 11% yoy and -42% sequentially. Management noted that revenue from legacy products remained soft which is the reason behind the expectation that international sales will continue to fall through the end of the current fiscal year and potentially into early 2015. However, several catalysts, including the launch of TxBCardio (particularly if and when CE Marked for EliTech's instruments) and AtherOx tests

in Europe and a greater rate of sales of ELISA AspirinWorks in China with additional provincial approvals, are expected to eventually turn international sales back to positive growth. We continue to look for international sales to return to growth in 2015. Meanwhile, domestic sales fell 1% - again, we think the contraction in North American sales is more timing than fundamental weakness related.

GM / Operating Expenses / Net Income
GM remains very healthy which has benefitted from higher production volumes along with management's efforts to control costs and improve processes. The beefy gross margins and near-stable operating expenses has pushed more sales down the income statement and has resulted in the improved earnings and cash generation.

Gross margin improvement was fairly consistent throughout fiscal 2013 (Q1: 42.6%, Q2: 43.1%, Q3: 47%, Q4: 46.8%) and ended the year at 44.8%, compared to 42.4% in 2012. That strength has continued into the current year with GM coming in at 46.3% in Q1, 48.6% in Q2 and 46.0% in Q3. Through the first nine months of fiscal 2014, gross margin has averaged 47.0%, compared to 44.2% in the year-earlier comparable period. Perhaps most importantly, product margins are driving the overall increase in gross margins. Product margins were 45.5% in 2012, 46.9% in 2013 and have averaged 50.0% through the first nine months of fiscal 2014 (compared to 46.6% in the first nine months of 2013).

Operating expenses as a % of revenue have also shown meaningful improvement, falling from 43.4% in 2012 to just 41.9% in 2013. Through the first 9 months of 2014 this remained at a respectable 42.6%. We continue to look for increasing operating leverage as a result of a combination of growing revenue and realized benefits of CONX's ongoing focus on cost control and implementation of efficiency measures.

Q3 net income and EPS were $61k and $0.00, compared to our $109k and $0.00 estimates. We currently model 2014 revenue of $11.0 million (+8%). We estimate 2014 net income and EPS of $482k and $0.01.

Cash
The company's cash position remains very healthy. Importantly, CONX is now generating positive operating cash flow (ex-changes in w/c - which we believe is the best representation of operational health). CONX exited Q3 with $2.7M in cash and equivalents, up from $2.0 million at the end of Q1. Q3 cash flow from operating activities was an inflow of $802k - excluding changes in working capital, this was an inflow of $175k. Through the first nine months of fiscal 2014, cash flow from operations was an inflow of $679k - excluding changes in working capital, this was an inflow of $627k. The balance sheet remains very healthy.

Operational Update / Upcoming Milestones

> In October 2013 CONX announced an agreement with Health Diagnostic Laboratory Inc (HDL) whereby HDL will use the AtherOx technology to develop a Laboratory Developed Test (LDT). Term of the agreement is 3 years, CONX retains ownership of the technology, CONX will supply reagents for the test and will be paid based on number of tests (although specific per-unit pricing wasn't disclosed). Management expects significant revenue from this HDL collaboration and expects to see some contribution in fiscal Q4. CONX will also continue to develop the AtherOx technology on their own and outside of this relationship

> In May 2013 CONX announced agreement with Eli Lilly (LLY) for development of companion diagnostic related to LLY's oncology platform. In December CONX announced launch of the product - a Research-Use-Only Hepcidin ELISA test - at the American Society of Hematology meeting. The test is based on technology developed by LLY. The test measures serum concentrations of Hepcidin - which is a valuable marker in research of cancer and other chronic diseases. CONX recently noted a renewed focus on companion diagnostics - this deal with LLY is the initial major foray via a strategic partnership. Companion diagnostics could eventually become a meaningful part of the overall business. CONX also noted that this initial collaboration with LLY was positive for both parties, which potentially opens the door for further joint work down the road. On Q3 call, management noted they are seeing potential interest from other pharma companies in potential companion diagnostic partnerships

> In July 2013 CONX announced contract manufacturing agreement with EDP Biotech for that company's ColoMarker blood-based colorectal cancer test. EDP website indicates the test could be CE Marked in near-term. We think this could also potentially contribute to contract manufacturing revenue during the current year, although currently unclear as to how meaningful a revenue opportunity this is, particularly as the test is not currently FDA approved.

> Expanding the capabilities of the contract manufacturing and services business in order to bring in additional contracts and customers is a high priority for CONX. These efforts are clearly already paying off. We anticipate additional customer wins over the near-to-mid term.

> Continue progress on development and clinical trials of infectious disease products with collaboration partners including Tulane University. Lassa virus rapid test CE Marked in May. Lassa test is now commercialized in West Africa where it is being sold to that region as well as U.S. aid agencies. CONX now working on next-gen Lassa test for use in Nigeria - a significant market for Lassa fever - test will need to be modified for Nigeria due to different viral strains in that region. Nigeria Lassa test could be CE Marked and launched in fiscal 2015. Expect to bring other infectious disease products to market in near future and are now looking at Ebola virus test

> 510k submission to FDA for ELISA Hyaluronic Acid (HA) test was made in November. FDA approval could come within ~12 months. FDA clearance would significantly expand the market for the test as currently commercialized version is Research-Use-Only - FDA clearance would allow sales to clinical market for patient diagnosis. Mgmt noted on Q3 call that FDA has responded with questions - for which CONX is in process of putting a response together. Management does not currently have a timeline for potential clearance. We view this as a high potential product given that it will be the only FDA cleared HA test on the market - we continue to model this to make a small contribution to revenue beginning in late fiscal 2015 and a more material contribution beginning in fiscal 2016.

> Automated AspirinWorks Test (TxBCardio): FDA 510(k) application submitted in mid-December with initial data supporting use of the test. FDA requesting additional information - CONX putting response together and still hopes to have FDA clearance this year. CONX expects to make add'l FDA filings to support other indications. Initial CE Mark was granted in May 2014 - follow-on CE filings also expected to broaden label and in order to run the test on additional instruments, including EliTech's. Once on EliTech's instruments, we think TxBCardio will generate meaningful revenue.

> 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. Recent game-plan was to begin add'l studies in support of FDA filing but deal with HDL to commercialize part of AtherOx technology has pushed back U.S. commercialization timelines for CONX's own AtherOx product. Current plan is to complete studies in Europe to support CE Mark submission - hope to have trials completed in Q4 2014, CE Mark shortly afterwards and then launch in Europe. Will then turn attention to clinical trials in U.S. in support of FDA approval. We think best case scenario is the product is FDA cleared in early fiscal 2016. Management remains committed to the product and believes it could eventually be their biggest product ever.

> Expect regular flow of regulatory filings for new products as well as new product launches. Much of this will be related to ELITech agreement.

> 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. AspirinWorks roll-out in China has been and will continue to be methodical and preceded by gaining requisite approvals/reimbursement in designated area of the country. Beijing approval recently happened - other provincial approvals including in Shanghai could happen in near-term. We expect China-related sales to be a more substantial overall contributor to AspirinWorks sales in fiscal 2015.

> 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. Skylab and AspirinWorks remains the company's major focus for the U.S. Direct sales efforts, clinical studies and published manuscripts should help drive further awareness of AspirinWorks over the near-to-mid-term.

Maintaining Outlook

CONX turned in another record year in fiscal 2013 with revenue up 10% and turned in positive net income and cash flow. This was despite delays in certain regulatory approvals and product launches that had been expected to make a contribution during the year but which have been pushed back - some of which we think could happen in late fiscal 2014 or in fiscal 2015. While we had expected new product launches and approvals to benefit 2014, current fiscal year revenue has largely been driven by the ELISA (legacy) AspirinWorks test, contract manufacturing and contract R&D. Despite these anticipated new product launches being pushed back further - and now into 2015, CONX should still turn in another record year with 2014 revenue expected to be up at least 8% over 2013.

These new product introductions, along with anticipated continued growth from the likes of AspirinWorks, an expanded presence internationally including in China and newly consummated contract manufacturing and services

agreements (including those with EDP Biotech and Eli Lilly) will now hopefully catalyze fiscal 2015 sales. International sales, which have suffered from erosion of legacy products sales should be a direct beneficiary of several of the expected new product introductions.

Management also expects to see a near-term contribution from the recently penned agreement with Health Diagnostic Laboratory and believes this could eventually generate significant revenues for CONX. Management has also made clear that they intend to continue to be focused on controlling operating expenses and ongoing process improvements which has already benefited gross and operating margins.

We think top-line growth and bigger operating margins can result in net income increasing by ~75% in 2014. We also believe fiscal 2015 has potential to be a double-digit revenue growth year for the company as new product launches, some of which are anticipated to happen in late-2014/early-2015, begin to make a positive impact to the income statement.

We currently model 2014 revenue, net income and EPS of $11.0 million (+8%), $587k (+75%) and $0.01. We remain big believers in Corgenix and management's ability to deliver ever-improving financial results and build long-term shareholder value.

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 $11.0 million (+8%) in revenue in fiscal 2014 and look for this to grow at a CAGR of about 12% through 2017, reflecting North America and International annual revenue growth of approximately 11% and 16%, respectively.

Income / EPS
We model net income and EPS of approximately $482k and $0.01 in 2014, compared to $279k and $0.01 in 2013. This reflects our ~8% estimated growth in revenue, ~190 basis point widening of GM and some leverage in operating expenses.

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 2017.

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-2017 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, which is down from $0.70 since our last update (2/14/2014) - we note the decrease in calculated value has to do with contraction in values of the comparable companies and not with the fundamentals or our outlook for CONX. Based on CONX's current market price of approximately $0.32/share, the stock remains significantly undervalued. As such, we continue to recommend accumulating the stock and are maintaining our Outperform rating on Corgenix. Our per share price target has moved to $0.60.

Ticker	Est Long-term EPS growth	Implied 2017 P/E	Price / Book Value	Price / Sales (ttm)	EV / Sales (ttm)
ERB	NA	NA	3.9	2.5	2.4
DIA.MI	5.7%	13.9	NA	NA	3.4
OSUR	NA	NA	2.2	3.3	2.5
TRIB	15.7%	13.8	2.9	5.7	5.5
CEMI	12.0%	14.1	1.5	1.0	0.7
IDXX	NA	NA	12.7	4.6	4.8
VIVO	11.0%	14.6	5.3	4.4	4.2
QDEL	NA	NA	3.2	4.5	4.4
ABAX	15.5%	24.1	5.0	5.7	5.1
Average	**12.1%**	**16.8**	**4.6**	**4.0**	**3.7**

	Value using 2017 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	$0.51	$0.50	$0.75	$37.31	$0.71	**$0.62**

FINANCIAL MODEL

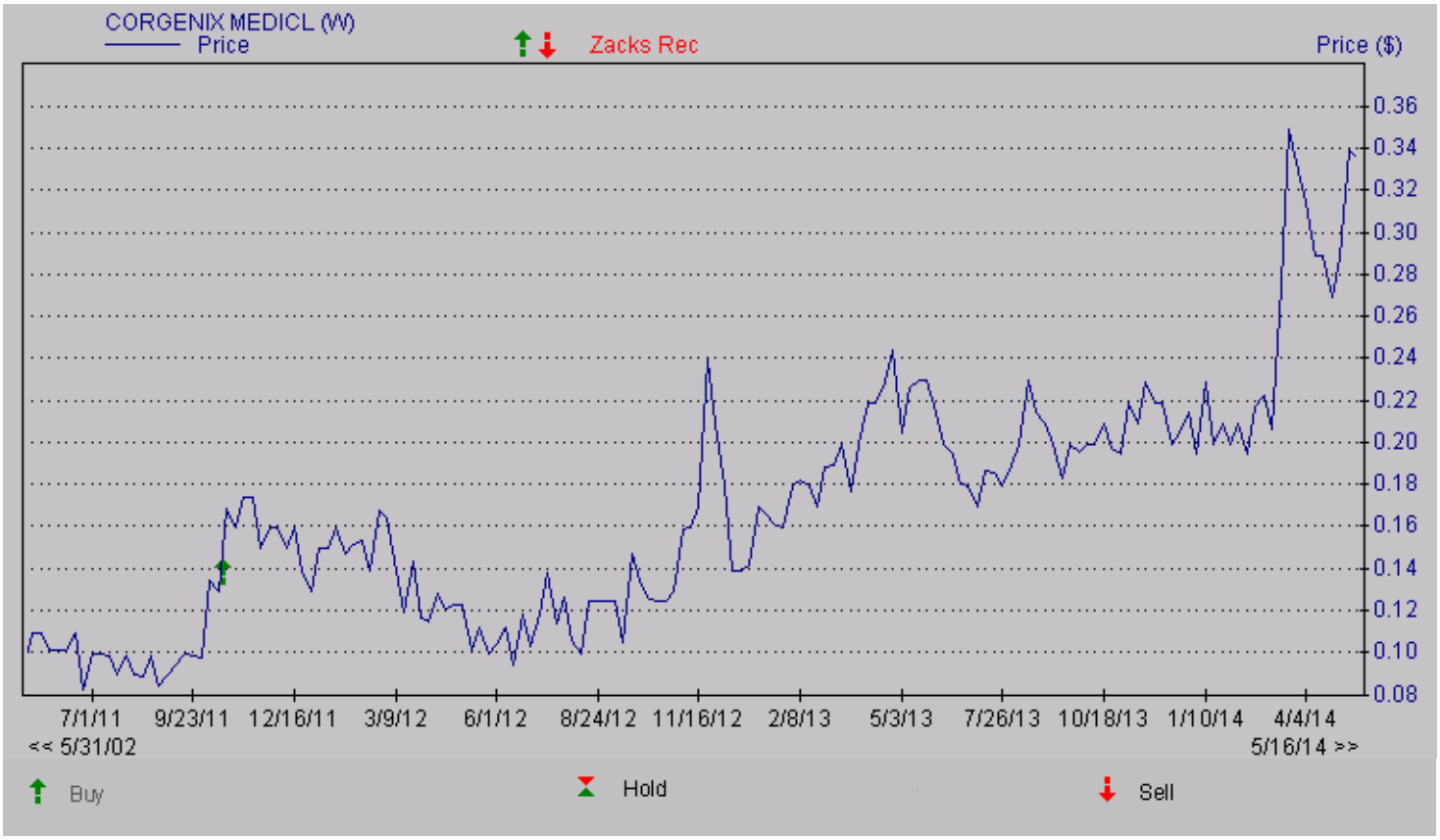
Corgenix Medical Corporation

	2013 A	Q1A	Q2A	Q3A	Q4E	2014 E	2015 E	2016 E	2017 E
North America sales	$8,898.0	$2,720.7	$2,348.8	$2,241.4	$2,780.8	$10,091.8	$11,103.2	$12,420.5	$13,810.2
y-o-y growth	*9.7%*	*11.2%*	*15.4%*	*-0.9%*	*29.0%*	*13.4%*	*10.0%*	*11.9%*	*11.2%*
International sales	$1,289.8	$156.8	$362.9	$209.2	$211.2	$940.1	$1,082.9	$1,294.1	$1,477.9
y-o-y growth	*9.7%*	*-58.2%*	*-18.0%*	*-10.8%*	*-11.1%*	*-27.1%*	*15.2%*	*19.5%*	*14.2%*
Revenue	$10,187.9	$2,877.5	$2,711.7	$2,450.6	$2,992.0	$11,031.8	$12,186.2	$13,714.7	$15,288.1
YOY Growth	*9.7%*	*2.0%*	*9.4%*	*-1.8%*	*25.0%*	*8.3%*	*10.5%*	*12.5%*	*11.5%*
Cost of Goods Sold	$5,624.3	$1,546.6	$1,394.7	$1,322.1	$1,614.7	$5,878.0	$6,420.4	$7,202.2	$7,991.7
Gross Income	$4,563.5	$1,331.0	$1,317.0	$1,128.5	$1,377.4	$5,153.8	$5,765.8	$6,512.4	$7,296.4
Gross Margin	44.8%	46.3%	48.6%	46.0%	46.0%	46.7%	47.3%	47.5%	47.7%
Sales / Mktg	$1,701.6	$483.7	$429.6	$414.5	$493.7	$1,821.6	$2,022.9	$2,208.1	$2,446.1
% S&M	*16.7%*	*16.8%*	*15.8%*	*16.8%*	*16.5%*	*16.5%*	*16.6%*	*16.1%*	*16.0%*
R&D	$582.8	$205.1	$147.7	$37.8	$135.0	$525.6	$665.0	$675.0	$700.0
% R&D	*5.7%*	*7.1%*	*5.4%*	*1.5%*	*4.5%*	*4.8%*	*5.5%*	*4.9%*	*4.6%*
G&A	$1,982.8	$540.5	$558.9	$610.3	$585.0	$2,294.7	$2,327.6	$2,400.1	$2,522.5
% G&A	*19.5%*	*18.8%*	*20.6%*	*24.9%*	*19.6%*	*20.8%*	*19.1%*	*17.5%*	*16.5%*
Disposal of assets	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	$296.4	$101.7	$180.7	$65.9	$163.7	$511.9	$750.3	$1,229.3	$1,627.8
Operating Margin	*2.9%*	*3.5%*	*6.7%*	*2.7%*	*5.5%*	*4.6%*	*6.2%*	*9.0%*	*10.6%*
Total other income	($17.9)	($3.7)	($2.2)	($5.4)	($4.9)	($16.2)	($7.0)	$10.0	$15.0
Pre-Tax Income	$278.5	$98.0	$178.5	$60.5	$158.8	$495.8	$743.3	$1,239.3	$1,642.8
Taxes (benefit)	$0.0	$14.0	$0.0	$0.0	$0.0	$14.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*14.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred dividends	$3.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Income to common	$275.4	$84.0	$178.5	$60.5	$158.8	$481.8	$743.3	$1,239.3	$1,642.8
Net Margin	*2.7%*	*2.9%*				*4.4%*	*6.1%*	*9.0%*	
EPS	$0.01	$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.02	$0.03
YOY Growth	*NA*	*-61.6%*				*62.2%*	*49.6%*	*61.1%*	
Diluted Shares O/S	51,233	54,332	54,143	56,105	56,500	55,270	57,000	59,000	63,000

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