Zacks Small-Cap Research

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Corgenix Medical (CONX-OTC)

CONX: *Q1: Record Revenue and Income. Int'l Sales Growing Is Huge Positive.*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (11/14/12)	$0.19
Target Price	**$0.60**

OUTLOOK

Coming off 17% revenue growth in fiscal 2012, management is guiding for mid-to-high revenue growth and positive income and cash flow in 2013. AspirinWorks and Contract Manufacturing expected to catalyze revenue growth in 2013. Int'l revenue disappointed in 2012 but now looks to be turning the corner, posting 24% growth in Q1 2013 and expected to remain robust. AspirinWorks and new product launches (domestically and overseas), along with penetration of new geographic markets will be relied on to drive revenue longer-term.
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	**$0.19**
52-Week Low	**$0.08**
One-Year Return (%)	**18.82**
Beta	**1.45**
Average Daily Volume (sh)	**19,311**
Shares Outstanding (mil)	**46**
Market Capitalization ($mil)	**$9**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**12**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.2**
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	**19.0**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	$2,178 A	$2,066 A	$2,717 A	$2,328 A	$9,289 A
2013	$2,821 A	$2,672 E	$2,698 E	$2,865 E	$11,055 E
2014					$12,551 E
2015					$14,217 E

Earnings per Share

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	-$0.00 A	-$0.00 A	-$0.00 A	-$0.01 A	-$0.01 A
2013	$0.00 A	$0.00 E	$0.00 E	$0.00 E	$0.01 E
2014					$0.01 E
2015					$0.02 E

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

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Q1 2013 Financial Results

Corgenix reported financial results for the fiscal first quarter 2013 ending September 30, 2012 on November 14th. Results came in very strong with record revenue and net income and beating our numbers on both the top and bottom lines. Importantly management affirmed their expectation that financial results for the full fiscal year (ending 6/30/2013) should remain very robust and be fueled by new product launches in several different categories, 100%+ sales growth of AspirinWorks, meaningful international sales growth and increased activity from their burgeoning contract manufacturing business.

Q1 revenue came in at $2.8 million, up almost 30% yoy and 21% sequentially. And not only did gross margins come in where we estimated, Corgenix showed impressive discipline in expense management with SG&A falling significantly on both a yoy as well as sequential basis. The net result was $195k in net income and positive operating cash flow (ex changes in working capital).

While domestic sales were very strong, total revenue was aided by 24% sales growth in the international business, something that we view as a huge positive and hopefully indicative that the long slide in international sales has finally come to an end. International revenue in Q1 2013 was the highest in two years (since fiscal Q1 2011). As a reminder, international revenue had declined every period (on a yoy quarterly as well as annual basis) since 2010 which had been a significant hindrance to growing CONX's top line. The expectation was that international sales would quickly turn around with the ELITech agreement in late 2010 but that inflection point seemed to be dragged out due to integration wrinkles and certain product launch delays. We think the current growth in international mostly relates to those wrinkles being ironed out - new product launches mostly directed towards international markets as are finally expected to start making a meaningful contribution in the next couple of quarters. This, along with entry into additional overseas markets should help drive ex-U.S. sales for the long-term.

Revenue
Q1 revenue of $2.8 million consisted of $2.5 million (+30%) in sales from North America and $375k (+24%) internationally, compared to our $2.3 million and $318k estimates. We model 11% growth in international sales in fiscal 2013, fueled by new product launches, entry into new geographic markets (including China with AspirinWorks) and an ongoing ramp up in activity by ELITech with deeper penetration in existing markets. We continue to believe that the automated version of AspirinWorks as well as other new product introductions, including those coming out of the ELITech joint product development agreement represent potentially significant growth opportunities for Corgenix's international business over the long-term.

The domestic business turned in a big quarter despite relatively moderate (19%) sales growth of AspirinWorks, which was a catalyst to CONX's top-line growth in fiscal 2012. Contract manufacturing revenue, up 291% to $696k along with a 37% growth in HA sales benefitted domestic sales.

Relative to AspirinWorks, management noted on the call that they still expect AspirinWorks to at least double for the full year so we expect the remaining quarters will show a huge pick-up in sales compared to Q1. Several catalysts should accelerate the growth rate in coming quarters including increased physician adoption of the test, the recent addition of some key customers, increased sales internationally, and eventual launch of the automated version.

Contract manufacturing is benefitting from the recent deal with diaDexus whereby Corgenix manufactures and supplies the cardiovascular PLAC test, along with an uptick in business from other existing customers. We continue to model contract manufacturing revenue to grow about 67% in 2013 to $1.7 million. However, as we've noted in the past, key to stable, long-term revenue growth in the domestic business is new product introductions as revenue from contract manufacturing and contract R&D, which accounted for approximately 65% of the revenue growth in 2012 (and which we estimate will account for ~38% of our modeled total revenue growth in 2013), can be highly variable.

Net Income / EPS
Q1 net income and EPS came in at $195k and $0.00, compared to our $47k and $0.00 estimates. Lower than modeled operating expenses ($997k A vs $1.1MM E) along with the beat on revenue both contributed to the better than estimated net income. Meanwhile gross margin at 42.6% was inline with our 43.2% estimate. We continue to expect to see additional operating leverage with revenue growth and GM to maintain near 43% in 2013 (and slightly widening in future years with economies of scale).

Cash
Corgenix exited Q1 with $1.2 million in cash and equivalents, down slightly from $1.3 million at the end of Q4 (6/31/2012). Cash flow from operating activities was an outflow of $130k but stripping out changes in working capital (which is more indicative of cash from operations) it was an inflow of $299k. Debt remained relatively insignificant at quarter end.

Maintaining Outlook / Price Target
We have made only relatively insignificant adjustments to our model following Q1 results. 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 $11.1 million (+19%) in revenue in fiscal 2013 and look for this to grow at a CAGR of about 14% through 2016, reflecting North America and International annual revenue growth of approximately 13% and 22%, respectively.

Income / EPS
We model net income and EPS of approximately $275k and $0.01 in 2013, up from a net loss of $623k and EPS of (-$0.01 EPS) in 2012. This reflects our ~19% estimated growth in revenue, relatively flat GM and some leverage in operating expenses coming off of the R&D and SG&A investments made in the prior year.

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 2016.

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-2016 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. Based on CONX's current market price of approximately $0.19/share, indicates the stock remains significantly undervalued. As such, we continue to recommend accumulating the stock and are maintaining our Outperform rating on Corgenix.

Ticker	Est Long-term EPS growth	Implied 2016 P/E	Price / Book Value	Price / Sales (ttm)	EV / Sales (ttm)
ERB	NA	NA	2.1	1.4	1.2
DIA.MI	5.8%	11.7	NA	NA	3.1
OSUR	NA	NA	2.3	4.6	3.6
TRIB	14.3%	10.3	1.8	3.7	2.8
CEMI	17.2%	12.2	2.4	1.3	2.0
IDXX	14.4%	17.4	8.0	3.8	3.9
VIVO	12.9%	13.4	5.7	4.6	4.5
QDEL	NA	NA	3.1	4.1	4.1
ABAX	10.5%	24.6	4.4	4.7	4.3
Average	**12.5%**	**14.9**	**3.7**	**3.5**	**3.3**

	Value using 2016 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	$0.45	$0.41	$0.73	$30.32	$0.70	**$0.57**

FINANCIAL MODEL

Corgenix Medical Corporation

	2012 A	Q1A	Q2E	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
North America sales	$8,113.5	$2,445.8	$2,315.2	$2,423.7	$2,564.9	$9,749.6	$10,939.0	$12,248.9	$13,900.4
y-o-y growth	*25.1%*	*30.4%*	*33.5%*	*-1.6%*	*25.8%*	*20.2%*	*12.2%*	*12.0%*	*13.5%*
International sales	$1,175.8	$375.3	$357.2	$274.1	$299.7	$1,306.3	$1,612.0	$1,968.2	$2,383.5
y-o-y growth	*-19.4%*	*24.1%*	*7.7%*	*8.2%*	*3.9%*	*11.1%*	*23.4%*	*22.1%*	*21.1%*
Revenue	$9,289.4	$2,821.1	$2,672.4	$2,697.8	$2,864.6	$11,055.9	$12,551.0	$14,217.1	$16,283.9
YOY Growth	*17.0%*	*29.5%*	*29.4%*	*-0.7%*	*23.0%*	*19.0%*	*13.5%*	*13.3%*	*14.5%*
Cost of Goods Sold	$5,355.0	$1,619.1	$1,533.1	$1,543.5	$1,629.8	$6,325.5	$6,978.2	$7,777.4	$8,817.1
Gross Income	$3,934.4	$1,202.0	$1,139.3	$1,154.3	$1,234.8	$4,730.4	$5,572.8	$6,439.8	$7,466.7
Gross Margin	42.4%	42.6%	42.6%	42.8%	43.1%	42.8%	44.4%	45.3%	45.9%
Sales / Mktg	$1,996.9	$441.4	$481.0	$491.0	$532.8	$1,946.2	$2,158.8	$2,388.5	$2,670.6
% S&M	*21.5%*	*15.6%*	*18.0%*	*18.2%*	*18.6%*	*17.6%*	*17.2%*	*16.8%*	*16.4%*
R&D	$517.1	$127.2	$127.6	$131.1	$128.5	$514.4	$502.0	$487.0	$472.0
% R&D	*5.6%*	*4.5%*	*4.8%*	*4.9%*	*4.5%*	*4.7%*	*4.0%*	*3.4%*	*2.9%*
G&A	$1,889.3	$428.8	$496.2	$518.2	$512.5	$1,955.8	$2,133.7	$2,331.6	$2,638.0
% G&A	*20.3%*	*15.2%*	*18.6%*	*19.2%*	*17.9%*	*17.7%*	*17.0%*	*16.4%*	*16.2%*
Disposal of assets	$17.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($486.2)	$204.6	$34.4	$14.0	$61.0	$314.1	$778.4	$1,232.7	$1,686.2
Operating Margin	*-5.2%*	*7.3%*	*1.3%*	*0.5%*	*2.1%*	*2.8%*	*6.2%*	*8.7%*	*10.4%*
Total other income	($117.5)	($6.3)	($5.0)	($5.0)	($5.0)	($21.3)	($18.0)	$24.0	$63.0
Pre-Tax Income	($603.7)	$198.3	$29.4	$9.0	$56.0	$292.8	$760.4	$1,256.7	$1,749.2
Taxes (benefit)	$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	$19.7	$3.1	$5.0	$5.0	$5.0	$18.1	$0.0	$0.0	$0.0
Income to common	($623.4)	$195.2	$24.4	$4.0	$51.0	$274.7	$760.4	$1,256.7	$1,749.2
Net Margin	*-6.7%*	*6.9%*	*0.9%*	*0.1%*	*1.8%*	*2.5%*	*6.1%*	*8.8%*	*10.7%*
EPS	($0.01)	$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.02	$0.03
YOY Growth	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*108.4%*	*65.3%*	*39.2%*
Diluted Shares O/S	44,864	48,543	53,040	53,100	53,122	51,951	69,000	69,000	69,000

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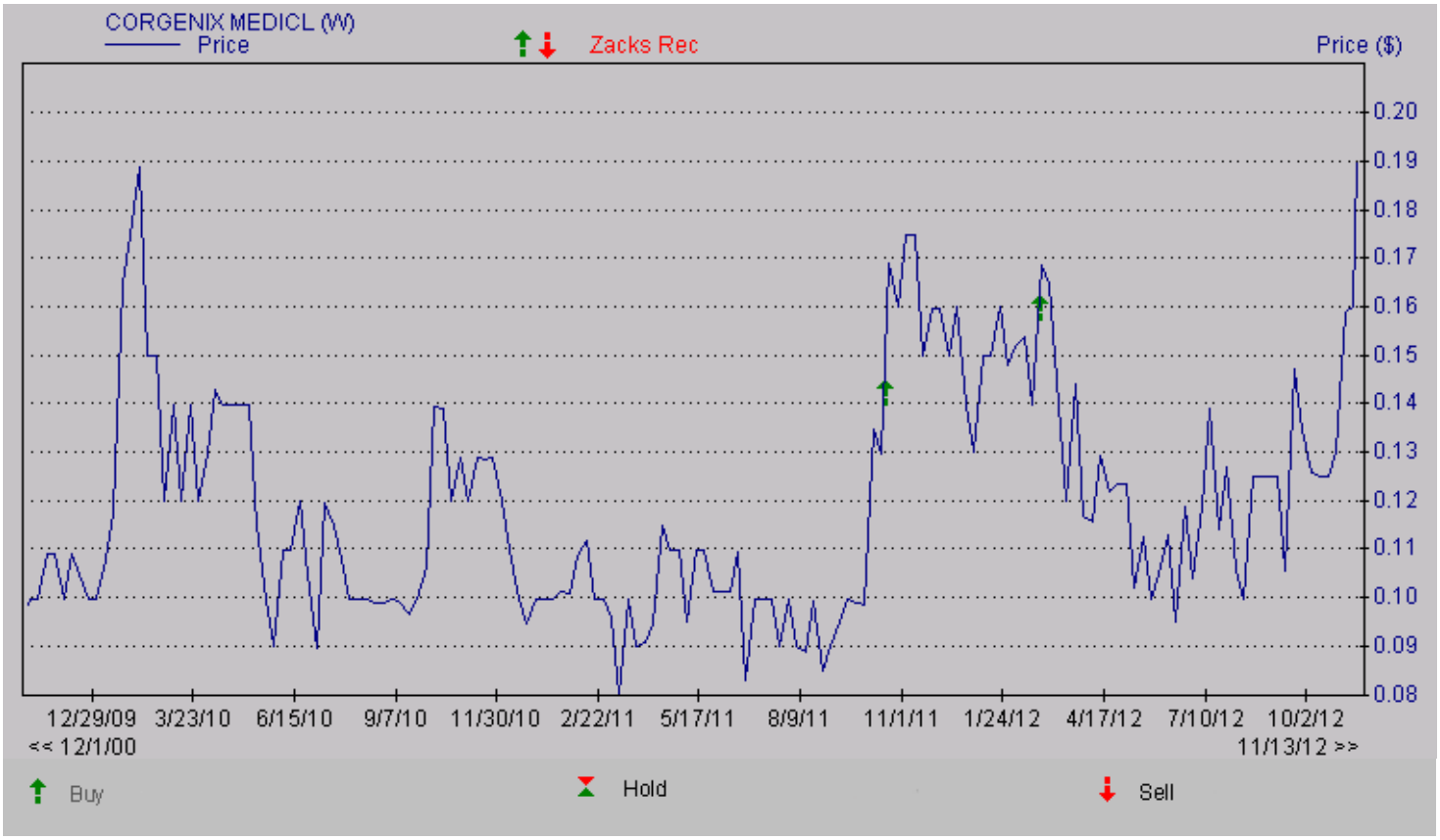

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