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Zacks Small-Cap Research

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CombiMatrix Cp (CBMX-NASDAQ)

CBMX: Q3 Sets New Record for Prenatal Microarray Testing Volumes

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/07/2014
Current Price (10/07/14)	$1.22
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	**$4.44**
52-Week Low	**$1.09**
One-Year Return (%)	**-62.14**
Beta	**0.11**
Average Daily Volume (sh)	**204,703**
Shares Outstanding (mil)	**11**
Market Capitalization ($mil)	**$14**
Short Interest Ratio (days)	**3.85**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**10.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Instru-Scientfc**

ZACKS ESTIMATES

Revenue
(in 000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	1,611 A	1,500 A	1,503 A	1,753 A	6,367 A
2014	1,822 A	1,941 A	2,004 E	2,148 E	7,915 E
2015					11,105 E
2016					16,378 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.59 A	-$0.37 A	-$0.30 A	-$1.50 A	-$3.11 A
2014	-$0.18 A	-$0.23 A	-$0.26 E	-$0.20 E	-$0.87 E
2015					-$0.61 E
2016					-$0.34 E

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

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WHAT'S NEW….

Q3 Pre-Announcement

This morning CombiMatrix announced Q3 preliminary prenatal and total testing volumes which are expected to show yoy growth of 71% and 24% respectively. The release also notes that the company expects record cash collections in Q3 and for legal expenses to increase from the level in Q2 but for these costs to then fall in Q4.

While these legal expenses have recently crimped the double-digit revenue growth that has flowed to the bottom line, importantly the operational fundamentals remain highly encouraging. This includes consistent strong growth of CBMX's focused target market - that being chromosomal (prenatal and miscarriage analysis) microarray analysis. Q3, per the growth rates announced this morning, will mark a new quarterly record in the number of prenatal microarray tests performed.

We have updated our model to reflect this preliminary announcement. We are maintaining our Outperform rating and $3.50/share price target. We will again make any relevant updates to our report and financial model with release of the full Q3 results in November.

FINANCIAL MODEL

CombiMatrix Corporation

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Prenatal microarrays	$3,551	$1,122	$1,221	$1,408	$1,480	$5,231	$8,484	$13,759	$19,541
YOY Growth	*112.1%*	*34.2%*	*46.1%*	*66.2%*	*43.4%*	*47.3%*	*62.20%*	*62.18%*	*42.02%*
All microarrays	$5,802	$1,714	$1,790	$1,874	$2,033	$7,410	$10,644	$15,920	$21,724
YOY Growth	*27.8%*	*19.5%*	*33.4%*	*35.7%*	*23.5%*	*27.7%*	*43.65%*	*49.56%*	*36.46%*
Non-microarrays	$403	$76	$116	$91	$75	$358	$300	$300	$300
YOY Growth	*-6.6%*	*-49.9%*	*12.3%*	*3.9%*	*23.7%*	*-11.2%*	*-16.17%*	*0.00%*	*0.00%*
Total	**$6,205**	**$1,790**	**$1,906**	**$1,964**	**$2,108**	**$7,768**	**$10,944**	**$16,220**	**$22,024**
YOY Growth	*24.8%*	*12.9%*	*31.9%*	*33.8%*	*23.5%*	*25.2%*	*40.89%*	*48.20%*	*35.79%*
Diagnostic Svcs	$6,204.0	$1,790.0	$1,906.0	$1,964.3	$2,107.6	$7,768.0	$10,944.5	$16,219.7	$22,023.9
YOY Growth	*24.7%*	*12.9%*	*31.9%*	*33.8%*	*23.6%*	*25.2%*	*40.89%*	*48.20%*	*35.79%*
Royalties	$163.0	$32.0	$35.0	$40.0	$40.0	$147.0	$160.0	$160.0	$160.0
YOY Growth	*-9.4%*	*28.0%*	*-36.4%*	*14.3%*	*-16.7%*	*-9.8%*	*8.84%*	*0.0%*	*0.0%*
Total Revenues	$6,367.0	$1,822.0	$1,941.0	$2,004.3	$2,147.6	$7,915.0	$11,104.5	$16,379.7	$22,183.9
YOY Growth	*19.0%*	*13.1%*	*29.4%*	*33.4%*	*22.5%*	*24.3%*	*40.3%*	*47.5%*	*35.4%*
Cost of Services	$3,527.0	$998.0	$1,053.0	$1,084.3	$1,138.1	$4,273.4	$5,734.9	$7,980.1	$10,439.4
Gross Income	$2,840.0	$824.0	$888.0	$920.0	$1,009.5	$3,641.5	$5,369.6	$8,399.6	$11,744.6
Services Margin	*43.1%*	*44.2%*	*44.8%*	*44.8%*	*46.0%*	*45.0%*	*47.6%*	*50.8%*	*52.6%*
R&D	$1,011.0	$134.0	$224.0	$288.0	$314.0	$960.0	$1,216.0	$1,341.0	$1,386.0
% R&D	*15.9%*	*7.4%*	*11.5%*	*14.4%*	*14.6%*	*12.1%*	*11.0%*	*8.2%*	*6.2%*
SG&A	$7,970.0	$2,643.0	$3,325.0	$3,494.0	$2,929.0	$12,391.0	$11,393.2	$13,152.9	$14,530.5
% SG&A	*125.2%*	*145.1%*	*171.3%*	*174.3%*	*136.4%*	*156.6%*	*102.6%*	*80.3%*	*65.5%*
Patent amort. & royalties	$254.0	$32.0	$28.0	$34.0	$34.0	$128.0	$125.0	$120.0	$110.0
Goodwill impairment	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($6,395.0)	($1,985.0)	($2,689.0)	($2,896.0)	($2,267.5)	($9,837.5)	($7,364.6)	($6,214.3)	($4,281.9)
Operating Margin	*-100.4%*	*-108.9%*	*-138.5%*	*-144.5%*	*-105.6%*	*-124.3%*	*-66.3%*	*-37.9%*	*-19.3%*
Total Other income	$2,453.0	($11.0)	$110.0	($18.0)	($20.0)	$61.0	($180.0)	($200.0)	($225.0)
Pre-Tax Income	($3,942.0)	($1,996.0)	($2,579.0)	($2,914.0)	($2,287.5)	($9,776.5)	($7,544.6)	($6,414.3)	($4,506.9)
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	$8,271	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	($12,213.0)	($1,996.0)	($2,579.0)	($2,914.0)	($2,287.5)	($9,776.5)	($7,544.6)	($6,414.3)	($4,506.9)
YOY Growth	*19.0%*	*48.0%*	*91.7%*	*112.9%*	*-71.9%*	*-20.0%*	*-22.8%*	*-15.0%*	*-29.7%*
Net Margin	*-191.8%*	*-109.5%*	*-132.9%*	*-145.4%*	*-106.5%*	*-123.5%*	*-67.9%*	*-39.2%*	*-20.3%*
EPS	($3.10)	($0.18)	($0.23)	($0.26)	($0.20)	($0.87)	($0.61)	($0.34)	($0.16)
YOY Growth	*-67.1%*	*-68.7%*	*-38.5%*	*-15.8%*	*-86.7%*	*-71.8%*	*-30.6%*	*-43.5%*	*-52.0%*
Diluted Shares O/S	3,941	10,927	11,063	11,287	11,495	11,193	12,452	18,742	27,446

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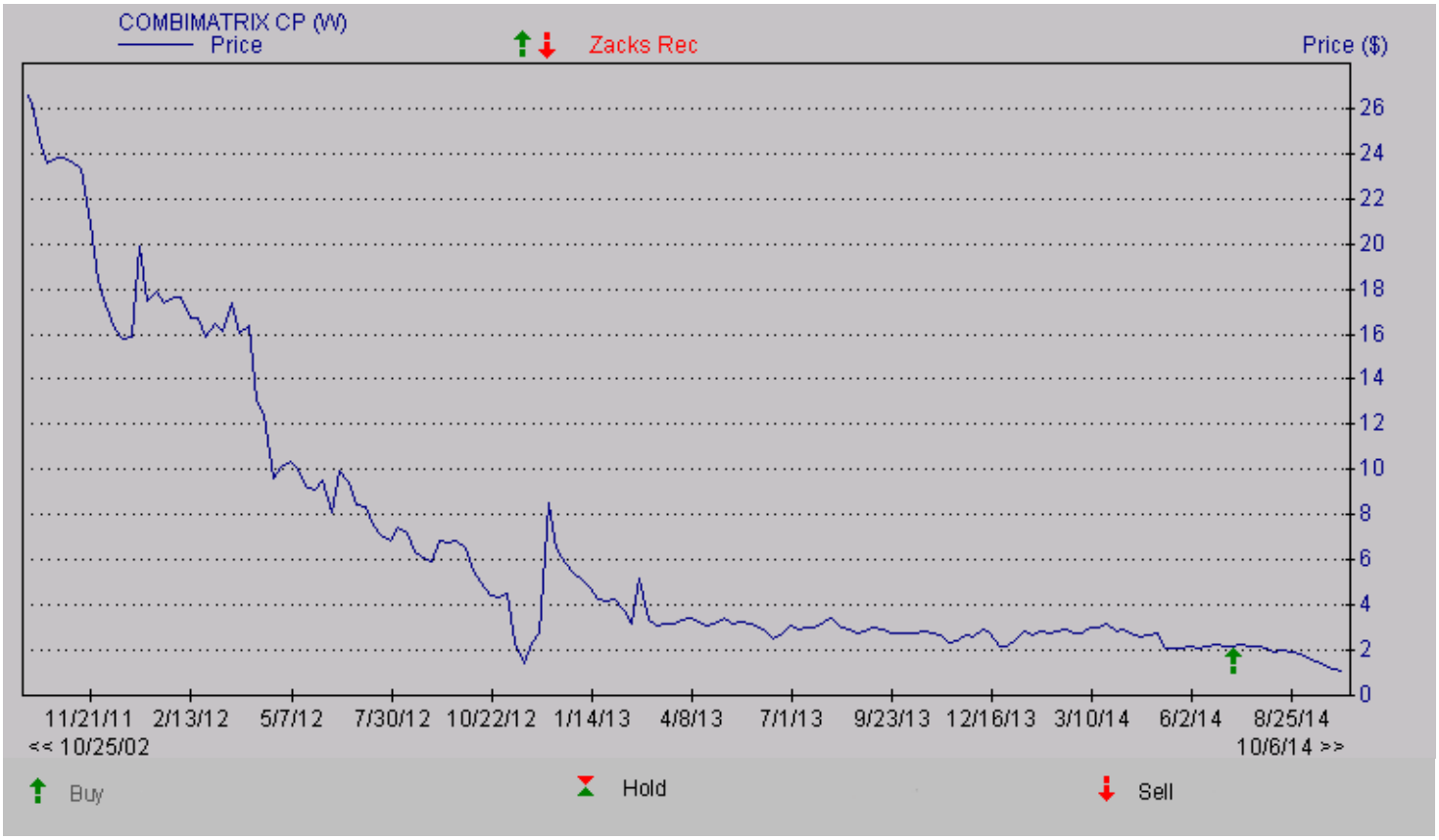

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