Zacks Small-Cap Research

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Corgenix Medical (CONX-OTCQB)

CONX: *Record Setting Revenue In Q4 and Fiscal 2014*

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	08/28/2014
Current Price (09/10/14)	$0.26
Target Price	**$0.27**

OUTLOOK

On 8/28/2014 Corgenix announced that their board of directors unanimously approved for the company to be acquired at $0.27/share (~$16 million) by Orgentec Diagnostika, a privately-held specialty diagnostics company based in Mainz, Germany.

The stock closed at $0.34 on 8/27/14, up 162% since our 10/19/2011 initiation on CONX (at $0.13/share). As we expect this announcement will keep the trading in a tight range around $0.27/share, we moved our price target to $0.27 and our recommendation to Neutral on the day of the announcement.

SUMMARY DATA

52-Week High	**$0.56**
52-Week Low	**$0.17**
One-Year Return (%)	**22.50**
Beta	**0.80**
Average Daily Volume (sh)	**157,111**
Shares Outstanding (mil)	**52**
Market Capitalization ($mil)	**$14**
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	**27.0**
P/E using 2014 Estimate	**27.0**
P/E using 2015 Estimate	**27.0**
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	$2,972 A	$11,012 A
2015					$12,122 E
2016					$13,634 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 A	$0.01 A
2015					$0.01 E
2016					$0.02 E

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

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2014 Financial Results: Revenue In-Line and Sets Qrtrly and Annual Record. Maintaining Neutral Rating On Acquisition Expectation

Corgenix filed their 10-K for the fiscal fourth quarter and year ending June 30, 2013. Q4 revenue was just about dead-on with our number, gross margin beat handily and opex came in higher - the net result was net income slightly below our number - although the difference not overly meaningful.

Revenue
Q4 revenue of $2.97M was up 24% (+21% sequentially) and in-line with our $2.992M estimate. For the full year CONX turned in $11.0M of revenue, growth of 8% over fiscal 2013. Both the quarter and annual revenue figures were all time records.

As opposed to Q3 where virtually every reporting category missed our respective estimates by a significant margin, actuals and estimates for each revenue category in Q4 closely aligned, save for AspirinWorks revenue which missed our number by about 20% ($333 A vs. $266 E). Geographically, revenue also came in very much inline with our thinking. North American and International sales were $2.74M and $234k, respectively, compared to our $2.78M and $211k estimates.

Revenue from North America remains on a tear, increasing 13% for the year and setting a new record of $10.0M. Strength from contract manufacturing (+28% annually), contract R&D (+22% annually) and AspirinWorks (+19% annually) were the major catalysts behind North American revenue growth in fiscal 2014. Meanwhile International sales lengthened their streak of q-o-q revenue decreases to four straight quarters and ended the year at $963k, down 25% from 2013. The international weakness in Q4 was not unexpected and likely a result of continued softness in sales of legacy products.

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.

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 have pushed more sales down the income statement and has resulted in the improved earnings and cash generation. Q4 gross margin was 51%, well ahead of our 46.0% estimate.

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 continued in the current year with GM coming in at 46.3% in Q1, 48.6% in Q2, 46.0% in Q3 and a particularly strong 51.0% in Q4. For the full fiscal year 2014 GM was 48%, a vast improvement from 42.4% in 2012 and 44.8% in 2013. And as we have highlighted previously, 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 50.4% in 2014.

But while both revenue and GM exhibited significant improvement in Q4, operating expenses came in well ahead of the average of the prior three quarters of the year and were also meaningfully higher than what we were anticipating. Q4 OpEx were $1.46M (49.2% of revenue), compared to an average of $1.14M (42.6% of revenue) over the first three quarters of 2014 and well ahead of our $1.21M (40.6% of revenue) estimate. CONX indicates in the 10-K that expenses related to the exploration of strategic alternatives were a contributor to the relative jump in operating expenses in 2014. We continue to model a slight improvement in OpEx as a percentage of revenue in 2015 and beyond as revenue growth outpaces that of operating expenses.

Q4 net income and EPS were $48k and $0.00, compared to our $159k and $0.00 estimates. CONX generated positive net income in every quarter in fiscal 2014. For the full year, net income and EPS were $371k and $0.01, compared to $275k and $0.01 in fiscal 2013.

Cash
The company's cash position remains very healthy and they continue to generate positive cash flow. CONX exited fiscal 2014 with $2.4M in cash and equivalents, down from $2.7M at the end of Q3 but up from $2.0M at the end of fiscal 2013. Q4 cash flow from operations was an outflow of $110k but, ex-changes in working capital, this was an

inflow of $163k. For the full year, cash flow from operations was an inflow of $569k but, ex-changes in working capital, this was an inflow of $791k.

Board Approves Acquisition By German-Based Orgentec Diagnostika for $0.27/Share

In late August Corgenix announced that their board of directors unanimously approved for the company to be acquired at $0.27/share (~$16 million) by Orgentec Diagnostika, a privately-held specialty diagnostics company based in Mainz, Germany. CONX has had a historical relationship with Orgentec as that company has provided an ELISA test to Corgenix for the international market.

As a reminder, in mid-March CONX announced that the company was "exploring strategic alternatives" to enhance shareholder value and indicated that a sale of the company was one of those alternatives. As noted in the August 28th press release, the $0.27/share offer represents an approximate 29% premium over the average share price of $0.21 over the 90 days prior to the March 12th announcement that the company was looking at strategic alternatives. The offer of $0.27/share is also the same price that the stock closed at on March 12th.

CONX implies that there may have been other potential suitors interested as well ("after a robust auction process") and that the board accepted Orgentec's offer as the best to maximize shareholder value. CONX will file a preliminary proxy statement to SEC and upon approval file a definitive proxy statement. Closing of the transaction, which is anticipated in Q4, is subject to shareholder approval. Interestingly, CONX's CEO, Doug Simpson, and CFO, Bill Critchfield, will not be retained by the combined company in their respective roles (although the plan is that Mr. Simpson will be retained as a consultant), assuming the transaction is approved by shareholders.

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FINANCIAL MODEL

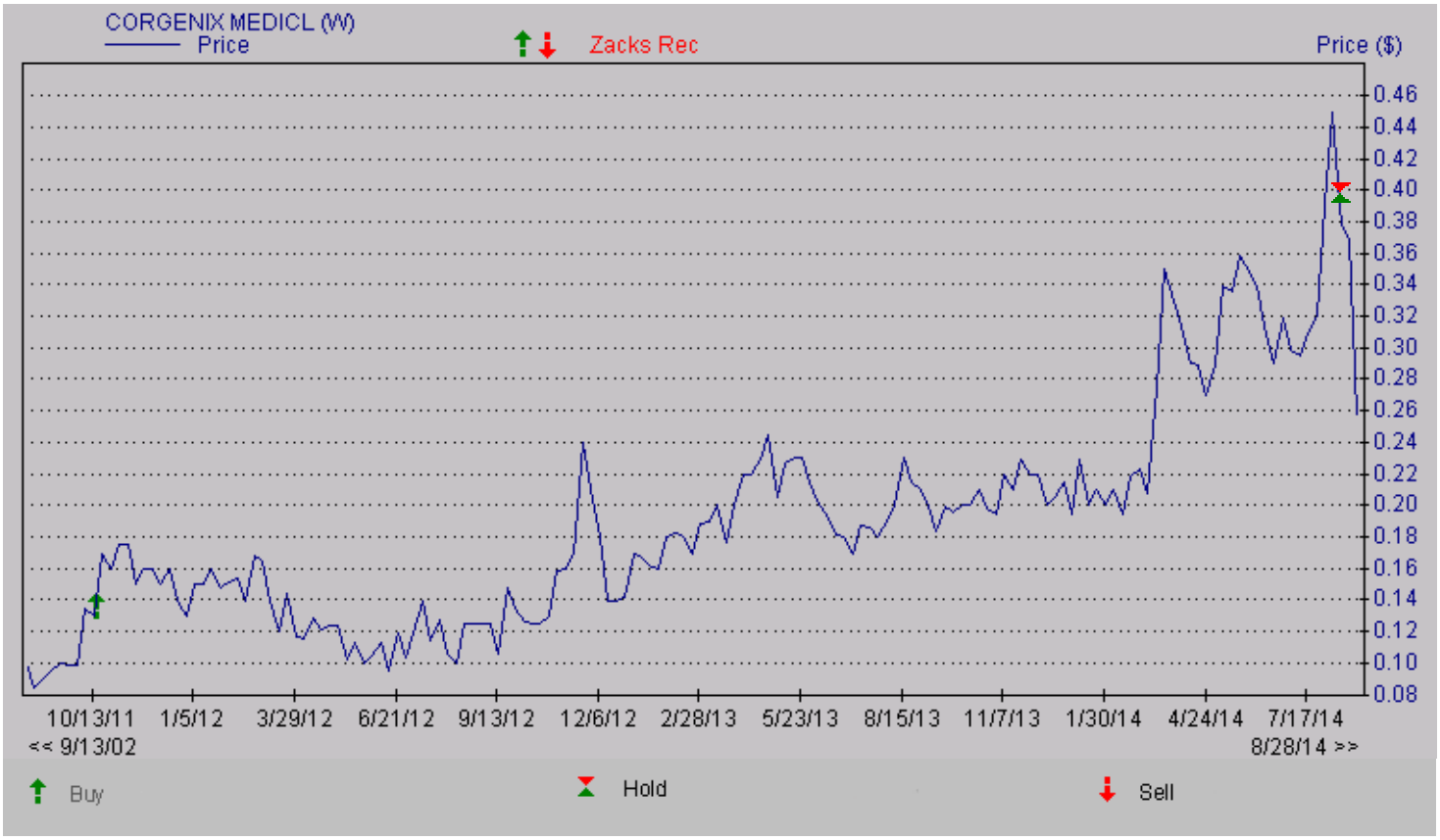
Corgenix Medical Corporation

	2013 A	Q1A	Q2A	Q3A	Q4A	2014 A	2015 E	2016 E	2017 E
North America sales	$8,898.0	$2,720.7	$2,348.8	$2,241.4	$2,737.9	$10,048.9	$11,013.3	$12,308.8	$13,697.0
y-o-y growth	*9.7%*	*11.2%*	*15.4%*	*-0.9%*	*27.0%*	*12.9%*	*9.6%*	*11.8%*	*11.3%*
International sales	$1,289.8	$156.8	$362.9	$209.2	$233.8	$962.7	$1,109.0	$1,325.3	$1,513.5
y-o-y growth	*9.7%*	*-58.2%*	*-18.0%*	*-10.8%*	*-1.6%*	*-25.4%*	*15.2%*	*19.5%*	*14.2%*
Revenue	$10,187.9	$2,877.5	$2,711.7	$2,450.6	$2,971.8	$11,011.5	$12,122.3	$13,634.0	$15,210.5
YOY Growth	*9.7%*	*2.0%*	*9.4%*	*-1.8%*	*24.2%*	*8.1%*	*10.1%*	*12.5%*	*11.6%*
Cost of Goods Sold	$5,624.3	$1,546.6	$1,394.7	$1,322.1	$1,457.6	$5,720.9	$6,266.2	$7,030.8	$7,816.7
Gross Income	$4,563.5	$1,331.0	$1,317.0	$1,128.5	$1,514.2	$5,290.6	$5,856.1	$6,603.2	$7,393.8
Gross Margin	44.8%	46.3%	48.6%	46.0%	51.0%	48.0%	48.3%	48.4%	48.6%
Sales / Mktg	$1,701.6	$483.7	$429.6	$414.5	$527.8	$1,855.7	$2,024.4	$2,195.1	$2,433.7
% S&M	*16.7%*	*16.8%*	*15.8%*	*16.9%*	*17.8%*	*16.9%*	*16.7%*	*16.1%*	*16.0%*
R&D	$582.8	$205.1	$147.7	$37.8	$197.3	$587.9	$685.0	$695.0	$700.0
% R&D	*5.7%*	*7.1%*	*5.4%*	*1.5%*	*6.6%*	*5.3%*	*5.7%*	*5.1%*	*4.6%*
G&A	$1,982.8	$540.5	$558.9	$610.3	$737.8	$2,447.5	$2,315.4	$2,386.0	$2,509.7
% G&A	*19.5%*	*18.8%*	*20.6%*	*24.9%*	*24.8%*	*22.2%*	*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	$51.3	$399.5	$831.3	$1,327.2	$1,750.4
Operating Margin	*2.9%*	*3.5%*	*6.7%*	*2.7%*	*1.7%*	*3.6%*	*6.9%*	*9.7%*	*11.5%*
Total other income	($17.9)	($3.7)	($2.2)	($5.4)	($2.9)	($14.1)	($7.0)	$10.0	$15.0
Pre-Tax Income	$278.5	$98.0	$178.5	$60.5	$48.4	$385.4	$824.3	$1,337.2	$1,765.4
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	$48.4	$371.4	$824.3	$1,337.2	$1,765.4
Net Margin	*2.7%*	*2.9%*				*3.4%*	*6.8%*	*9.8%*	
EPS	$0.01	$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.02	$0.03
YOY Growth	*NA*	*-61.6%*				*22.2%*	*120.2%*	*56.7%*	
Diluted Shares O/S	51,233	54,332	54,143	56,105	61,610	56,547	57,000	59,000	63,000

Brian Marckx, CFA

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