Zacks Small-Cap Research

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NeoGenomics Inc. (NEO-NASDAQ)

NEO: Record revenue for 1Q13, business continues to be promising--Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/09/2011
Current Price (04/24/13)	$4.00
Twelve- Month Target Price	**$7.00**

OUTLOOK

NeoGenomics just reported record revenue for 1Q13, a 3.3% growth from that in 4Q12 in spite of the expiration of TC Grandfather Clause.

Management has done a great job to limit the impact of the TC Grandfather Clause expiration by increasing test volume, launching new products, and saving costs. Going forward, revenue will continue to grow in the remainder of 2013 and beyond. NEO is well poised for long term growth.

We continue to rate NEO shares Outperform based on the Company's strong fundamentals.

SUMMARY DATA

52-Week High	**$4.17**
52-Week Low	**$1.61**
One-Year Return (%)	**128.57**
Beta	**0.93**
Average Daily Volume (sh)	**153,607**
Shares Outstanding (mil)	**48**
Market Capitalization ($mil)	**$193**
Short Interest Ratio (days)	**1.33**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**43**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**51.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	15.2 A	15.6 A	14.2 A	14.9 A	59.9 A
2013	15.7 A	16.2 E	16.7 E	18.5 E	67.1 E
2014					82.5 E
2015					102.5 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	$0.01 A	$0.01 A	-$0.02 A	-$0.00 A	$0.00 A
2013	$0.00 A	$0.01 E	$0.01 E	$0.02 E	$0.03 E
2014					$0.12 E
2015					$0.20 E

Zacks Projected EPS Growth Rate - Next 3 Years % **126**

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WHAT'S NEW

- **Record sales reported for 1Q13;**
- **Business continues to be promising;**
- **Balance sheet boosted by recent financing;**
- **Price target raised to $7.00 per share from previous $4.00 per share;**

NEO Reports Record Sales for 1Q13

On April 25, 2013, NeoGenomics, Inc. (NEO) reported its financial results for the first quarter of 2013.

Revenue for the first quarter was $15.7 million, a 3.3% increase over first quarter 2012 revenue and a 5.1% increase over fourth quarter 2012 revenue. First quarter of 2013 revenue is slightly higher than our estimate of $15.5 million.

As a result of the expiration of the Medicare Technical Component (TC) Grandfather Clause on June 30, 2012, average price per test in 1Q13 ($488,000/test) declined 13% from 1Q12 ($562,890/test), and was comparable with those in 4Q12 ($488,090/test).

Although average price per test declined, test volume increased 19% in 1Q13 compared to that in 1Q12, and increased 5% sequentially.

Gross margin declined to 46.3% in 1Q13 from 47.1% in 1Q12, but increased by over 300 basis points from the fourth quarter of 2012. Average cost-per-test improved by 12% from the first quarter of 2012 and 5% from Quarter 4 2012.

Operating expenses increased by 10% to $6.9 million from $6.3 million in Quarter 1 of last year. This increase was driven by additional investments to increase sales staff and for new test development activities. In addition, the Company recognized $289,000 of additional variable stock-based compensation expense in the first quarter as a result of the 58% increase in the Company's stock price over the quarter.

Adjusted EBITDA of $1.8 million for the quarter was largely unchanged from last year's first quarter as a result of the $1.3 million reduction in quarterly revenues from the TCGF expiration and higher depreciation and stock-based compensation expense.

Net income was $3,000 or $0.00/share versus $603,000 or $0.01/share in Quarter 1 last year.

We think NEO is off to a great start in 2013. The Company has made a solid progress in the first quarter of 2013. NEO recorded record revenue for the 1Q13, despite significant Medicare reimbursement changes as compared to last year.

As a reminder, the Medicare **Technical Component** (TC) Grandfather Clause expired on June 30th, 2012. Effective as of July 1st, 2012, NeoGenomics is required to bill hospitals for the technical component of certain tests performed on behalf of Medicare in-patients and out-patients, whereas previously the Company was allowed to bill Medicare directly for such services if they were provided to hospitals that were "grandfathered" under the regulations.

About 80% of NeoGenomics' lab tests are billed off the physician fee schedule with the remainder billed off the clinical lab fee schedule. Lab tests billed off the physician fee schedule usually have two separable billing components: the **technical component** consisting of sample treatment and testing, and the **professional component** for interpretation of the test results.

As a result of the TC Grandfather Clause expiration, average price per test in 1Q13 declined 13% compared to that in 1Q12. However, despite the negative impact, total revenue in 1Q13 still increased 3.3% year over year. This revenue increase was achieved by 19% increases in test volume in 1Q13. The Company continues to gain market share. With this distraction now behind, the Company has returned its full focus to growth and performance in 2013. NeoGenomics expects to overcome the impact from this regulatory change within a few quarters through aggressive cost savings, productivity improvements, new product introductions, and continued growth in each of its core laboratories.

The Company has expanded its sales force in 1Q2013 and launched 17 new molecular tests, two new molecular disease profiles, and five new or modified FISH tests in the first quarter. We continue to be optimistic about the business prospect.

Summary of Quarterly Performance

($, 000's)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Total Revenue	**8,805**	**10,466**	**11,320**	**12,893**	**15,160**	**15,611**	**14,202**	**14,893**	**15,657**
% Growth	4.6%	23.3%	30.0%	47.3%	72.2%	49.2%	25.5%	15.5%	3.3%
Gross Margin	**43.9%**	**44.5%**	**44.8%**	**45.2%**	**47.1%**	**47.2%**	**41.5%**	**43.2%**	**46.3%**
SG&A as a % of Revenue	52.0%	45.6%	44.5%	42.3%	38.2%	38.4%	40.6%	38.9%	39.0%
Net Income (Loss)	**($893.0)**	**($293.0)**	**($143.0)**	**$152.0**	**$603.0**	**$839.0**	**($975.0)**	**($113.0)**	**$3.0**
Diluted EPS	($0.02)	($0.01)	($0.00)	$0.00	$0.01	$0.01	($0.02)	$0.00	$0.00
Adjusted EBITDA	$29.0	$483.0	$693.0	$1,055.0	$1,775.0	$1,943.0	$842.0	$1,439.0	$1,794.0
Test Volume	**15,396**	**18,358**	**19,978**	**22,557**	**26,932**	**28,846**	**28,315**	**30,513**	**32,088**
% Growth	9.6%	26.9%	38.0%	57.2%	74.9%	57.1%	41.7%	35.3%	19.1%
Average Price/Test	572.00	570.00	567.00	571.59	562.89	541.20	501.58	488.09	488.00
% Growth	-4.7%	-2.9%	-5.8%	-6.3%	-1.6%	-5.1%	-11.5%	-14.6%	-13.3%

Summary of Annual Performance

$, 000's	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total Revenue	20,015	29,469	34,371	43,484	59,866	67,057	82,500	110,000
% Growth	74.0%	47.2%	16.6%	26.5%	37.7%	12.0%	23.0%	33.3%
Gross Margin	53.3%	51.6%	45.9%	44.7%	44.8%	46.9%	47.0%	47.0%
SG&A as a % of Revenue	57.7%	57.5%	54.5%	45.6%	39.0%	38.5%	36.4%	31.8%
Net Income (Loss)	(1,383.0)	(2,243.0)	(3,303.0)	(1,177.0)	66.0	1,483.0	4,725.0	12,500.0
Diluted EPS	(0.04)	(0.06)	(0.09)	(0.03)	0.00	0.03	0.09	0.22
Adjusted EBITDA	809.0	103.0	(566.0)	2,134.0	5,999.0	2,983.0	6,225.0	14,000.0
Annual Test Volume Growth	56.4%	39.1%	25.5%	33.1%	50.2%	45.0%	40.0%	37.0%

Balance Sheet Remains Strong

In February, 2013, NEO did an underwritten public offering of 3.15 million shares of common stock at a price to the public of $3.00 per share.

Of the shares offered, NeoGenomics is selling 2.85 million shares and a selling stockholder, The Mary S. Dent Gifting Trust, is selling 300,000 shares. The transaction resulted in net proceeds to NeoGenomics of about $7.8 million.

We are pleased that NEO has landed this new financing with favorable terms. The offering price was close to the market price then, and no other strings added to the common stock.

This financing greatly boosted the Company's balance sheet.

As of March 31, 2013, NeoGenomics had $4.6 million in cash with little debt compared to 1.9 million in cash at the end of December 31, 2012. The Company returned to profitability in first quarter of 2013. With the current cash, NEO will be able to focus on its long term growth strategy without concern about short term cash strain.

With all these in mind, we believe the Company is poised to grow dramatically in 2013 and beyond.

VALUATION AND RECOMMENDATION

We continue to rate NEO shares a Buy and raise our price target to $7.00 per share from previous $4.00 per share based on strong first quarter of 2013 financials and business development.

Since we initiated coverage of NeoGenomics in early October 2011 at $1.15 per share, price has appreciated 248% as of this writing. But we think there is still room for further price appreciation.

NeoGenomics is an emerging leader in the genetic/molecular cancer testing market. The Company holds numerous competitive advantages over its competitors. We are especially impressed by the Company's fast turn-around times, tech-only reporting solution and state of the art laboratory information system (LIS), which are key elements that drive top line growth.

NeoGenomics has achieved strong financial performance. Revenue grew from $11.5 million in 2007 to $59.9 million in 2012, a tremendous 39% compound annual growth rate (CAGR) for the five-year period. We estimate revenue will further grow to $135 million in 2016, a CAGR of 23% from 2013 to 2016.

We are also impressed by the Company's strong balance sheet, which is in contrast with most small cap biotech companies. NeoGenomics held $4.6 million in cash as of March 31, 2013 with little debt. With profitability at its fingertips, the Company should be able to focus on its long term strategic development plan without fearing short term cash strains.

We are optimistic about the strength of the Company's business model. Fundamentals remain strong for NEO. Pipeline is strong. The Company is executing plans to gain further efficiencies. By growing its business, lowering its costs and driving innovation, NeoGenomics is becoming America's premier cancer testing laboratory.

Although price has appreciated about 248% since our initiation in early October 2011, there is still room for further price appreciation in our view. Based on NeoGenomics strong fundamentals, we think the shares of NeoGenomics are still undervalued at current market price. Currently, NEO is trading at about $4.0 per share which values the Company at $194 million in market cap based on 48.3 million shares outstanding. This is still a discount compared to its peers. Based on our financial model, revenue will

grow at 23% CAGR from 2013 to 2015. We think NEO should trade at 30 x P/E multiple. If we use this P/E multiple, coupled with our estimated EPS of $0.39 in 2016, discounted at 20% for three years, we come up with a price target of $7.0 per share.

We still think NEO is an acquisition target for big players. The genetic/molecular industry is quite fragmented currently, but merger & acquisition activity is looming. We all know that big players like LabCorp and Quest Diagnostics are increasingly acquiring smaller players in this field. Qiagen NV, a research service company based in Netherland, entered into genetic/molecular testing market in 2007 by acquiring Digene Corp. Since then, Qiagen has been quite aggressive in acquisition of other small genetic/molecular testing companies.

With the increased activity in M&A in the industry, NEO could be an easy target for acquisition. If acquired by big players, share price of NEO may soar.

PROJECTED INCOME STATEMENT

	2011A (Dec)	2012A (Dec)					2013E (Dec)					2014E (Dec)	2015E (Dec)	2016E (Dec)
$ in million except per share data	FYA	Q1	Q2	Q3	Q4	FYA	Q1A	Q2E	Q3E	Q4E	FYE	FYE	FYE	FYE
Total Revenues	**$43.48**	**$15.16**	**$15.61**	**$14.20**	**$14.89**	**$59.87**	**$15.66**	**$16.20**	**$16.70**	**$18.50**	**$67.06**	**$82.50**	**$102.50**	**$135.00**
YOY Growth	26.5%	72.2%	49.2%	25.5%	15.5%	37.7%	3.3%	3.8%	17.6%	24.2%	12.0%	23.0%	24.2%	31.7%
CoGS	24.06	8.02	8.24	8.31	8.46	33.03	8.41	8.62	8.85	9.75	35.63	43.73	54.33	71.55
Gross Income	**$19.43**	**$7.14**	**$7.37**	**$5.89**	**$6.43**	**$26.84**	**$7.25**	**$7.58**	**$7.85**	**$8.75**	**$31.43**	**$38.78**	**$48.18**	**$63.45**
Gross Margin	44.7%	47.1%	47.2%	41.5%	43.2%	44.8%	46.3%	46.8%	47.0%	47.3%	46.9%	47.0%	47.0%	47.0%
SG&A	$19.84	$5.79	$6.00	$5.77	$5.79	$23.34	$6.11	$6.20	$6.50	$6.80	$25.61	$28.50	$32.50	$35.00
% SG&A	45.6%	38.2%	38.4%	40.6%	38.9%	39.0%	39.0%	38.3%	38.9%	36.8%	38.2%	34.5%	31.7%	25.9%
R&D	$0.00	$0.50	$0.53	$0.81	$0.45	$2.28	$0.84	$0.65	$0.70	$0.75	$2.94	$3.25	$3.50	$4.00
% R&D	-	3.3%	3.4%	5.7%	3.0%	3.8%	5.3%	4.0%	4.2%	4.1%	4.4%	3.9%	3.4%	3.0%
Operating Income	**($0.4)**	**$0.9**	**$0.8**	**($0.7)**	**$0.2**	**$1.2**	**$0.3**	**$0.7**	**$0.7**	**$1.2**	**$2.9**	**$7.0**	**$12.2**	**$24.5**
Operating Margin	-0.9%	5.7%	5.4%	-4.8%	1.3%	2.0%	1.9%	4.5%	3.9%	6.5%	4.3%	8.5%	11.9%	18.1%
Other Net	($0.8)	($0.3)	($0.3)	($0.3)	($0.3)	($1.1)	($0.3)	($0.3)	($0.3)	($0.3)	($1.2)	($0.8)	($0.5)	($0.5)
Pre-Tax Income	**($1.2)**	**$0.6**	**$0.6**	**($1.0)**	**($0.1)**	**$0.1**	**$0.0**	**$0.4**	**$0.4**	**$0.9**	**$1.7**	**$6.2**	**$11.7**	**$24.0**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.2	$0.5
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	1.7%	2.1%
Reported Net Income	**($1.2)**	**$0.6**	**$0.6**	**($1.0)**	**($0.1)**	**$0.1**	**$0.0**	**$0.4**	**$0.4**	**$0.9**	**$1.7**	**$6.2**	**$11.5**	**$23.5**
YOY Growth	-64.4%	-	-	-	-174.3%	-	-99.5%	-22.0%	-	-	2450.0%	269.9%	84.3%	104.4%
Net Margin	-2.7%	4.0%	3.5%	-6.9%	-0.8%	0.1%	0.0%	2.7%	2.1%	4.9%	2.5%	7.5%	11.2%	17.4%
Diluted Shares Out	43.2	47.4	47.7	45.2	45.3	46.4	50.9	48.3	49.0	49.5	49.4	52.0	57.0	60.0
Reported EPS	**($0.03)**	**$0.01**	**$0.01**	**($0.02)**	**($0.00)**	**$0.00**	**$0.00**	**$0.01**	**$0.01**	**$0.02**	**$0.03**	**$0.12**	**$0.20**	**$0.39**
One time charge	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($1.2)**	**$0.6**	**$0.6**	**($1.0)**	**($0.1)**	**$0.1**	**$0.0**	**$0.4**	**$0.4**	**$0.9**	**$1.7**	**$6.2**	**$11.5**	**$23.5**
Non GAAP EPS	**($0.03)**	**$0.01**	**$0.01**	**($0.02)**	**($0.00)**	**$0.00**	**$0.00**	**$0.01**	**$0.01**	**$0.02**	**$0.03**	**$0.12**	**$0.20**	**$0.39**

Source: Company filings and Zacks Investment Research

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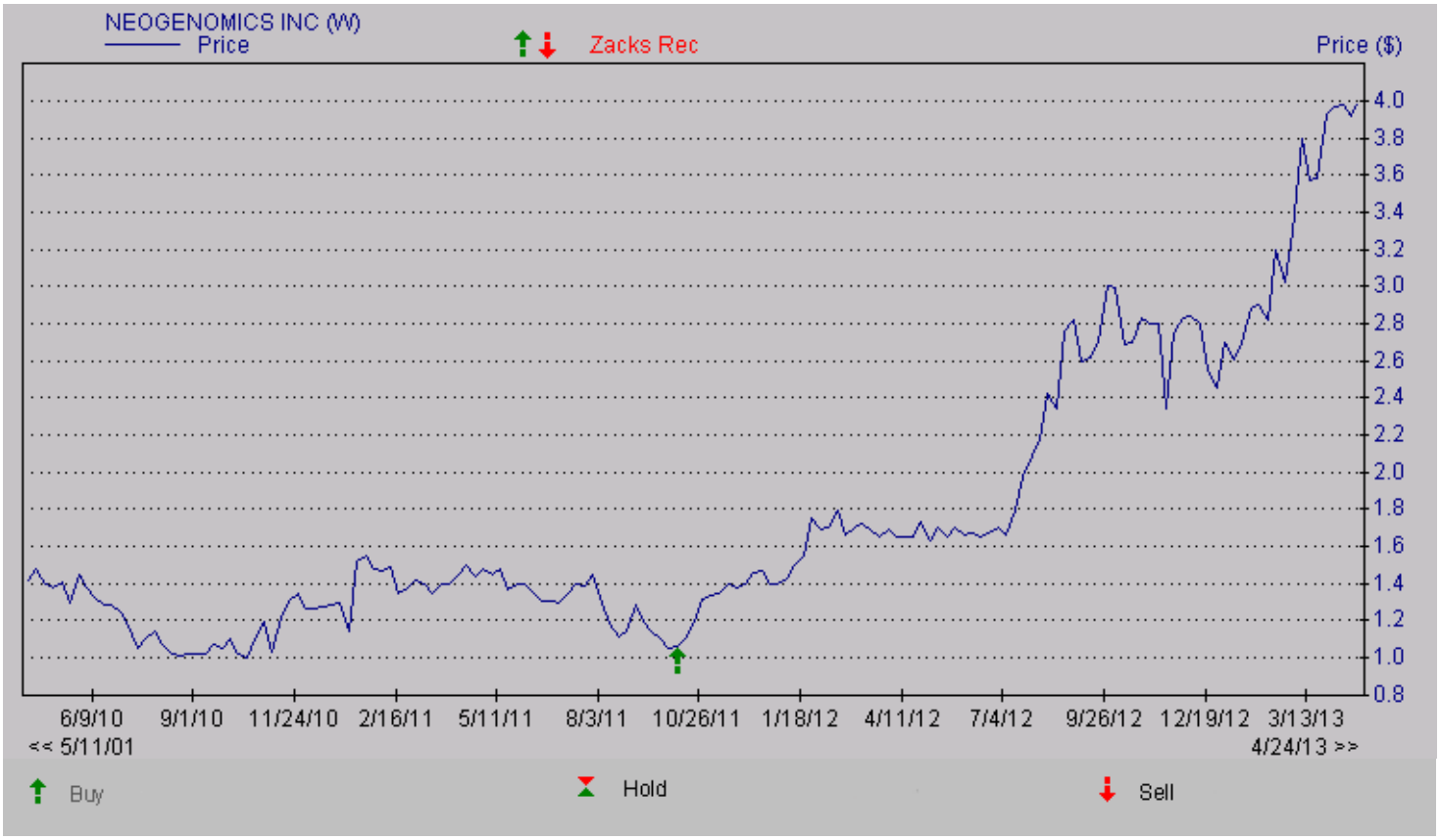
HISTORICAL ZACKS RECOMMENDATIONS



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