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Zacks Small-Cap Research

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Angeion Corp (ANGN-NASDAQ)

ANGN: Q3 Results. Another Miss But New Hope For The Future.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/09/2010
Current Price (09/02/11)	$3.85
Target Price	**$6.00**

OUTLOOK

Q3 results, similar to the first two quarters of this year, missed our estimates on both the top and bottom lines. While the numbers (chiefly revenue) continue to be somewhat disappointing, we are encouraged by the enthusiasm of the newly appointed CEO to make significant changes with an eye towards turning Angeion profitable again. The message is similar to what has been promised in the past but, with a more specific game-plan in place, the results will hopefully be different.

We are maintaining our $6.00 price target and Outperform rating on ANGN.

SUMMARY DATA

52-Week High	**$6.00**
52-Week Low	**$3.82**
One-Year Return (%)	**-8.82**
Beta	**1.24**
Average Daily Volume (sh)	**8,842**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$15**
Short Interest Ratio (days)	**0.29**
Institutional Ownership (%)	**12**
Insider Ownership (%)	**11**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
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	**19.3**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Value**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in 000's)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	$6,615 A	$6,854 A	$7,120 A	$8,452 A	$29,041 A
2011	$7,053 A	$6,800 A	$6,847 A	$7,748 E	$28,448 E
2012					$31,108 E
2013					$34,405 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	-$0.20 A	-$0.13 A	$0.03 A	$0.10 A	-$0.20 A
2011	-$0.09 A	-$0.04 A	-$0.02 A	$0.07 E	-$0.07 E
2012					$0.20 E
2013					$0.37 E

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

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Q3 2011 Financial Results

Angeion reported financial results for its fiscal 2011 third quarter ending July 31, 2011 on September 1st. As has been the case for the first two quarters of this year, Angeion's numbers on both the top and bottom lines came in below our estimates. Soft international sales was the culprit impacting revenue which, coupled with an uptick in R&D expense, resulted in a $0.06 miss on EPS despite slightly better than modeled gross margin.

While the numbers (chiefly revenue) continue to be somewhat disappointing, we are encouraged by the enthusiasm of the newly appointed CEO to make significant changes with an eye towards turning Angeion profitable again. While the message is somewhat similar to what has been promised in the past, the implication is that there is now more of a specific game-plan in place to make this happen.

As a refresher, Gregg Lehman was named CEO in July (was named interim CEO in May) of this year, replacing Phil Smith who had held the job for only about 5 months. Mr. Smith had replaced Rod Young as CEO after Angeion's largest shareholder, Blue Line Partners, demanded changes be made to the direction of the company. Mr. Lehman had been CEO of Health Fitness when the company was bought by Trustmark Mutual Holding Company in February 2010 for a 22% premium. Health Fitness provides fitness program services to corporate and individual customers.

On the earnings call Mr. Lehman made reference to some of the changes that have or will be implemented to help try and turn the company towards future revenue growth and profitability. Included are feasibility/ROI studies of proposed development projects to help ensure an appropriate return on R&D investments before the projects will be approved to move forward and cost reduction/efficiency programs aimed at taking out superfluous operating expenses. Management is also taking a close look at their New Leaf business and expects to have a decision relative to whether they will continue to pursue their personalized fitness segment by the end of fiscal Q4 of this year. The company has never disclosed New Leaf's financial metrics, although has indicated that it is a relatively insignificant portion of overall revenue - it is also possible, however, that New Leaf provides less at the margin (although again, this has never been disclosed) than does the MedGraphics (equipment) segment - if this is the case, divesting New Leaf could possibly provide a quick boost to the bottom line. We expect to hear an update on the next earnings call.

Relative to the strategy to grow revenues, this includes additional group purchasing organization agreements (the latest of which was signed earlier this month with Novation, the largest GPO) and partnerships, new product introductions, and targeted marketing strategies. The company also reiterated the possibility of an acquisition if they find the right fit.

Revenue
Q3 revenue was $6.85 million, 7% below our $7.36 million estimate and down about 4% from Q3 2010. Revenue consisted of $5.76 million in equipment/supplies (vs. our $6.44 million estimate) and $1.09 million in services (vs. our $920k estimate).

Domestic sales came in at approximately $5.7 million, up 5% y-o-y and exactly in-line with our estimate. International sales fell about 33% y-o-y to $1.1 million, however, and were well below our $1.6 million (implied growth of -2%) forecast. Management noted on the call that the overall international hospital capex environment has been very soft due to the macro-economic turmoil. As a result, we have adjusted our Q4 international revenue estimate downward to $1.1 million (implied growth of -22%).

Gross Margin
Gross margin came in at 57.6%, slightly better than our 57.2% estimate. Consistent widening in gross margin has been one of the few highlights with Angeion's results throughout 2011. Gross margin, which averaged 54.5% in fiscal 2010, has widened every quarter since Q4 2010 (56.1%).

Q3 2011 equipment/supplies margin was 56.3% (vs. our 53.2% estimate) with services margin at 64.6% (vs. our 85.5% estimate). Prior to Q2 2011 services margin had been running in the low-to-mid 80% range but recent

accounting changes moved some equipment/supplies COGS over to services COGS. We have updated our model accordingly.

Operating Expenses
While operating expenses (ex-amortization), at $3.92 million were just slightly higher than our $3.97 million estimate, they were meaningfully higher as a percentage of sales (57.3% A vs. 54.0% E). The majority of the difference was a result of a significant sequential spike in R&D expense ($902k in Q2, $1.01MM in Q3). On the call management largely attributed the increase to development of updated software products.

As noted earlier, Angeion has implemented a procedure to vet R&D investments which will hopefully mean any ramped up R&D spend will translate into an even greater increase to the top and bottom lines. Management indicated on the call that they have several new products (software and equipment) that could launch over the near-to-mid term.

EPS
EPS was ($0.02) on net income of ($81k) compared to our $0.04 and $136k estimates.

Cash
Angeion exited the quarter with $9.05 million in cash and liquid investments, down from $9.51 at the end of Q2. Angeion repurchased $148k worth of stock (34k shares) during the quarter. There is $2.8 million remaining under stock repurchase program - management noted that they expect to continue to buyback stock. Cash used in operations was $676k in Q3. Ex-changes in working capital, cash generated (i.e. - net inflow) in operations was $210k. Angeion used $98k for purchases of PP&E (investing activities) in the quarter.

Our Revised 2011 Outlook

We have again revised our 2011 outlook for Angeion. We now model revenue of $28.5MM (down from $29.4MM prior to Q3) and EPS of ($0.07), down from $0.01 prior to Q3. As we have noted in the past, it is inherently difficult to forecast Angeion's sales - as there is little to anchor on each quarter and management does not provide guidance.

Recommendation
We continue to value ANGN on a P/B basis. Average P/B of competitors remains at approximately 1.6 which values Angeion at $22.2 million or approximately $6.00/share. We are maintaining our $6.00 price target. Angeion currently trades at about $3.85/share, representing a significant discount to where we value the company - as a result, we are also maintaining our Outperform rating on the stock.

FINANCIAL MODEL

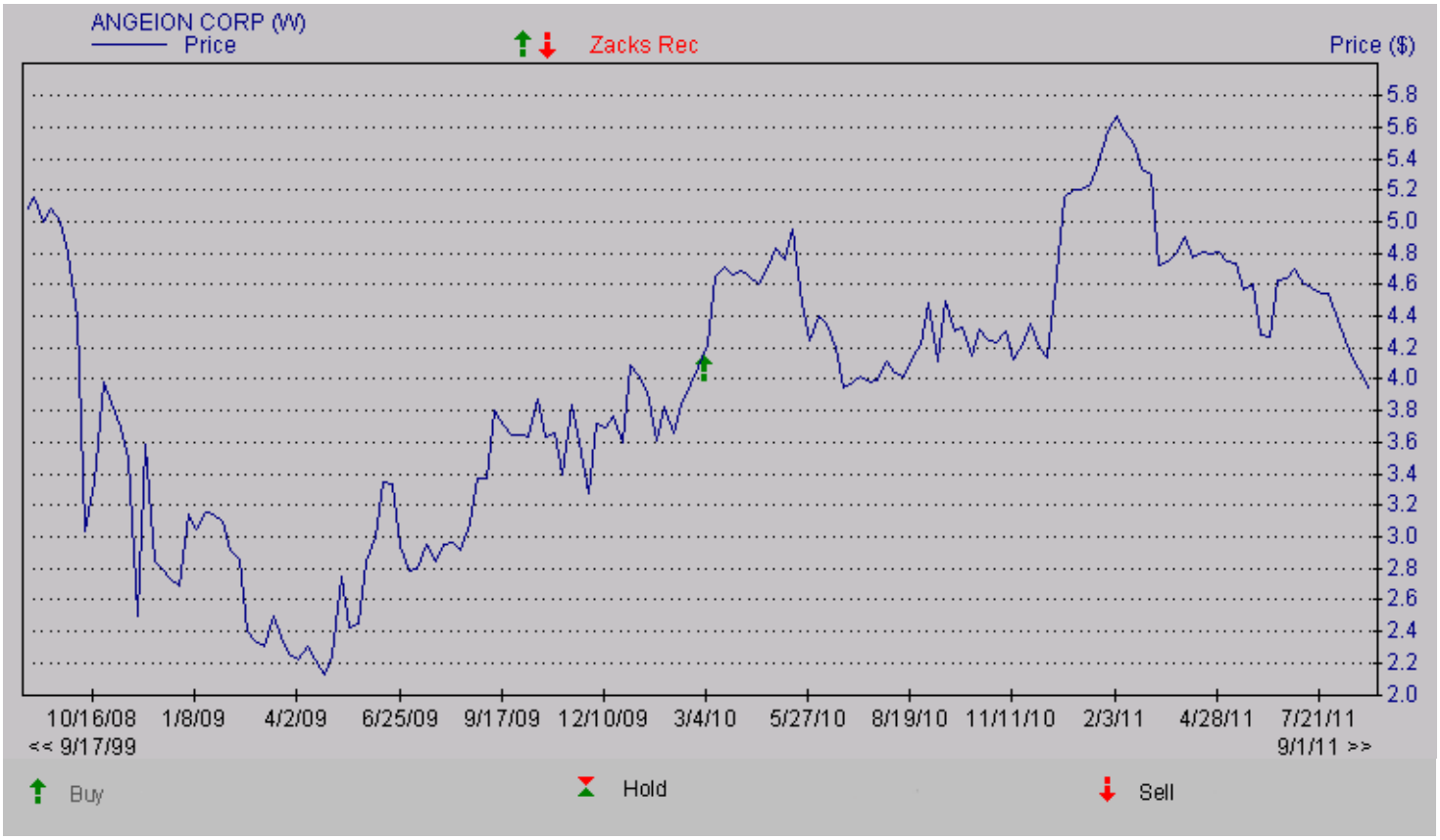
Angeion Corp.

	2010 A	Q1A	Q2A	Q3A	Q4E	2011 E	2012 E	2013 E	2014 E
Equipment and Supplies	$25,522.0	$6,144.0	$5,813.0	$5,761.0	$6,779.5	$24,497.5	$27,192.2	$30,074.6	$33,021.9
YOY Growth	*15.1%*	*6.1%*	*-2.5%*	*-7.2%*	*-10.4%*	*-4.0%*	*11.0%*	*10.6%*	*9.8%*
Services	$3,519.0	$909.0	$987.0	$1,086.0	$968.5	$3,950.5	$3,915.7	$4,330.7	$4,755.2
YOY Growth	*6.4%*	*10.2%*	*10.5%*	*18.9%*	*9.1%*	*12.3%*	*-0.9%*	*10.6%*	*9.8%*
Total Revenues	$29,041.0	$7,053.0	$6,800.0	$6,847.0	$7,748.0	$28,448.0	$31,107.9	$34,405.3	$37,777.1
YOY Growth	*14.0%*	*6.6%*	*-0.8%*	*-3.8%*	*-8.3%*	*-2.0%*	*9.4%*	*10.6%*	*9.8%*
Cost of equip/supplies	$12,647.0	$2,922.0	$2,309.0	$2,516.0	$2,949.1	$10,696.1	$11,828.6	$13,022.3	$14,298.5
Equipment and supplies margin	*50.4%*	*52.4%*	*60.3%*	*56.3%*	*56.5%*	*56.3%*	*56.5%*	*56.7%*	*56.7%*
Cost of service revenue	$603.0	$150.0	$598.0	$384.0	$348.7	$1,480.7	$1,370.5	$1,472.5	$1,569.2
Service revenue margin	*82.9%*	*83.5%*	*39.4%*	*64.6%*	*64.0%*	*62.5%*	*65.0%*	*66.0%*	*67.0%*
Cost of Revenues	$13,250.0	$3,072.0	$2,907.0	$2,900.0	$3,297.7	$12,176.7	$13,199.1	$14,494.8	$15,867.7
Gross Income	$15,791.0	$3,981.0	$3,893.0	$3,947.0	$4,450.3	$16,271.3	$17,908.8	$19,910.6	$21,909.4
Gross Margin	*54.4%*	*56.4%*	*57.3%*	*57.6%*	*57.4%*	*57.2%*	*57.6%*	*57.9%*	*58.0%*
Selling & Mktg	$8,067.0	$2,047.0	$2,079.0	$1,995.0	$2,246.9	$8,367.9	$8,959.1	$9,874.3	$10,804.2
% Sell&Mktg	*27.8%*	*29.0%*	*30.6%*	*29.1%*	*29.0%*	*29.4%*	*28.8%*	*28.7%*	*28.6%*
G&A	$4,514.0	$1,368.0	$937.0	$914.0	$852.3	$4,071.3	$4,044.0	$4,300.7	$4,608.8
% G&A	*15.5%*	*19.4%*	*13.8%*	*13.3%*	*11.0%*	*14.3%*	*13.0%*	*12.5%*	*12.2%*
R&D	$3,606.0	$761.0	$902.0	$1,012.0	$968.5	$3,643.5	$3,780.0	$3,830.0	$3,980.0
% R&D	*12.4%*	*10.8%*	*13.3%*	*14.8%*	*12.5%*	*12.8%*	*12.2%*	*11.1%*	*10.5%*
Amortization of Intangibles	$420.0	$105.0	$105.0	$105.0	$106.0	$421.0	$420.0	$475.0	$475.0
Operating Income	($816.0)	($300.0)	($130.0)	($79.0)	$276.6	($232.4)	$705.7	$1,430.6	$2,041.3
Operating Margin	*-2.8%*	*-4.3%*	*-1.9%*	*-1.2%*	*3.6%*	*-0.8%*	*2.3%*	*4.2%*	*5.4%*
Interest income, net	$8.0	$8.0	$2.0	$10.0	$8.3	$28.3	$50.0	$65.0	$75.0
Other expense	$0.0	($22.0)	$0.0	($2.0)	$0.0	($24.0)	$0.0	$0.0	$0.0
Pre-Tax Income	($808.0)	($314.0)	($128.0)	($71.0)	$284.9	($228.1)	$755.7	$1,495.6	$2,116.3
Taxes	$41.0	$10.0	$10.0	$10.0	$11.4	$41.4	$75.6	$224.3	$529.1
Tax Rate	*N/A*	*-3.2%*	*-7.8%*	*-14.1%*	*4.0%*	*-18.1%*	*10.0%*	*15.0%*	*25.0%*
Net Income	($849.0)	($324.0)	($138.0)	($81.0)	$273.5	($269.5)	$680.1	$1,271.2	$1,587.3
YOY Growth	*46.7%*	*60.8%*	*75.3%*	*-164.3%*	*-33.3%*	*68.3%*	*-352.3%*	*86.9%*	*24.9%*
Net Margin	*-2.9%*	*-4.6%*	*-2.0%*	*-1.2%*	*3.5%*	*-0.9%*	*2.2%*	*3.7%*	*4.2%*
EPS	($0.20)	($0.09)	($0.04)	($0.02)	$0.07	($0.07)	$0.20	$0.37	$0.47
YOY Growth	*47.5%*	*-56.6%*	*-72.8%*	*-171.9%*	*-24.6%*	*-64.6%*	*-376.8%*	*88.1%*	*24.9%*
Diluted Shares O/S	4,182	3,754	3,772	3,792	3,700	3,755	3,422	3,400	3,400

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