Zacks Small-Cap Research

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Corgenix Medical (CONX-OTCQB)

CONX: *Q2 Very Strong. Increasing Price Target*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (02/13/14)	$0.22
Target Price	**$0.70**

OUTLOOK

CONX posted revenue growth of 17% in 2012, 10% in 2013 and we think they can turn in another double-digit growth year in 2014. Off to a good start thru first 2 quarters. Record revenue and cash flow in 2013 should be eclipsed in 2014 as a result of several catalysts including new product introductions, anticipated continued growth from the likes of AspirinWorks, an expanded presence internationally including in China and newly consummated contract manufacturing and services agreements. Widening of gross margins and additional operating leverage is expected to push even more revenue to the bottom line. Balance sheet remains very healthy. New agreement with HDL potentially bolts on significant add'l revenue over the mid-term.
Based on comparable valuations, Corgenix's shares trade significantly cheaper than warranted. Our fair value estimate is $0.70/share. We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$0.25**
52-Week Low	**$0.10**
One-Year Return (%)	**30.86**
Beta	**1.29**
Average Daily Volume (sh)	**17,828**
Shares Outstanding (mil)	**54**
Market Capitalization ($mil)	**$12**
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 (%)	**5.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**22.0**
P/E using 2015 Estimate	**11.0**
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	$2,834 E	$2,992 E	$11,415 E
2015					$12,699 E
2016					$14,293 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 E	$0.00 E	$0.01 E
2015					$0.02 E
2016					$0.02 E

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

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Q2 2014 Financial Results: Another Very Strong Quarter, Moving Price Target From $0.60 to $0.70/share…

Corgenix reported financial results for the fiscal second quarter ending December 31, 2013. Results were largely in-line but slightly better than our estimates. Particularly noteworthy was relative q-to-q strength in international sales. While international sales fell 18% on a y-o-y basis, they showed a nice rebound sequentially, jumping more than 100% from Q1. As we noted in our previous update, we had expected international sales to firm up throughout the remainder of fiscal 2014.

CONX continues to grow both the top-line as well as margins with gross margins continuing to exhibit greater strength with a higher volume of sales. Similar to the previous four quarters, gross margin was relatively strong and better than our estimate. Management's focus on improvement to manufacturing processes is clearly paying dividends in the form of wider gross margins, which widened from 42.4% in fiscal 2012 to 44.8% in 2013 (with some of this improvement also likely a result of significantly greater services-related revenue) and a beefy 47.4% average through the first six months of fiscal 2014. Importantly, management has remained diligent on operating expenses as well. This one-two-three punch has been the catalyst in driving more revenue to the bottom line and improving earnings and cash flow. We expect this trend to continue.

Management continues to guide towards full year revenue of more than $11M with "substantial improvements in net income and EBITDA" compared to fiscal 2013. As results and operational progress has very closely tracked our expectations, we have made no material adjustments to our model or outlook for the company. We look for revenue of $11.5M (+13%), net income of $615k (vs. $275k in 2013) and EPS of $0.01 (vs. $0.01 in 2013) for fiscal 2014.

Our per share price target has moved from $0.60 to $0.70 as a result of comp valuations increasing since our last update.

Revenue
Q2 revenue of $2.7 million increased 9% yoy (down 6% sequentially) and was about 3% ahead of our estimate. For the six months ending 12/31/2013 revenue was $5.6M, up 5% from $5.3M in the year-earlier period and an all-time record.

Strength in coagulation product sales (+46%) along with a nice yoy jump in contract manufacturing revenue (+55%) were the major catalysts behind the Q2 revenue growth. While the big increase in coagulation revenue was more a favorable timing event, contract manufacturing has and is expected to continue to benefit from contracts with BG Medicine and diaDexus, among others.

Meanwhile AspirinWorks sales fell 3% from the same period in 2013 - although we note AspirinWorks sales in the year earlier period were exceptionally strong due to a large stocking order from China making Q2 2012 a tough comp to beat. We suspect that vast majority of ApirinWorks sales continues to come from the U.S., with very little contribution from either Europe or China.

Our model for the remainder of fiscal 2014 assumes AspirinWorks sales increase by about 15% - 20% per quarter from the most recent period and largely represent just the U.S. market. While we believe there remains substantial opportunity in the U.S. market for the ELISA AspirinWorks test given the somewhat shallow penetration rate to-date, Europe and China represent the most significant growth opportunities for the product. Specifically China for the ELISA test and Europe for the automated version, although we do not expect much in the way of sales from either area until beginning sometime in fiscal 2015 (on the Q2 call mgmt noted contribution from China could commence ~fiscal Q4 2014). The automated version, which will be marketed as TxBCardio, was filed with FDA for 510(k) clearance in mid-December. This potentially puts the product on the U.S. market in late fiscal 2014 or early 2015. Submission for CE Mark, to allow for sale in Europe, was expected to also happen in late 2013 but this has been delayed as CONX gathers additional data to support the filing.

Meanwhile, contract manufacturing continues to be the most consistent driver of CONX's top-line, posting yoy growth for the last six straight quarters. Contract manufacturing accounted for 21% of revenue in fiscal 2013, 29% of revenue in the first six months of fiscal 2014 and we model it to account for 29% of total revenue for the full current year. Contract manufacturing continues to benefit from the recent agreement with diaDexus to manufacture that company's cardiovascular PLAC test as well as CONX's ongoing relationship with BG Medicine. We think

contract manufacturing will continue to be a significant driver of total revenue beyond 2014 as CONX continues to aggressively market this business and scores additional customers.

Geographically, international sales rebounded nicely in Q2. While down 18% on a yoy basis, international sales increased 131% sequentially. The yoy decrease should also be put into context as the year earlier period showed the highest level of international sales since early fiscal 2011. Meanwhile, domestic sales posted 15% yoy growth.

GM / Operating Expenses / Net Income
Revenue growth is not the only recently recurring theme with CONX's results. Wider gross margins and improving operating margins have also been a trend. The combination of revenue growth, beefier gross margins and near-stable operating expenses has pushed more sales down the income statement and has resulted in the improved earnings and cash generation.

Higher production volumes along with management's efforts to control costs and improve processes have borne fruit in the forms of wider gross margins and meaningful improvement to operating margins and net income. 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 has continued into the current year with GM coming in at 46.3% in Q1 and 48.6% in Q2. In fact the most recent quarter had the highest GM of any quarter since Q2 2011.

Operating expenses as a % of revenue have also shown meaningful improvement, falling from 43.4% in 2012 to just 41.9% in 2013. Through the first 6 months of 2014 this remained at a respectable 42.3% and was just 41.8% in the most recent quarter. We continue to look for increasing operating leverage as a result of a combination of growing revenue and realized benefits of CONX's ongoing focus on cost control and implementation of efficiency measures.

Q2 net income and EPS were $179k and $0.00, compared to our $46k and $0.00 estimates. We currently model 2014 revenue of $11.4 million (+12%). We estimate 2014 net income and EPS of $587k and $0.01.

Cash
The company's cash position remains very healthy. Importantly, CONX is now generating positive operating cash flow (ex-changes in w/c - which we believe is the best representation of operational health). CONX exited Q2 with $2.0M in cash and equivalents, down slightly from $2.1 million at the end of Q1. Q2 cash flow from operating activities was an outflow of $117k but, ex-changes in working capital, this was an inflow of $283k. Through the first six months of fiscal 2014, cash flow from operations was an outflow of $123k but, ex-changes in working capital, this was an inflow of $452k. The balance sheet remains very healthy.

Operational Update / Upcoming Milestones
Fiscal 2013 (ended June 30, 2013) was a record year for CONX despite delays in certain regulatory approvals and product launches that had been expected to make a contribution during the year but now are expected to initially benefit fiscal 2014. These new product introductions, along with anticipated continued growth from the likes of AspirinWorks, an expanded presence internationally including in China and newly consummated contract manufacturing and services agreements should set the stage for another record revenue year in 2014. Management also expects to see contribution in fiscal 2014 from the recently penned agreement with Health Diagnostic Laboratory and believes this could eventually generate significant revenues for CONX. On the Q2 call management again reiterated that they intend to continue to be focused on controlling operating expenses and in implementing process improvements which should benefit gross and operating margins. We think top-line growth, wider gross margins and bigger operating margins can result in net income more than doubling in 2014 compared to the prior year. We also believe fiscal 2015 has potential to be another double-digit revenue growth year for the company as new product launches, some of which are anticipated to happen in late-2014/early-2015, begin to make a positive impact to the income statement.

> In October 2013 CONX announced an agreement with Health Diagnostic Laboratory Inc (HDL) whereby HDL will use the AtherOx technology to develop a Laboratory Developed Test (LDT). Term of the agreement is 3 years, CONX retains ownership of the technology, CONX will supply reagents for the test and will be paid based on number of tests (although specific per-unit pricing wasn't disclosed). Management expects significant revenue from this HDL collaboration and expects to see some contribution later this fiscal year. CONX will also continue to develop the AtherOx technology on their own and outside of this relationship

> In May 2013 CONX announced agreement with Eli Lilly (LLY) for development of companion diagnostic related to LLY's oncology platform. In December CONX announced launch of the product - a Research-Use-Only Hepcidin ELISA test - at the American Society of Hematology meeting. The test is based on technology developed by LLY. The test measures serum concentrations of Hepcidin - which is a valuable marker in research of cancer and other chronic diseases. CONX recently noted a renewed focus on companion diagnostics - this deal with LLY is the initial major foray via a strategic partnership. Companion diagnostics could eventually become a meaningful part of the overall business. CONX also noted that this initial collaboration with LLY was positive for both parties, which potentially opens the door for further joint work down the road.

> In July 2013 CONX announced contract manufacturing agreement with EDP Biotech for that company's ColoMarker blood-based colorectal cancer test. EDP website indicates the test could be CE Marked in near-term. We think this could also potentially contribute to contract manufacturing revenue during the current year, although currently unclear as to how meaningful a revenue opportunity this is, particularly as the test is not currently FDA approved.

> Expanding the capabilities of the contract manufacturing and services business in order to bring in additional contracts and customers is a high priority for CONX. These efforts are clearly already paying off. We anticipate additional customer wins over the near-to-mid term.

> Continue progress on development and clinical trials of infectious disease products with collaboration partners including Tulane University. Lassa virus rapid test CE Marked in May. Expect to bring other infectious disease products to market in near future

> 510k submission to FDA for ELISA Hyaluronic Acid (HA) test was made in November. FDA approval could come within ~12 months. FDA clearance would significantly expand the market for the test as currently commercialized version is Research-Use-Only - FDA clearance would allow sales to clinical market for patient diagnosis. Mgmt noted on Q2 call that feedback from FDA through ongoing discussions has been very positive. Mgmt believes FDA clearance could come by end of calendar 2014. We view this as a high potential product given that it will be the only FDA cleared HA test on the market - we model this to make a small contribution to revenue beginning in late fiscal 2015 and a more material contribution beginning in fiscal 2016.

> Automated AspirinWorks Test (TxBCardio): FDA 510(k) application submitted in mid-December with initial data supporting use of the test. CONX expects to make add'l FDA filings to support other indications. CE Mark submission had also been expected late calendar 2013 but this has been pushed back as CONX gathers add'l data to support the submission. CONX now shooting for late-Spring for initial CE Mark filing. Follow-on CE filings also expected to broaden label.

> Investigating ancillary applications for AspirinWorks biomarker - may have utility in other clinical applications - working with scientists and physicians throughout the world on this. Could eventually lead to clinical trials.

> AtherOx - have made significant progress in overcoming obstacles to be able to manufacture the product - these have largely been cleared. Recent game-plan was to begin add'l studies in support of FDA filing but deal with HDL to commercialize part of AtherOx technology has pushed back U.S. commercialization timelines for CONX's own AtherOx product. Current plan is to complete studies in Europe to support CE Mark submission - hope to have CE Mark in late calendar 2014. Will then turn attention to clinical trials in U.S. in support of FDA approval. We think best case scenario is the product is FDA cleared in early fiscal 2016. Management remains committed to the product and believes it could eventually be their biggest product ever.

> Expect regular flow of regulatory filings for new products as well as new product launches. Much of this will be related to ELITech agreement.

> China / India - beef up distribution and continue to roll out AspirinWorks in China and soon India. Bring other (existing and pipeline) products to these Asian markets. Expect Asia to be a big opportunity for near and long-term growth. AspirinWorks roll-out in China has been and will continue to be methodical and preceded by gaining requisite approvals/reimbursement in designated area of the country. We expect China-related sales to be a more substantial overall contributor to AspirinWorks sales in fiscal 2015.

> U.S. market - continue to expand the customer base through new product introductions and sales efforts. Recently introduced Skylab instrument already starting to pay dividends by bringing in new customers. Skylab and AspirinWorks remains the company's major focus for the U.S. Direct sales efforts, clinical studies and published manuscripts should help drive further awareness of AspirinWorks over the near-to-mid-term.

Maintaining Outlook / Price Target

CONX turned in another record year in fiscal 2013 with revenue up 10% and turned in positive net income and cash flow. This was despite delays in certain regulatory approvals and product launches that had been expected to make a contribution during the year but now are expected to initially benefit fiscal 2014. These new product

introductions, along with anticipated continued growth from the likes of AspirinWorks, an expanded presence internationally including in China and newly consummated contract manufacturing and services agreements (including those with EDP Biotech and Eli Lilly) should set the stage for another record revenue year in 2014.

Management also expects to see contribution in fiscal 2014 from the recently penned agreement with Health Diagnostic Laboratory and believes this could eventually generate significant revenues for CONX. Management has also made clear that they intend to continue to be focused on controlling operating expenses and ongoing process improvements which has already benefited gross and operating margins.

We think top-line growth and bigger operating margins can result in net income increasing by over 100% in 2014. We also believe fiscal 2015 has potential to be another double-digit revenue growth year for the company as new product launches, some of which are anticipated to happen in late-2014/early-2015, begin to make a positive impact to the income statement.

We currently model 2014 revenue, net income and EPS of $11.4 million (+12%), $587k (+113%) and $0.01. We remain big believers in Corgenix and management's ability to deliver ever-improving financial results and build long-term shareholder value.

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 $11.4 million (+12%) in revenue in fiscal 2014 and look for this to grow at a CAGR of about 12% through 2017, reflecting North America and International annual revenue growth of approximately 11% and 17%, respectively.

Income / EPS

We model net income and EPS of approximately $587k and $0.01 in 2014, compared to $279k and $0.01 in 2013. This reflects our ~12% estimated growth in revenue, ~240 basis point widening of GM and some leverage in operating expenses.

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 2017.

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-2017 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 $0.70/share, which is up from $0.60 since our last update (11/15/2013). Based on CONX's current market price of approximately $0.22/share, indicates the stock remains significantly undervalued. As such, we continue to recommend accumulating the stock and are maintaining our Outperform rating on Corgenix. Our per share price target has moved from $0.60 to $0.70.

Ticker	Est Long-term EPS growth	Implied 2017 P/E	Price / Book Value	Price / Sales (ttm)	EV / Sales (ttm)
ERB	NA	NA	8.1	4.9	4.5
DIA.MI	5.8%	16.7	NA	NA	4.0
OSUR	NA	NA	2.3	3.8	2.7
TRIB	14.3%	18.6	3.3	6.7	6.3
CEMI	9.9%	12.3	1.5	1.0	0.8
IDXX	NA	NA	12.4	4.7	4.0
VIVO	9.1%	15.0	5.6	4.6	4.8
QDEL	NA	NA	4.3	5.4	5.4
ABAX	7.0%	33.5	4.6	4.8	4.2
Average	**10.3%**	**19.4**	**5.3**	**4.5**	**4.1**

	Value using 2017 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	$0.58	$0.58	$0.85	$41.48	$0.79	**$0.70**

FINANCIAL MODEL

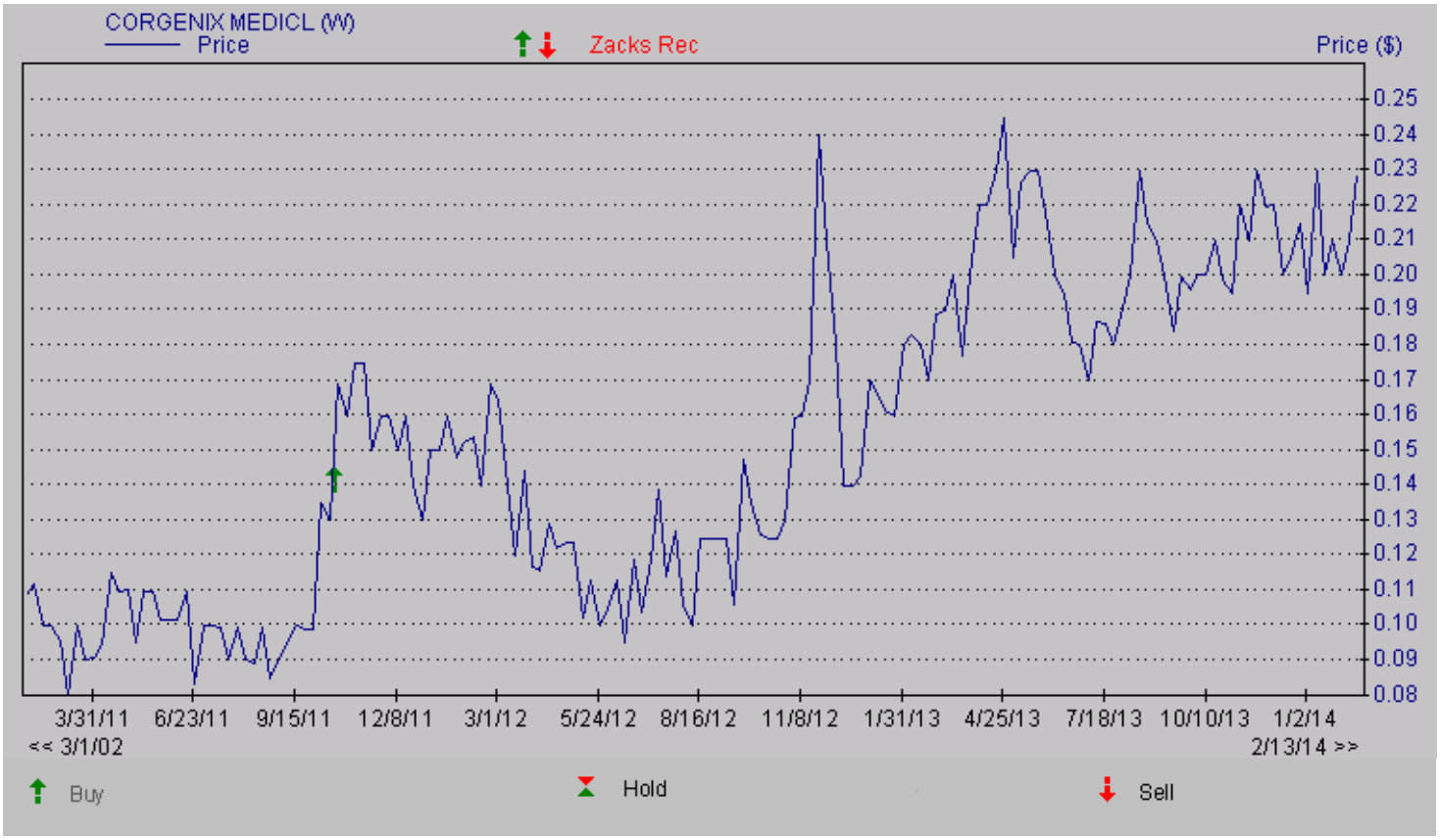
Corgenix Medical Corporation

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
North America sales	$8,898.0	$2,720.7	$2,348.8	$2,492.0	$2,640.0	$10,201.5	$11,274.4	$12,590.1	$14,042.4
y-o-y growth	*9.7%*	*11.2%*	*15.4%*	*10.2%*	*22.5%*	*14.6%*	*10.5%*	*11.7%*	*11.5%*
International sales	$1,289.8	$156.8	$362.9	$342.0	$352.0	$1,213.7	$1,424.9	$1,702.7	$1,944.5
y-o-y growth	*9.7%*	*-58.2%*	*-18.0%*	*45.9%*	*48.2%*	*-5.9%*	*17.4%*	*19.5%*	*14.2%*
Revenue	$10,187.9	$2,877.5	$2,711.7	$2,834.0	$2,992.0	$11,415.3	$12,699.3	$14,292.8	$15,987.0
YOY Growth	*9.7%*	*2.0%*	*9.4%*	*13.6%*	*25.0%*	*12.0%*	*11.2%*	*12.5%*	*11.9%*
Cost of Goods Sold	$5,624.3	$1,546.6	$1,394.7	$1,516.9	$1,572.7	$6,030.9	$6,691.0	$7,494.3	$8,355.6
Gross Income	$4,563.5	$1,331.0	$1,317.0	$1,317.1	$1,419.3	$5,384.4	$6,008.3	$6,798.5	$7,631.3
Gross Margin	44.8%	46.3%	48.6%	46.5%	47.4%	47.2%	47.3%	47.6%	47.7%
Sales / Mktg	$1,701.6	$483.7	$429.6	$476.1	$511.6	$1,901.1	$2,108.1	$2,301.1	$2,557.9
% S&M	*16.7%*	*16.8%*	*15.8%*	*16.8%*	*17.1%*	*16.7%*	*16.6%*	*16.1%*	*16.0%*
R&D	$582.8	$205.1	$147.7	$165.0	$135.0	$652.8	$665.0	$675.0	$700.0
% R&D	*5.7%*	*7.1%*	*5.4%*	*5.8%*	*4.5%*	*5.7%*	*5.2%*	*4.7%*	*4.4%*
G&A	$1,982.8	$540.5	$558.9	$562.0	$552.0	$2,213.5	$2,298.6	$2,401.2	$2,637.8
% G&A	*19.5%*	*18.8%*	*20.6%*	*19.8%*	*18.4%*	*19.4%*	*18.1%*	*16.8%*	*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	$114.0	$220.7	$617.1	$936.6	$1,421.2	$1,735.6
Operating Margin	*2.9%*	*3.5%*	*6.7%*	*4.0%*	*7.4%*	*5.4%*	*7.4%*	*9.9%*	*10.9%*
Total other income	($17.9)	($3.7)	($2.2)	($4.9)	($4.9)	($15.7)	($7.0)	$10.0	$15.0
Pre-Tax Income	$278.5	$98.0	$178.5	$109.1	$215.8	$601.4	$929.6	$1,431.2	$1,750.6
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	$109.1	$215.8	$587.4	$929.6	$1,431.2	$1,750.6
Net Margin	*2.7%*	*2.9%*				*5.1%*	*7.3%*	*10.0%*	
EPS	$0.01	$0.00	$0.00	$0.00	$0.00	$0.01	$0.02	$0.02	$0.03
YOY Growth	*NA*	*-61.6%*				*98.2%*	*53.0%*	*48.7%*	
Diluted Shares O/S	51,233	54,332	54,143	55,500	56,500	55,119	57,000	59,000	63,000

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