Zacks Small-Cap Research

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Corgenix Medical (CONX-OTC)

CONX: *Guidance Affirmed For Record Revenue in 2013*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (05/14/13)	$0.23
Target Price	**$0.60**

OUTLOOK

Coming off 17% revenue growth in fiscal 2012, management is guiding for low double digit % growth and positive income and cash flow in 2013. AspirinWorks and Contract Manufacturing have been recent revenue catalysts. Int'l revenue disappointed in 2012 but now looks to have turned the corner, posting 19% growth in first nine months of fiscal 2013 (although down in Q3). AspirinWorks and new product launches (domestically and overseas), along with penetration of new geographic markets will be relied on to drive revenue longer-term. Based on comparable valuations, Corgenix's shares trade significantly cheaper than warranted. Our fair value estimate is $0.60/share. We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$0.25**
52-Week Low	**$0.08**
One-Year Return (%)	**72.63**
Beta	**1.49**
Average Daily Volume (sh)	**25,597**
Shares Outstanding (mil)	**50**
Market Capitalization ($mil)	**$11**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**12**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**3.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**23.0**
P/E using 2014 Estimate	**23.0**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	$2,178 A	$2,066 A	$2,717 A	$2,328 A	$9,289 A
2013	$2,821 A	$2,478 A	$2,495 A	$2,571 E	$10,366 E
2014					$11,795 E
2015					$13,053 E

Earnings per Share

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

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

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Q3 2013 Financial Results

Corgenix reported financial results for the fiscal third quarter 2013 ending March 31, 2013 on May 14th. Revenue and net income were very similar to that of the previous quarter, as was the differences relative to our estimates. CONX generated ~$161k and ~$618k in cash from operating activities (ex-changes in working capital) through the three and nine months ending 3/31/13.

Revenue was $2.5 million, flat sequentially and down about 8% on a yoy basis (we note that fiscal Q3 2012 was a particularly strong revenue quarter, making it a tough yoy comp.). Similar to Q2, revenue came in about 7% lower than our estimate but strong gross margin and operating expense control resulted in net income coming in a hair better than our number. Management revised its previous full-year revenue guidance downward from $10.6 million - $11.0 million to $10.3 million - $10.4 million - with the downward revision mostly related to some (anticipated short-term) delays of additional shipments of AspirinWorks to China. The current guidance still implies a record revenue year and growth of between 11% - 12%. Management's current guidance for full-year net income is $300k - $400k (which remains in-line with our estimate prior to Q3 results as well as our current estimate). We model revenue of $2.6 million (+10%) in Q4 and $10.4 million (+12%) for the full year.

Operating expenses remained largely flat from Q2 and were in-line with our estimate. Gross margin was particularly strong in the current quarter despite a fairly precipitous drop in the non-products (i.e. - R&D and grants) margin. The recent GM improvement was credited to manufacturing efficiencies which management noted they should continue to benefit from. We have only made some very slight upward revisions to our modeled GM which could end up somewhat conservative.

On the revenue front, International sales broke the two-quarter streak of double-digit revenue growth with Q3 revenue dipping 7%. International sales can be somewhat volatile q-to-q and we continue to model positive growth in Q4 and about 17% growth for the full year. Management did note that additional AspirinWorks orders to China, which initially commenced in Q2, have been delayed due to current lack of reimbursement and indicated that this was a contributor to the dip in international revenue. While regulatory approval is in place nationwide in China, reimbursement must be approved on a territory-by-territory basis but the delay is not expected to be prolonged as the approval process should be relatively swift.

North American sales fell at a similar rate (8%) in Q3 and were negatively impacted by a 53% decrease in contract R&D revenue - which can be very volatile q-to-q. AspirinWorks sales, while down 29% from Q2, actually increased by 47% in the U.S. over that period, indicating that the relative weakness in AspirinWorks sales contributed little to nothing to the 8% yoy drop in domestic revenue.

But while AspirinWorks sales increased ~26% through the first nine months of fiscal 2013, they are well off the anticipated doubling run-rate that management had earlier guided towards for the full year. This has been somewhat of a disappointment and related to the planned slowdown in purchasing from a major U.S. customer that started during Q2 as well as zero sales to China in Q3. Despite these hiccups, management is clearly determined in re-accelerating growth. Near-term growth catalysts for AspirinWorks in the U.S. include further expansion of the customer base, increasing utilization and eventually, introduction of the automated version. For the near-term, efforts focused on increasing awareness including direct sales efforts as well as clinical studies and published articles which should drive further interest from the clinical community and which are expected to pay dividends. The recent agreement with Atherotech is a sign of meaningful progress in building the AspirinWorks franchise. CONX noted on the call that AspirinWorks is now in the majority of the cardiac labs and this broad footprint should benefit domestic sales of the test going forward. For international markets, particularly China, it will be a matter of working with ELITech and navigating the appropriate channels to gain reimbursement in various provinces (expected to start coming this year) and to expand their international footprint.

Operational progress towards growing the various business continued during the quarter which included an agreement with Atherotech Diagnostics Lab to carry the company's AspirinWorks test (which has been a big contributor to CONX's recent revenue growth), expansion of the contract services business to include additional offerings and services, and gaining CE Mark of a rapid test for lassa fever, dubbed ReLASV which should launch in the near-term.

Near-to-Mid Term Milestones

- Build up customer base and revenue from new contract services offerings

- 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
- Submit Hyaluronic Acid (HA) test to FDA in early Q4
- Automated AspirinWorks Test FDA submission and CE Mark in Q4
- Companion diagnostics products program - continue to work w/ a partner (pharma?) and is in feasibility stage - expect project to progress over the near term, at which time CONX may be able to discuss further plan forward. CONX noted on the Q3 call that they hope to be able to name their initial alliance within the coming month(s). Companion diagnostics could eventually become a meaningful part of the business
- 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. Expect to begin add'l studies in coming quarter(s) and simultaneously talking to potential collaborators for the product. Management remains committed to the product and believes it could eventually be their biggest product ever. If all goes right, FDA filing could potentially happen sometime in 2014
- 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
- 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
- Contract manufacturing - bring on additional customers/clients, increase capabilities and offerings to appeal to wider potential customer base, continue to increase efficiencies

Revenue

Q3 revenue of $2.5 million consisted of $2.3 million (-8%) in sales from North America and $234k (-7%) internationally, compared to our $2.4 million and $322k estimates. The reimbursement situation in China with AspirinWorks will hopefully be sufficiently addressed in relatively short order. We now model 17% growth in international sales in fiscal 2013. Going forward we expect international sales to be fueled by new product launches, entry into new geographic markets and an ongoing ramp up in activity by ELITech with deeper penetration in existing markets.

Revenue from the domestic business showed meaningful yoy contraction for the first time since fiscal Q3 2011, which we think is directly attributable to the significantly lower contract R&D revenue over that period. But while domestic sales were down 8% yoy, they grew about 11% on a sequential basis. The 11% sequential growth benefitted from 47% growth in domestic AspirinWorks sales from Q2. Domestic sales of AspirinWorks had been negatively impacted by a reduction in sales to a large lab customer due to a planned temporary slowdown - which management talked about on the previous earnings call. On the Q3 call, CONX noted that sales have now begun to recover.

Net Income / EPS

Q3 net income and EPS came in at $62k and $0.00, compared to our $19k and $0.00 estimates. Despite the 7% miss on revenue relative to our estimate, very strong gross margin (47% actual vs. 43% estimate) and operating expenses in-line with our numbers resulted in the beat on net income. We continue to expect to see additional operating leverage with revenue growth and for GM to maintain at the low-to-mid 40% level for the remainder of 2013 (and slightly widening in future years with economies of scale).

Cash

Corgenix exited Q3 with $1.9 million in cash and equivalents, up from $1.2 million at the end of Q2 (12/31/2012). Cash flow from operating activities was an inflow of $412k but stripping out changes in working capital (which is more indicative of cash from operations) it was an inflow of $161k. For the nine months ending 3/31/2013 cash flow from operating activities was an inflow of $422k ($618k, ex-changes in working capital). Debt remained relatively insignificant at quarter end.

Maintaining Outlook / Price Target
Despite the dip in Q3 revenue, we continue to believe CONX is well-positioned for consistent long-term improvement in financial performance driven by meaningful and tangible progress on pipeline products, recent product introductions, collaborations, and entry into additional geographical territories. We remain big believers in Corgenix and management's ability to deliver ever-improving financial results and build long-term shareholder value.

We have made some minor adjustments to our model following Q3 results, mostly related to Q4 revenue. Our 2013 net income and EPS remain substantially unchanged at $331k and $0.01. Similarly our long-term outlook, recommendation and price targets all remain intact. 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 $10.4 million (+12%) in revenue in fiscal 2013 and look for this to grow at a CAGR of about 13% through 2016, reflecting North America and International annual revenue growth of approximately 11% and 22%, respectively.

Income / EPS
We model net income and EPS of approximately $331k and $0.01 in 2013, up from a net loss of $623k and EPS of (-$0.01 EPS) in 2012. This reflects our ~12% estimated growth in revenue, ~170 basis point widening of GM and some leverage in operating expenses coming off of the R&D and SG&A investments made in the prior year.

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 2016.

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-2016 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 $0.60/share. Based on CONX's current market price of approximately $0.23/share, indicates the stock remains significantly undervalued. As such, we continue to recommend accumulating the stock and are maintaining our Outperform rating on Corgenix.

Ticker	Est Long-term EPS growth	Implied 2017 P/E	Price / Book Value	Price / Sales (ttm)	EV / Sales (ttm)
ERB	NA	NA	2.3	1.8	1.8
DIA.MI	6.4%	13.2	NA	NA	3.4
OSUR	NA	NA	1.6	2.9	2.1
TRIB	15.0%	13.3	2.0	4.3	3.4
CEMI	12.4%	21.1	2.5	1.4	1.3
IDXX	NA	NA	7.5	3.6	3.7
VIVO	12.4%	15.5	6.4	5.0	4.8
QDEL	NA	NA	3.7	4.5	4.3
ABAX	12.4%	25.1	5.9	5.6	5.1
Average	**12.0%**	**17.4**	**4.0**	**3.6**	**3.3**

	Value using 2016 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	$0.52	$0.42	$0.70	$33.40	$0.66	**$0.58**

FINANCIAL MODEL

Corgenix Medical Corporation

	2012 A	Q1A	Q2A	Q3A	Q4E	2013 E	2014 E	2015 E	2016 E
North America sales	$8,113.5	$2,445.8	$2,035.7	$2,261.1	$2,246.2	$8,988.7	$10,094.4	$10,975.8	$12,355.0
y-o-y growth	*25.1%*	*30.4%*	*17.4%*	*-8.2%*	*10.1%*	*10.8%*	*12.3%*	*8.7%*	*12.6%*
International sales	$1,175.8	$375.3	$442.6	$234.4	$325.0	$1,377.3	$1,701.0	$2,076.9	$2,515.1
y-o-y growth	*-19.4%*	*24.1%*	*33.4%*	*-7.4%*	*12.7%*	*17.1%*	*23.5%*	*22.1%*	*21.1%*
Revenue	$9,289.4	$2,821.1	$2,478.2	$2,495.6	$2,571.2	$10,366.0	$11,795.3	$13,052.7	$14,870.1
YOY Growth	*17.0%*	*29.5%*	*20.0%*	*-8.2%*	*10.4%*	*11.6%*	*13.8%*	*10.7%*	*13.9%*
Cost of Goods Sold	$5,355.0	$1,619.1	$1,409.3	$1,322.4	$1,447.3	$5,798.1	$6,494.3	$7,074.1	$7,953.7
Gross Income	$3,934.4	$1,202.0	$1,068.9	$1,173.1	$1,123.9	$4,567.9	$5,301.0	$5,978.6	$6,916.4
Gross Margin	42.4%	42.6%	43.1%	47.0%	43.7%	44.1%	44.9%	45.8%	46.5%
Sales / Mktg	$1,996.9	$441.4	$435.1	$399.3	$462.8	$1,738.6	$2,028.8	$2,179.8	$2,423.8
% S&M	*21.5%*	*15.6%*	*17.6%*	*16.0%*	*18.0%*	*16.8%*	*17.2%*	*16.7%*	*16.3%*
R&D	$517.1	$127.2	$98.8	$173.3	$128.5	$527.8	$502.0	$487.0	$472.0
% R&D	*5.6%*	*4.5%*	*4.0%*	*6.9%*	*5.0%*	*5.1%*	*4.3%*	*3.7%*	*3.2%*
G&A	$1,889.3	$428.8	$479.2	$533.6	$504.1	$1,945.7	$2,005.2	$2,140.6	$2,379.2
% G&A	*20.3%*	*15.2%*	*19.3%*	*21.4%*	*19.6%*	*18.8%*	*17.0%*	*16.4%*	*16.0%*
Disposal of assets	$17.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($486.2)	$204.6	$55.8	$67.0	$28.5	$355.9	$765.0	$1,171.2	$1,641.4
Operating Margin	*-5.2%*	*7.3%*	*2.2%*	*2.7%*	*1.1%*	*3.4%*	*6.5%*	*9.0%*	*11.0%*
Total other income	($117.5)	($6.3)	($5.4)	($5.0)	($5.0)	($21.6)	($13.0)	$24.0	$63.0
Pre-Tax Income	($603.7)	$198.3	$50.4	$62.1	$23.5	$334.3	$752.0	$1,195.2	$1,704.4
Taxes (benefit)	$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	$19.7	$3.1	$0.0	$0.0	$0.0	$3.1	$0.0	$0.0	$0.0
Income to common	($623.4)	$195.2	$50.4	$62.1	$23.5	$331.2	$752.0	$1,195.2	$1,704.4
Net Margin	*-6.7%*	*6.9%*	*2.0%*	*2.5%*	*0.9%*	*3.2%*	*6.4%*	*9.2%*	*11.5%*
EPS	($0.01)	$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.02	$0.03
YOY Growth	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*70.6%*	*58.9%*	*42.6%*
Diluted Shares O/S	44,864	48,543	50,756	51,917	53,122	51,084	68,000	68,000	68,000

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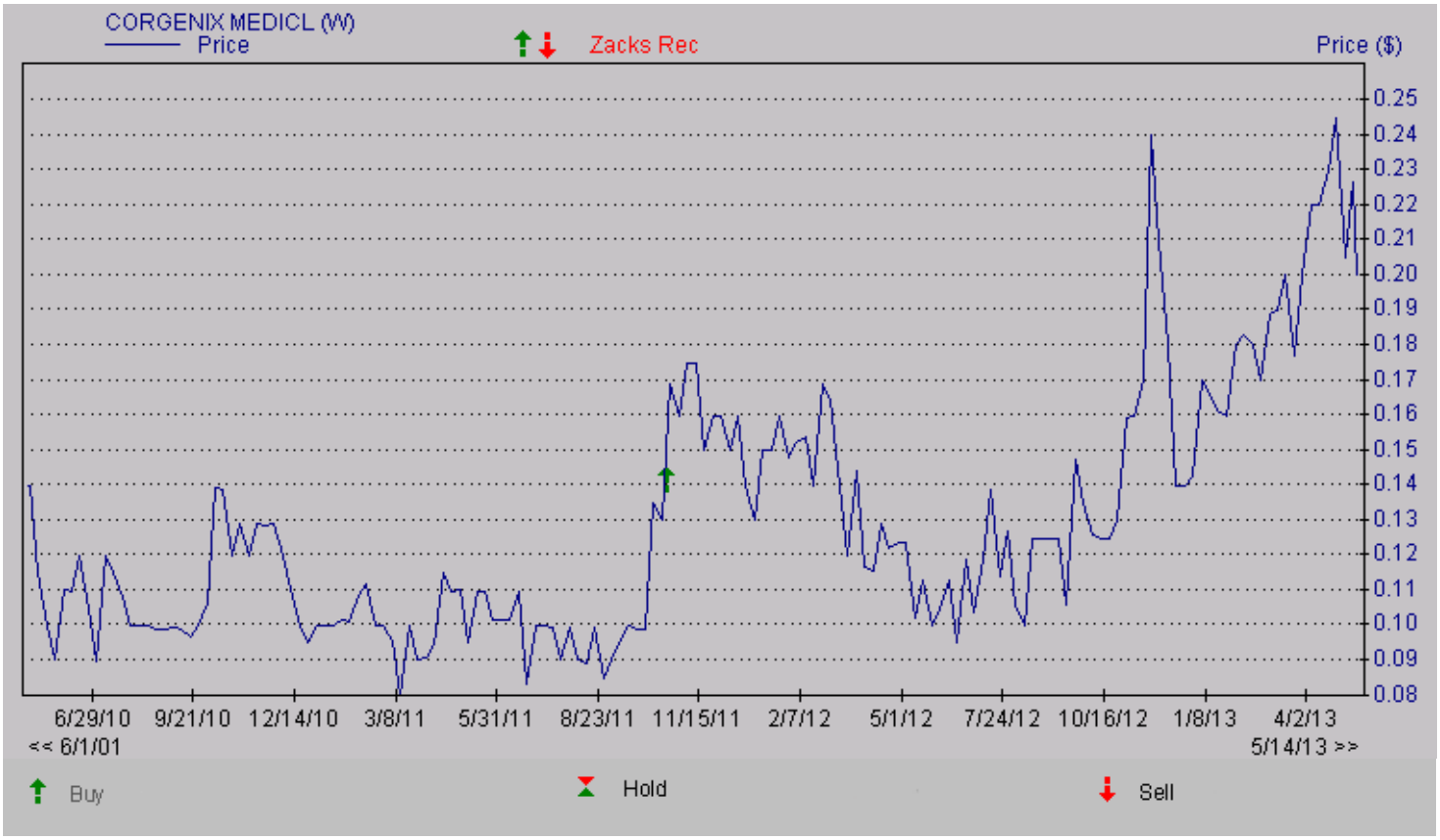
HISTORICAL ZACKS RECOMMENDATIONS



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