Zacks Small-Cap Research

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Corgenix Medical (CONX-OTC)

CONX: *Record Sales in Q1. Strong Outlook Intact.*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (11/15/13)	$0.21
Target Price	**$0.60**

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 w/ record quarterly revenue posted in Q1. 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 $0.60/share. We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$0.25**
52-Week Low	**$0.10**
One-Year Return (%)	**11.32**
Beta	**1.05**
Average Daily Volume (sh)	**27,817**
Shares Outstanding (mil)	**50**
Market Capitalization ($mil)	**$11**
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	**21.0**
P/E using 2015 Estimate	**10.5**
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)
2013	$2,821 A	$2,478 A	$2,495 A	$2,393 A	$10,188 A
2014	$2,878 A	$2,642 E	$2,884 E	$3,002 E	$11,406 E
2015					$12,667 E
2016					$14,230 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 E	$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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Q1 2014 Financial Results: Record revenue**,** look for double-digit growth for full year…

Corgenix reported financial results for the fiscal first quarter ending September 30, 2013. Results were generally in-line with our estimates with the top-line coming in slightly better and net income slightly lower than our numbers. Particularly noteworthy is that revenue in Q1 was an all-time record high (besting the previous record set in the comparable year-earlier period) despite relatively weak international sales (which management admitted were relatively "lousy" but due at least somewhat to timing) - we think international sales will firm up throughout the current year. Importantly, management still expects double-digit revenue growth for the full fiscal year with several potential catalysts materializing and making a contribution over the next few quarters.

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 and bigger operating margins can result in net income increasing by 75% in 2014.

Revenue

Q1 revenue of $2.9 million was an all-time record and up 20% sequentially, up 2% yoy and about 4% ahead of our $2.8 million estimate. Noteworthy is that revenue posted yoy positive growth despite the comparable year-earlier period being a touch comp to beat (Q1 2013 was the previous qrtly revenue record). Similar to the previous three 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 which came in at 46.3% in Q1 2014.

The strong revenue in Q1 can be mostly attributable to a big jump in contract manufacturing sales as well as a 73% increase in AspirinWorks sales. Contract manufacturing revenue was an all-time high while AspirinWorks sales of $319k, were the highest since fiscal Q4 2012. Importantly, almost all of ApirinWorks sales are coming from the U.S., with very little contribution from Europe and zero sales from China in Q1. Both of these areas represent potentially significant growth opportunities for the product, specifically China for the ELISA test and Europe for the automated version, the latter which is still expected to be submitted for regulatory approvals in the U.S. and Europe at the end of this month. On the call management indicated that they expect AsprinWorks to continue to generate relatively strong revenue throughout the year - we currently model 40%+ growth in AspirinWorks sales for the full fiscal year 2014, which compares favorably to the relatively disappointing 6% growth in fiscal 2013. Meanwhile, 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 during 2014 as CONX continues to aggressively market this business and scores additional customers.

International sales fell 34% sequentially and were down 58% yoy. As noted, some of this was attributed to timing. Management mentioned on the call that they are already seeing improvement in international-related sales in the current (Q2) quarter. Domestic sales were up 26% sequentially and 11% yoy with AspirinWorks and contract manufacturing the main catalysts. Revenue from every other itemized product and segment, aside from contract manufacturing and AspirinWorks declined on a yoy basis.

GM / Operating Expenses / Net Income

As noted, 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 continued into Q1 2014 with GM at 46.3%. Operating expenses as a % of revenue has also shown meaningful improvement, falling from 43.4% in 2012 to just 41.9% in 2013. While this ticked up to 42.7% in Q1 2014, some of this additional expense is project-related. 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.

Q1 net income and EPS were $84k and $0.00, in-line with our $136k and $0.00 estimates. We currently model 2014 revenue of $11.4 million (+12%). We estimate 2014 net income and EPS of $515k and $0.01.

Cash

CONX exited Q1 with $2.1 million in cash and equivalents, up slightly from $2.0 million at the end of fiscal 2013. Q1 cash flow from operating activities was an outflow of $6k, ex-changes in working capital it was an inflow of $170k. In September CONX swapped its revolving credit facility with one with a more favorable interest rate and terms. The balance sheet remains very healthy.

Operational Update / Upcoming Milestones

> 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. CONX noted on the Q1 call that launch is expected in December and this is a Research-Use Only (RUO) product (ie - sold to research institutions for applications outside of patient diagnosis). CONX will provide more details prior to the launch. CONX recently noted a renewed focus on companion diagnostics - this deal with LLY would be the initial major foray via a strategic partnership. Companion diagnostics could eventually become a meaningful part of the overall business. They 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.

> Automated AspirinWorks Test FDA and CE Mark submission still expected by the end of this month (November). This has been delayed but management seems confident this new submission timeline will be met.

> 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). Management remains committed to the product and believes it could eventually be their biggest product ever. Expect several development milestones to be met in the coming quarters and 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. 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 2014.

> 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 should benefit gross and operating margins. We think top-line growth and bigger operating margins can result in net income increasing by 75% in 2014.

We currently model 2014 revenue, net income and EPS of $11.4 million (+12%), $515k (+75%) 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 $515k and $0.01 in 2014, compared to $279k and $0.01 in 2013. This reflects our ~12% estimated growth in revenue, ~170 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 $0.60/share. Based on CONX's current market price of approximately $0.21/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	4.1	2.7	2.6
DIA.MI	7.1%	14.3	NA	NA	3.8
OSUR	NA	NA	2.2	3.8	3.0
TRIB	13.3%	14.0	2.7	5.7	4.9
CEMI	17.5%	18.7	1.7	1.4	1.2
IDXX	NA	NA	9.4	3.9	4.0
VIVO	12.1%	16.8	6.5	5.3	5.1
QDEL	NA	NA	4.4	5.4	5.3
ABAX	11.0%	24.7	5.2	4.9	4.5
Average	**12.3%**	**17.7**	**4.5**	**4.1**	**3.8**

	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	$0.53	$0.45	$0.78	$38.99	$0.74	**$0.63**

FINANCIAL MODEL

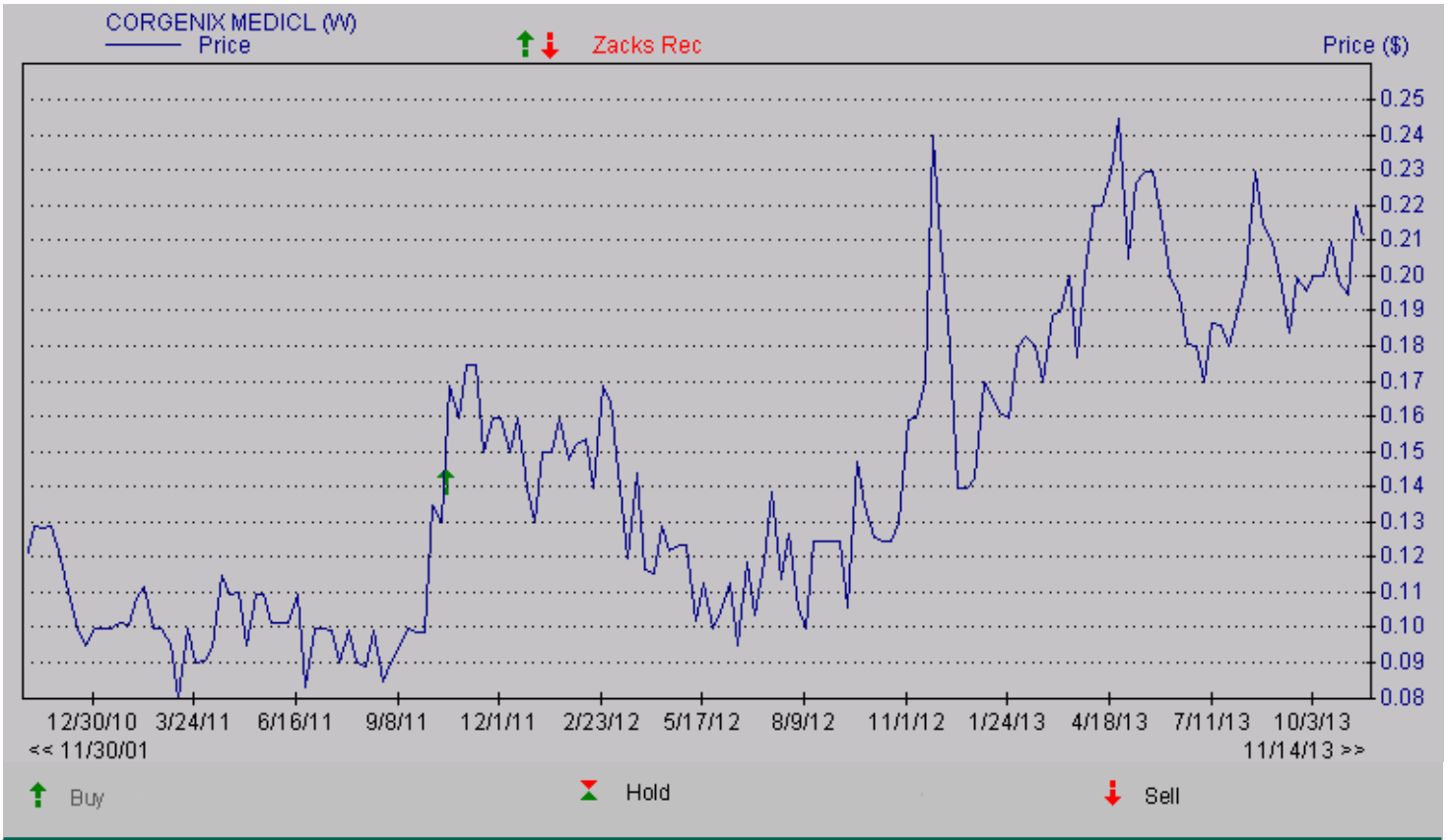
Corgenix Medical Corporation

	2013 A	Q1A	Q2E	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
North America sales	$8,898.0	$2,720.7	$2,440.0	$2,542.0	$2,650.0	$10,352.7	$11,431.5	$12,752.6	$14,215.8
y-o-y growth	*9.7%*	*11.2%*	*19.9%*	*12.4%*	*22.9%*	*16.3%*	*10.4%*	*11.6%*	*11.5%*
International sales	$1,289.8	$156.8	$202.0	$342.0	$352.0	$1,052.8	$1,236.0	$1,477.0	$1,686.8
y-o-y growth	*9.7%*	*-58.2%*	*-54.4%*	*45.9%*	*48.2%*	*-18.4%*	*17.4%*	*19.5%*	*14.2%*
Revenue	$10,187.9	$2,877.5	$2,642.0	$2,884.0	$3,002.0	$11,405.5	$12,667.6	$14,229.6	$15,902.5
YOY Growth	*9.7%*	*2.0%*	*6.6%*	*15.6%*	*25.5%*	*12.0%*	*11.1%*	*12.3%*	*11.8%*
Cost of Goods Sold	$5,624.3	$1,546.6	$1,434.4	$1,542.7	$1,577.9	$6,101.5	$6,754.4	$7,482.5	$8,320.3
Gross Income	$4,563.5	$1,331.0	$1,207.6	$1,341.3	$1,424.2	$5,304.0	$5,913.2	$6,747.0	$7,582.2
Gross Margin	44.8%	46.3%	45.7%	46.5%	47.4%	46.5%	46.7%	47.4%	47.7%
Sales / Mktg	$1,701.6	$483.7	$451.8	$493.2	$513.4	$1,942.0	$2,102.8	$2,291.0	$2,544.4
% S&M	*16.7%*	*16.8%*	*17.1%*	*17.1%*	*17.1%*	*17.0%*	*16.6%*	*16.1%*	*16.0%*
R&D	$582.8	$205.1	$182.0	$165.0	$118.0	$670.1	$650.0	$675.0	$700.0
% R&D	*5.7%*	*7.1%*	*6.9%*	*5.7%*	*3.9%*	*5.9%*	*5.1%*	*4.7%*	*4.4%*
G&A	$1,982.8	$540.5	$523.0	$562.0	$552.0	$2,177.5	$2,267.5	$2,390.6	$2,623.9
% G&A	*19.5%*	*18.8%*	*19.8%*	*19.5%*	*18.4%*	*19.1%*	*17.9%*	*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	$50.8	$121.2	$240.8	$514.5	$892.9	$1,390.5	$1,713.9
Operating Margin	*2.9%*	*3.5%*	*1.9%*	*4.2%*	*8.0%*	*4.5%*	*7.0%*	*9.8%*	*10.8%*
Total other income	($17.9)	($3.7)	($4.9)	($4.9)	($4.9)	($18.4)	($7.0)	$10.0	$15.0
Pre-Tax Income	$278.5	$98.0	$45.9	$116.3	$235.9	$496.1	$885.9	$1,400.5	$1,728.9
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	$45.9	$116.3	$235.9	$482.1	$885.9	$1,400.5	$1,728.9
Net Margin	*2.7%*	*2.9%*				*4.2%*	*7.0%*	*9.8%*	
EPS	$0.01	$0.00	$0.00	$0.00	$0.00	$0.01	$0.02	$0.02	$0.03
YOY Growth	*NA*	*-61.6%*				*62.3%*	*78.2%*	*52.7%*	
Diluted Shares O/S	51,233	54,332	54,700	55,500	56,500	55,258	57,000	59,000	63,000

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