Zacks Small-Cap Research

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Corgenix Medical (CONX-OTC)

CONX: *Record 2013. Look For Another Record In 2014.*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	10/18/11
Current Price (10/01/13)	$0.20
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. 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.

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	**$0.10**
One-Year Return (%)	**53.69**
Beta	**1.47**
Average Daily Volume (sh)	**20,796**
Shares Outstanding (mil)	**50**
Market Capitalization ($mil)	**$10**
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 (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**20.0**
P/E using 2015 Estimate	**10.0**
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)
2013	$2,821 A	$2,478 A	$2,495 A	$2,393 A	$10,188 A
2014	$2,758 E	$2,587 E	$2,884 E	$3,002 E	$11,231 E
2015					$12,535 E
2016					$14,135 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 E	$0.00 E	$0.00 E	$0.00 E	$0.01 E
2015					$0.02 E
2016					$0.03 E

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

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Q4 2013 Financial Results

Corgenix reported financial results for the fiscal fourth quarter and full-year ending June 30, 2013. While revenue was slightly below our estimate, the top-line miss was almost entirely offset by a much stronger than anticipated gross margin, the net result being a bottom-line number in-line with our estimate. And while the Q4 revenue number was marginally lower than our estimate, it did represent single-digit yoy growth and was more than enough to push CONX to another record revenue year. The financial improvement in fiscal 2013 was not just confined to revenue as CONX generated $275k in net income and $710k in cash from operations, substantially better than the $623k loss and $604k cash from operations (the latter which benefitted from a $682k drawdown in inventory during 2012) posted in 2012.

Revenue

Importantly, 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 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 more than doubling in 2014 from that generated in fiscal 2013.

Q4 revenue of $2.4 million was down 4% sequentially, up about 3% yoy and about 7% lower than our $2.6 million estimate. Q4 results were very similar to the previous two quarters relative to the difference to our estimates. With revenue missing our number by about 7% each quarter but the difference almost completely offset by stronger than modeled gross margin. 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). Meanwhile, the miss on revenue has also been fairly consistent over the last few quarters and largely tied to lower than expected AspirinWorks sales - with the introduction of the automated version (which has suffered through ongoing delays) now slated for fiscal 2014 (ending 6/30/2014), we expect aggregate AspirinWorks revenue to show much more meaningful growth in the current fiscal year compared to the relatively very disappointing 6% eked-out increase during 2013.

International sales, which were very strong during the first half of the year (+29% yoy), retreated 13% yoy in the second half. Largely contributing to this was an AspirinWorks stocking order in China earlier in the year - as the inventory is burned through and approvals/reimbursement is gained in additional territories throughout that country, we would expect international sales to benefit. For the full-year, international sales increased about 10%.

Domestic sales were also up about 10% for the full-year with an 111% increase in contract manufacturing revenue providing most of the catalyst and benefitting 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, including recent agreements with Eli Lilly (expected to begin to contribute within the next 2 - 3 months) and EDP Biotech.

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 ending the year at 44.8%, compared to 42.4% in 2012. Operating expenses as a % of revenue has also shown meaningful improvement, falling from 43.4% in 2012 to just 41.9% in 2013. Management noted on the call that further improvement in GM and operating expenses remains a priority - the successes from which will push more of the anticipated revenue growth to the bottom line.

Q4 net income and EPS were ($32)k and $0.00, in-line with our $24k and $0.00 estimates. For the full-year CONX posted net income and EPS of $275k and $0.01, meaningfully improved from ($623)k and ($0.01) in 2012.

We currently model 2014 revenue of $11.2 million (+10%). We estimate 2014 net income and EPS of $574k and $0.01.

Cash

CONX exited fiscal 2013 with $2.0 million in cash and equivalents, up slightly from $1.9 million at the end of Q3. For the year, cash flow from operating activities was an inflow of $710k. In early 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 May 2013 CONX announced agreement with Eli Lilly (LLY) for development of companion diagnostic related to LLY's oncology platform. CONX noted on the Q4 call that launch is expected by calendar year-end. We expect more details to released on the collaboration at that time, or potentially earlier. Expect to see a contribution from this relationship throughout fiscal 2014. 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

> 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

> Submit 510k for Hyaluronic Acid (HA) test to FDA within the next 30 days - this has experienced ongoing delays but management indicated on the Q4 call that they are confident in hitting this timeline.

> Automated AspirinWorks Test FDA submission within next 60 days (potentially earlier) - similar to HA submission, 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) 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. 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 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 more than doubling in 2014 from that generated in fiscal 2013.

We currently model 2014 revenue, net income and EPS of $11.2 million (+10%), $574k (+106%) 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 $11.2 million (+10%) 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 $574k and $0.01 in 2014, compared to $279k and $0.01 in 2013. This reflects our ~10% estimated growth in revenue, ~120 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 $0.20/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

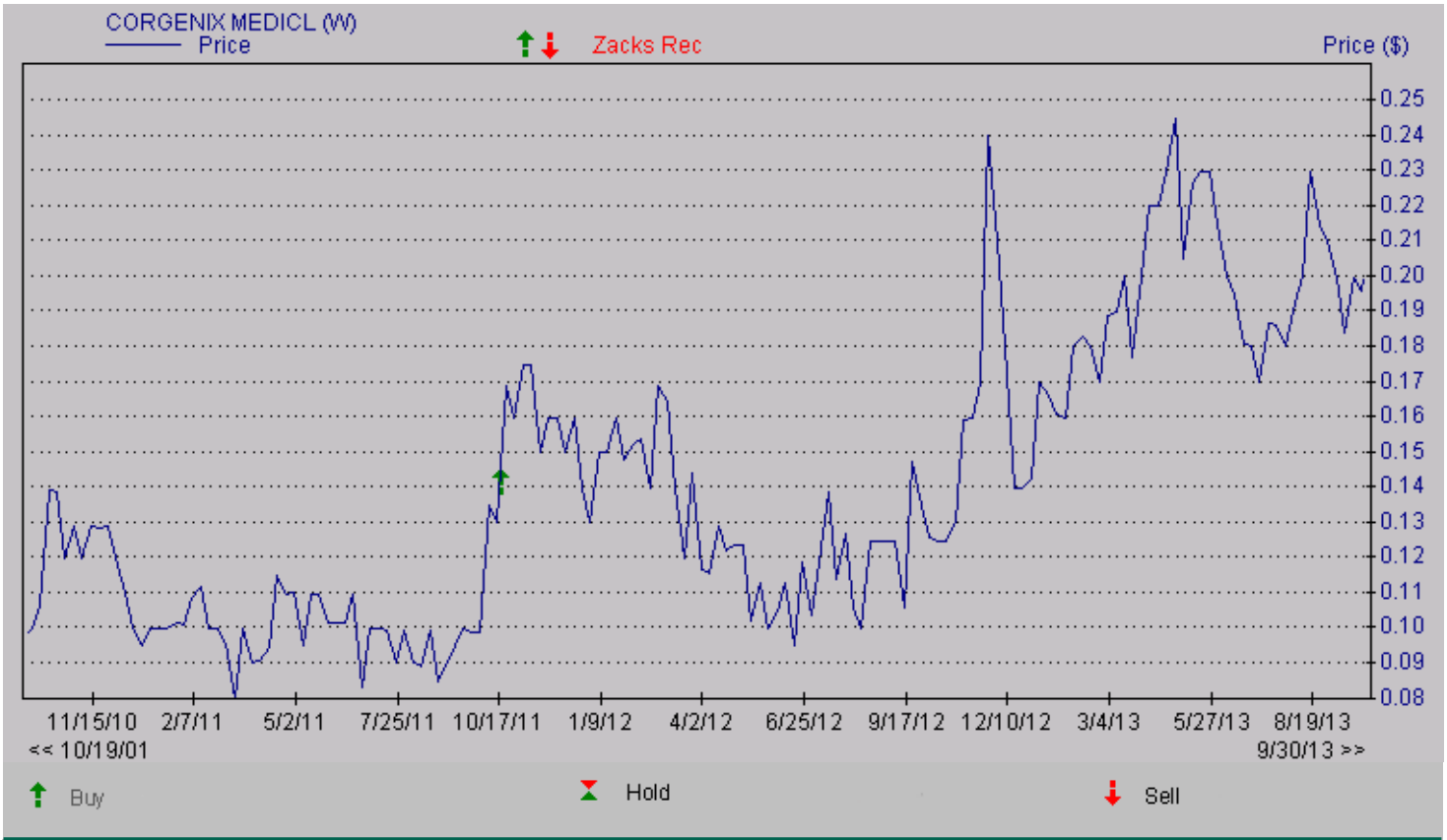
Corgenix Medical Corporation

	2013 A	Q1E	Q2E	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
North America sales	$8,898.0	$2,425.0	$2,255.0	$2,542.0	$2,650.0	$9,872.0	$10,939.6	$12,228.2	$13,650.7
y-o-y growth	*9.7%*	*-0.8%*	*10.8%*	*12.4%*	*22.9%*	*10.9%*	*10.8%*	*11.8%*	*11.6%*
International sales	$1,289.8	$332.9	$332.0	$342.0	$352.0	$1,358.9	$1,595.4	$1,906.5	$2,177.2
y-o-y growth	*9.7%*	*-11.3%*	*-25.0%*	*45.9%*	*48.2%*	*5.4%*	*17.4%*	*19.5%*	*14.2%*
Revenue	$10,187.9	$2,757.9	$2,587.0	$2,884.0	$3,002.0	$11,230.9	$12,535.0	$14,134.7	$15,827.9
YOY Growth	*9.7%*	*-2.2%*	*4.4%*	*15.6%*	*25.4%*	*10.2%*	*11.6%*	*12.8%*	*12.0%*
Cost of Goods Sold	$5,624.3	$1,516.1	$1,418.9	$1,546.5	$1,577.9	$6,059.3	$6,733.6	$7,474.6	$8,314.3
Gross Income	$4,563.5	$1,241.9	$1,168.1	$1,337.5	$1,424.1	$5,171.6	$5,801.4	$6,660.1	$7,513.6
Gross Margin	44.8%	45.0%	45.2%	46.4%	47.4%	46.0%	46.3%	47.1%	47.5%
Sales / Mktg	$1,701.6	$474.4	$445.0	$496.0	$516.3	$1,931.7	$2,093.3	$2,289.8	$2,548.3
% S&M	*16.7%*	*17.2%*	*17.2%*	*17.2%*	*17.2%*	*17.2%*	*16.7%*	*16.2%*	*16.1%*
R&D	$582.8	$108.0	$106.0	$125.0	$136.0	$475.0	$455.0	$450.0	$450.0
% R&D	*5.7%*	*3.9%*	*4.1%*	*4.3%*	*4.5%*	*4.2%*	*3.6%*	*3.2%*	*2.8%*
G&A	$1,982.8	$514.0	$523.0	$562.0	$552.0	$2,151.0	$2,243.8	$2,402.9	$2,659.1
% G&A	*19.5%*	*18.6%*	*20.2%*	*19.5%*	*18.4%*	*19.2%*	*17.9%*	*17.0%*	*16.8%*
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	$145.5	$94.2	$154.4	$219.8	$613.9	$1,009.3	$1,517.4	$1,856.2
Operating Margin	*2.9%*	*5.3%*	*3.6%*	*5.4%*	*7.3%*	*5.5%*	*8.1%*	*10.7%*	*11.7%*
Total other income	($17.9)	($9.9)	($9.9)	($9.9)	($9.9)	($39.6)	($7.0)	$10.0	$15.0
Pre-Tax Income	$278.5	$135.6	$84.3	$144.5	$209.9	$574.3	$1,002.3	$1,527.4	$1,871.2
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	$3.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Income to common	$275.4	$135.6	$84.3	$144.5	$209.9	$574.3	$1,002.3	$1,527.4	$1,871.2
Net Margin	*2.7%*					*5.1%*	*8.0%*	*10.8%*	
EPS	$0.01	$0.00	$0.00	$0.00	$0.00	$0.01	$0.02	$0.03	$0.03
YOY Growth	*NA*					*92.5%*	*67.0%*	*44.9%*	
Diluted Shares O/S	51,233	54,000	55,000	56,000	57,000	55,500	58,000	61,000	64,000

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